

WITHYHAM PARISH COUNCIL
RESERVES POLICY - APPLICATION AND USE OF
GENERAL AND EARMARKED RESERVES

Responsibility: Finance Committee

Review Cycle: Annually, or earlier in the event of legislative changes

Date of Adoption/Renewal	Date for review
October 2025	October 2026

1. Purpose

This policy sets out Withyham Parish Council's approach to the establishment, management, and use of reserves. It provides assurance that reserves are maintained at an appropriate level in accordance with statutory requirements, recognised best practice, and the Council's duty to safeguard public funds.

The Council is required under the Local Government Finance Act 1992 (Sections 32 and 43) to consider the level of reserves when setting its annual budget and precept. The policy also reflects relevant provisions of the Local Government Act 1972 and the guidance contained in the Practitioners' Guide 2025: Governance and Accountability for Smaller Authorities.

2. Statutory and Regulatory Framework

- **Local Government Finance Act 1992:** Requires councils to take reserves into account in the budget-setting process.
- **Local Government Act 1972, Section 151:** Places responsibility on the authority for the proper administration of its financial affairs.
- **Practitioners' Guide:** Defines proper practices for smaller authorities, stating that general reserves should typically be maintained at a level between three and twelve months of net revenue expenditure (NRE). Authorities must provide clear justification if reserves fall outside this range.

3. Definitions

3.1 General Reserves

General reserves are funds held without a specific allocation. They provide a working balance to help manage the impact of unexpected events, emergencies, or variations in cashflow. They are also used to smooth the impact of uneven expenditure and income patterns.

The recommended level of general reserves for a smaller authority is between three and twelve months of net revenue expenditure, with the appropriate level determined by the Council's risk assessment.

Furthermore, relevant to Withyham Parish Council, The Practitioners' Guide states "the reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve".

3.2 Earmarked Reserves

Earmarked reserves are funds set aside for specific purposes, projects, or future liabilities. Examples may include carry forward of project expenditure budgets not yet completed in the financial year, election costs, asset replacement and renewals, or major maintenance works or other predicted liabilities.

Each earmarked reserve must have a clearly defined purpose and justification. The level of such reserves will be agreed by Council in the context of medium-term financial planning.

4. Management of Reserves

4.1 Establishing and Maintaining Reserves

- Earmarked reserves shall be created, amended, or closed only by resolution of the full Council.
- General reserves are built up through budget allocations and underspends, and should be reviewed annually.
- The Responsible Financial Officer (RFO) shall maintain a detailed schedule of all reserves, showing opening balances, contributions, use, and closing balances.

4.2 Use of Reserves

- Expenditure from general reserves requires resolution of the full Council and shall normally be limited to genuine emergencies or unforeseen circumstances. If the balance falls below three months of NRE, a plan for replenishment will be agreed during the next budget-setting round.
- Earmarked reserves shall be used only for the purpose for which they were established. Any expenditure or transfer from an earmarked reserve must be authorised by full Council. Where funds are temporarily used for cashflow management, they shall be restored at the earliest opportunity.

4.3 Monitoring and Reporting

- Reserve levels shall be reported to Council on a quarterly basis as part of financial monitoring.
- An annual review of all reserves shall form part of the budget-setting process. This review will consider the adequacy of general reserves and the continuing relevance of earmarked reserves.
- All decisions relating to reserves shall be clearly recorded in Council minutes.

5. Transparency and Audit

The Council recognises the need for transparency in the holding of public funds. The purposes and levels of all reserves shall be published in the Council's accounts.

If general reserves fall outside the recommended range of three to twelve months' net revenue expenditure, the Council shall provide a clear rationale, recorded in the minutes, for external audit purposes.

6. Roles and Responsibilities

- **Responsible Financial Officer (RFO):** Advises the Council on appropriate reserve levels, maintains accurate records, and reports on reserve movements.
- **Finance Committee (or equivalent):** Reviews reserve levels as part of budget preparation and recommends changes to full Council.
- **Full Council:** Approves the establishment, use, and replenishment of all reserves.

7. Review of Policy

This policy shall be reviewed annually as part of the budget-setting process, or sooner if circumstances require.

8. Summary

The Council will maintain reserves at a prudent level, in line with statutory requirements and recognised guidance. General reserves will provide resilience and financial stability, while earmarked reserves will support planned projects and future commitments. All reserves will be subject to annual review, with decisions taken transparently and in the public interest.