

FENTON & TORKSEY LOCK PARISH COUNCIL

RESERVES POLICY

ADOPTED MARCH 2026

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1. Introduction

- 1.1 Fenton & Torksey Lock Parish Council is required to maintain adequate Financial Reserves to meet the needs of the Parish Council.
- 1.2 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.
- 1.3 Local Councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes.
- 1.4 It follows that the year-end General Reserve should not be significantly higher than the annual precept. If the amount of reserves at the year-end are above a certain level in relation to the annual precept the council must give an explanation of the reserves held to the Auditor.
- 1.5 There is no specified minimum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.
- 1.6 The purpose of this policy is to set out how Fenton & Torksey Lock Parish Council will determine and review the level of Reserves required.

2. Types of Reserves

- 2.1 The council may hold 3 types of reserves categorised as: General Reserves, Earmarked Reserves, and Ringfenced Reserves.
 - **General Reserves** - held to cushion the impact of uneven cashflow or unexpected events,
 - **Earmarked Reserves** - held for specific purposes
 - **Ringfenced Reserves** - held for one purpose only and cannot be transferred, for example grants allocated for a specific project only, which may not be used for any other purpose.

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3. General Reserves:

- 3.1 General Reserves are funds which do not have any restrictions as to their use. General Reserves cushion the impact of uneven cash flows, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies.
- 3.2 Guidance states that ‘a council should typically hold between 3 and 12 months expenditure as a general reserve’ (Good Councillor’s Guide on Finance & Transparency)
- 3.3 Setting the level of General Reserves is agreed through allocation in the Annual Budget.
- 3.4 The level of financial reserves held by the council will be agreed by the Council during the discussions held regarding the setting of the budget for the next financial year.
- 3.5 Approval of the Full Council is required to move funds from the General Reserve.

4. Earmarked Reserves:

- 4.1 Earmarked Reserves are held for several reasons and shall only be used for the purpose for which they were created.
- 4.2 Earmarked Reserves will be established on a “needs” basis in line with anticipated requirements to meet known or predicted liabilities.
- 4.3 Any decision to set up a reserve must be made by the Full Council.
- 4.4 Earmarked Reserves must be reviewed by the Council at the Annual Budget setting meeting.
- 4.5 Expenditure from Earmarked Reserves can only be authorised by the Full Council at a Parish Council meeting.
- 4.6 All Earmarked Reserves should be recorded within the Council’s accounting package, held by the Responsible Financial Officer, and list the purpose for which they are held.
- 4.7 Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, on the approval of the Parish Council, be transferred to other budget headings within the revenue budget, to General Reserves, or to one or more other earmarked reserves.

5. Categories for the holding of Earmarked reserves

The council may hold Earmarked Reserves in the following categories:

- 5.1 Carry forward of underspend – expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward these resources.

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- 5.2 Reserves built up over a time period, for example, to pay for large projects. The setting aside of funds over a period of time to meet known future expenditure reduces the impact of meeting the full expenditure in one year.
- 5.3 Renewals – to enable services to plan and finance an effective program of equipment replacement and planned property maintenance. These reserves should be a mechanism to smooth expenditure so that a sensible replacement program can be achieved without the need to vary budgets.
- 5.4 Developers Contributions – proceeds from developers that can only be used for specified purposes.
- 5.5 Other Earmarked Reserves may be set up from time to time to meet known or predicted liabilities.

6. Ringfenced Reserves

- 6.1 Ringfenced Reserves are funds that cannot be used for any other purpose and are recorded in the council’s accounting package.

For instance –

- Community Infrastructure Levies - CIL Regulation 59C sets out that a local council must use CIL receipts passed to it to ‘support the development of the local council’s area, or any part of that area, by funding
 - a) the provision, improvement, replacement, operation or maintenance of infrastructure: or
 - b) anything else that is concerned with addressing the demands that development places on an area’.
- Other ringfenced funds, for example donations/grants for a specific item could occur during the year

7. Management and Control of Reserves

- 7.1 Fenton & Torksey Lock Parish Council General Reserves comprise the cash flow and contingency funds necessary to cover unexpected inflation, unforeseen events and unusual circumstances.
- 7.2 General reserves may be accrued through the reallocation of unspent funds or by allocation from the annual budget.
- 7.3 There is no statutory upper limit to reserves save that they must be held for genuine and intended purposes.
- 7.4 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 reserves.
- 7.5 Reserves should not be held to fund ongoing expenditure. This would be unsustainable, as at some point the reserves would be exhausted. If reserves are used to meet short term funding gaps, they must be replenished in the following year.

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- 7.6 Earmarked reserves, however, that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.
- 7.7 Movements in Earmarked Reserves and General Reserves shall be reported to the Parish Council as part of the quarterly report and at monthly meetings if required.
- 7.8 The use of Reserves shall be approved by the Parish Council.
- 7.9 The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review and agreed by the Parish Council.
- 7.10 The minimum level of General Reserves shall be recommended to the Parish Council by the Responsible Financial Officer. This will form part of the recommendations for the Annual Budget and Precept request by the Parish Council.
- 7.11 Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the Annual Budgetary Review.
- 7.12 The Responsible Financial Officer will keep a schedule of reserves held at the year-end within the council's accounting package.
- 7.13 Recommendations on creation, amendment, cessation, or continuation of Earmarked Reserves will be given by the Responsible Financial Officer to the Parish Council by way of a report forming part of the recommendations for the Annual Budget and Precept request by the Parish Council.
- 7.14 Approval for the creation, amendment, cessation, or continuation of Earmarked or Ringfenced Reserves will be given by the Parish Council.

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