



# Chelmondiston Parish Council

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## RESERVES POLICY

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Chelmondiston 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. Section 49A 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 and or the Responsible Finance Officer to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use.

Any decision to set up a Reserve must be made by the Parish Council. Expenditure from Reserves can only be authorised by the Parish Council. The Council should review reserves annually as part of the annual budget setting process. The Clerk and or the RFO must maintain a detailed schedule of reserves and review this reserves policy annually.

### TYPES OF RESERVES

Reserves may be categorised as Earmarked, General or Restricted.

**General Reserves** – 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. Reserves should not be excessive as funds are generated from taxation/public levies. 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 equivalent to the annual precept figure. 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 Financial and Management Risk Assessment, 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.

**Earmarked Reserves** - Earmarked Reserves can be held for several reasons and are intended to be restricted for that agreed use. Earmarked Reserves will be established on a 'needs' basis, in line with anticipated requirements. 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.

**Restricted Reserves (CIL)** – Neighbourhood Community Infrastructure Levy (CIL) is received from the District Council where development is taking place and must be held in a designated reserve for the purpose prescribed i.e. for the provision, improvement, replacement, operation or maintenance of infrastructure or to meet other needs resulting from developments in the area. It must be spent within 5 years and can provide seed/match funding and may be spent collaboratively with other councils/relevant bodies.

**Opportunity costs of holding Reserve:** 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.

**In summary:**

The Council will hold Reserves for these 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.
- ❖ CIL monies, to be used in line with above restrictions.