

WINDLESHAM PARISH COUNCIL

FINANCIAL RESERVES POLICY

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1 Introduction

- 1.1 Under statute Windlesham Parish Council is required to maintain adequate Financial Reserves in order to meet the needs of the organisation, and to ensure financial security. The purpose of this policy is to set out how the Council will determine and review the level of reserves.
- 1.2 The SAPPP Practitioners Guide (SAPPP) 5 advises: "As with any financial entity, it is essential that authorities have 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."
- 1.3 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 specific minimum level of reserves which an authority should hold, and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.
- 1.4 The SAPPP Practitioners Guide (SAPPP) states: 'As authorities have no legal powers to hold revenue reserves other than those for reasonable working capital needs, or for specifically earmarked purposes, whenever an authority's year-end general reserve is significantly higher than the annual precept or rates and special levies, an explanation should be provided to the auditor.'

Therefore, the following policy will be considered by Full Council annually and no later than April each year.

2 Types of Reserves

- 2.1 **General Reserves**
- 2.2 General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies. Setting the level of General Reserves is agreed with the Annual Budget.
- 2.3 SAPPP advises: "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)." "The smaller the authority, the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months.
- 2.4 The primary means of building General Reserves will be through a reallocation of funds (underspend on a completed project) and allocation from the annual budget. This will be in

addition to any amounts needed to replenish reserves which have been spent in the previous year. 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 EMRs to provide short term resources.

- 2.5 The use of the General Reserve is not restricted. It can be used to smooth the impact of uneven cash flows, offset the budget requirement, or can be used to cope with unexpected events or emergencies.

Windlesham Parish Council has been advised by the internal auditor that the general reserve should not exceed 50% of precept. This policy therefore recommends that a general reserve of 40-50% of precept should be held at each financial year end.

3 Earmarked/Specific Reserves (EMR)

- 3.1 EMRs must be held for genuine and intended purposes and their level should be subject to annual review and justification. They should be separately recorded on the Council's accounting system. EMRs are held for several reasons and shall only be used for the purpose for which they were created:

Renewals: _to enable the planning and financing of an effective program of equipment replacement and property maintenance/refurbishment. The funds required are built up incrementally over several years when considering asset conditions and asset life. They are a mechanism to smooth expenditure without the need to vary budgets.

Carry forward of underspend on an uncompleted project: – expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward those resources.

Developers Contributions: – proceeds from developers which can only be used for specified purposes – CIL and Section 106.

Trading Accounts: - in some instances surpluses may be 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.

- 3.2 Other Earmarked Reserves:– may be set up from time to time to meet known or predicted liabilities.
- 3.3 Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an overprovision of funds, the excess may, on the approval of the Full Council, be transferred to

other budget headings within the revenue budget, to General Reserves or to one or more other Earmarked Reserves.

3.4 EMRs will be established on a “needs” basis in line with anticipated requirements and these are to be reviewed annually. Any decision to set up an EMR must be approved by Full Council.

4 Village Reserves

The Village Committee structure allows each committee to manage their budgets in maintaining services and delivering projects. The Terms of Reference for each committee confirm how each committee will be funded and no individual committee can expect any shortfall in a specific year to be covered by the Council’s general reserves.

Village Committees need to consider their responsibilities and projects in setting reserves It is recommended that a general reserve is set to cover day to day operations.

4.1 Any unspent budget not used or allocated at the end of the financial year will be returned to Council’s general reserves and will not be added to the village reserve unless this has been approved at Full Council.

5 Management and Control of Reserves

5.1 Movements in Earmarked Reserves and General Reserves shall be reported to the Council as part of budget monitoring documentation. The use of reserves shall be approved by the Council.

5.2 The minimum level of General Reserves shall be recommended to the Council by the Responsible Financial Officer. This will form part of the recommendations for the Annual Budget and Precept request.

5.3 A statement of earmarked reserves will be formally reviewed as part of the budget setting process. This will review the balance and purpose of all earmarked reserves.

6 Financial Risk Management

6.1 To assess the adequacy of the general reserve fund when setting the annual budget, the RFO will take account of the strategic, operational, and financial risks facing the Council. The level of general reserve for the ensuing year will be based on a risk assessment of the Council’s

main areas of income and expenditure and consider any provisions and contingencies that may be required.

7 Reserves

- 7.1 When establishing a reserve as part of the annual setting process, the Council will set out:
 - 7.1.1 The reason / purpose of the reserve;
 - 7.1.2 How and when the reserve can be used;
 - 7.1.3 Procedures for the management and control of the reserve;
 - 7.1.4 A process and timescale for review of the reserve to ensure continuing relevance and adequacy.
- 7.2 Review of adequacy of balances and reserves
 - 7.2.1 In assessing the adequacy of reserves the strategic, operational and financial risks facing the Council will be taken into account and the level of all reserves will be reviewed as part of the annual budget preparation.

8 Monitoring and review

- 8.1 This policy will be monitored periodically by the council to judge its effectiveness and will be updated in accordance with changes in the law.