

FINANCIAL RESERVES POLICY HAMBLEDON PARISH COUNCIL

Adopted 12 April 2021 (Minutes Ref 1227)

Reviewed 04 April 2022 (Minutes Ref 1555)

Reviewed 01 Sept 2025 (Minutes Ref 2746; no
revisions)

Reviewed 14 May 2026 (Minutes Ref 3004; no
revisions)



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INTRODUCTION

Hambledon Parish Council (the Council) is required to maintain adequate Financial Reserves to meet the needs of the Council. As with any financial entity, it is essential that the Council has sufficient Reserves (General and Earmarked) to finance both its day to day operations and future plans. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive. The purpose of this policy is to set out how the Council will determine and review the level of Reserves.

The Local Government Finance Act 1992 Sections 32 & 43 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. There is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Finance Officer (the Clerk) 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 are categorised as either GENERAL (held to cushion the impact of uneven cash flows or unexpected events) or EARMARKED (held for a specific purpose). Reserves are not held to fund ongoing expenditure as this is unsustainable and at some point, the reserves would be exhausted. Where 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) do not need to be replenished, having served the purpose for which they were originally established.

General Reserves

- a. These funds do not have any restrictions as to their use. They can be used to smooth the impact of uneven cashflows or significant pressures, offset the budget requirement if necessary or, can be held in case of unexpected events or emergencies which would not require an ongoing revenue commitment.
- b. The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserve is that this should be maintained at between three (3) and twelve (12) months Net Revenue Expenditure (NRE). NRE (subject to any planned surplus or deficit) is effectively Precept\Levy less any Loan Repayment and/or amounts included in Precept\Levy for Capital Projects and transfers to Earmarked Reserves. The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. It is important that the Council adopts the level appropriate to its size and situation and plans its Budget so as to ensure that the adopted level is

maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.

c. The primary means of building General Reserves is 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.

d. The Council should build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Assessment, which is reviewed annually.

e. If, in extreme circumstances, General Reserves are exhausted due to major unforeseen spending pressures within a particular financial year, the Council should draw down from its Earmarked Reserves to provide short-term resources.

f. 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.

Earmarked Reserves

a. These funds are held for five main reasons and are intended to be restricted to these agreed usages:

- Renewals – to enable the Council to plan and finance an effective programme of equipment replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of underspend – some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- Trading accounts – in some instances, surpluses are retained for future investment.
- Insurance reserve – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

b. There is, in practice, no upper or lower limit to Earmarked and/or Capital Receipts Reserves save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually), and should be separately identified and enumerated. Significant levels of Earmarked Reserves in particular may give rise to enquiries from Internal and/or External Auditors.

c. Earmarked Reserves are established on a 'needs' basis, in line with anticipated requirements. Any decision to set up an Earmarked Reserve must be given by the Council. Expenditure from Earmarked Reserves can only be authorised by the Council.

- d. Where Earmarked 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 do not need to be replenished, having served the purpose for which they were originally established.
- e. All Earmarked Reserves are recorded on a schedule held by the Responsible Finance Officer, which lists the various Earmarked Reserves and the purpose for which they are held.
- f. Reviewing the Council's Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Earmarked Reserves for the Council.

GOVERNANCE CONCERNING THE BALANCES AND RESERVES

The Council will review the Reserves Policy as part of the review of Financial Regulations and reporting to the Council as part of the budget setting process.

The Council will have the opportunity to review the levels of Earmarked Reserves held in accordance with the Council's Financial Regulations and, make recommendations for the creation of additional Earmarked Reserves as part of the annual budgeting process.

The Council will be required to identify when making recommendations for each Earmarked Reserve:

- The reason/purpose for the reserve;
- How and when the reserve can be used;
- Procedures for the management of the reserve; and
- A process and timescale for a review of the reserve to ensure continuing relevance and adequacy.

General Reserve balances will be held by the Council to cushion the impact of uneven cash flows and the impact of unexpected, unforeseen, emergency and uninsured situations and will be reviewed annually.