FINANCIAL RESERVES POLICY 

KETTON PARISH COUNCIL

APPROVED APRIL 2021 Minutes Reference 2021/04/11

**PURPOSE**

Ketton Parish Council is required to maintain adequate Financial Reserves

to meet the needs of the Parish Council. The purpose of this policy is to set out how

the Council will determine and review the level of Reserves.

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities

to have regard to the level of Reserves needed for meeting estimated future

expenditure when calculating the budget requirement. However, there is no specified

minimum level of Reserves that an authority should hold and it is the responsibility of

the Clerk/Responsible Finance Officer to advise the Council about the level of

Reserves and to ensure that there are procedures for their establishment and use.

**TYPES OF RESERVES**

Reserves may be categorised as General or Earmarked. Earmarked Reserves can be

held for several reasons and are intended to be restricted for that agreed use. General

Reserves are funds that do not have any restrictions as to their use. These Reserves

can be used to smooth the impact of uneven cash flows, offset the budget requirement,

if necessary, or can be held in case of unexpected events or emergencies.

**Earmarked Reserves** – Earmarked Reserves will be established on a ‘needs’ basis,

in line with anticipated requirements. Any decision to set up a Reserve must be given

by the Parish Council. Expenditure from Reserves can only be authorised by the

Parish Council.

Reserves will not be held to fund ongoing expenditure. This would be unsustainable

as, at some point, the Reserves would be exhausted. To the extent that Reserves are

used to meet short term funding gaps, they must be replenished in the following year.

However, Earmarked Reserves that have been used to meet a specific liability (or

project) would not need to be replenished, having served the purpose for which they

were originally established.

In the event of the criterion of the specific earmarked reserve lapsing eg, at the end of a project,

then any unspent amounts should be transferred back to general reserves after approval by

Full Council.

**General Reserves** – the level of General Reserves is a matter of judgment and so this

policy does not attempt to prescribe an overall level. However, the current level of

General Reserves to be held by the council is targeted to be a minimum of 50% of the

annual precept figure.

Ketton Parish Council Precept for 2021-2022 is £50.870

The primary means of building General Reserves will be through an allocation from the

annual budget. This will be in addition to any amounts needed to replenish Reserves

that have been consumed in the previous year.

The Council must build and maintain sufficient working balances to cover the key risks

it faces, as expressed in its Risk Assessment & Management Schedule, which is

reviewed annually.

If, in extreme circumstances, General Reserves were exhausted due to major

unforeseen spending pressures within a particular financial year, the Council would be

able to draw down from its Earmarked Reserves to provide short-term resources.

Even at times when extreme pressure is put on the Council’s finances the Council must

keep a minimum balance, sufficient to pay three month’s salaries to staff, in General

Reserves at all times.

**Opportunity costs of holding Reserves**

In addition to allowing the Council to manage unforeseen financial pressures and plan

for known or predicted liabilities, there is a benefit to holding Reserves in terms of the

interest earned on funds which are not utilised. This investment income is fed into the

budget strategy. However, there is an “opportunity cost” of holding funds in Reserves,

in that these funds cannot then be spent on anything else. Given the opportunity costs

of holding Reserves, it is critical that Reserves continue to be reviewed each year as

part of the budget process to confirm that they are still required and that the level is

still appropriate.

**Policy in Practice**

The Council will hold Reserves for these three main purposes: -

❖ A working balance to help cushion the impact of uneven cash flows and avoid

unnecessary temporary borrowing – this forms part of the General Reserves

❖ A contingency to cushion the impact of unexpected events or emergencies –

this also forms part of the General Reserves

❖ A means of building up funds (Earmarked Reserves), to meet known or

predicted requirements.