

Weston-in-Gordano Parish Council

Reserves Policy

1. Purpose

Weston-in-Gordano Parish Council (WIG PC) is required to maintain adequate financial reserves to meet its operational and future needs. The purpose of this policy is to set out how the Council will determine, maintain, and review the level of reserves held.

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. There is no specified minimum level of reserves that an authority must hold; it is the responsibility of the Responsible Financial Officer (RFO) in this case the Clerk to advise the Council on an appropriate level and to ensure that proper procedures are in place for their establishment and use.

2. Types of reserves

Reserves may be categorised as general or ring-fenced (earmarked for a specific purpose or project).

Ring-fenced reserves may be held for several reasons:

- i) Renewals – to plan and finance an effective programme of equipment replacement and property maintenance, smoothing expenditure over time.
- ii) Carry-forward – to hold unspent funds from an identified project that could not be completed within the budget year.
- iii) Insurance – to cover policy excesses or claims not covered by insurance.
- iv) Other specific purposes – to meet known or anticipated future liabilities.

General reserves are unrestricted funds held to:

- i) Smooth the impact of uneven cash flows;
- ii) Offset unexpected events or emergencies; and
- iii) Provide short-term resources in case of budget pressures

3. Earmarked reserves

Earmarked reserves will be established on a needs basis, aligned with anticipated requirements.

- Any decision to create or use an earmarked reserve must be approved by the Council.
- Expenditure from reserves can only be authorised by the Council.
- Reserves will not be used to fund ongoing expenditure, as this is unsustainable.
- If earmarked reserves are used for a specific purpose, they need not be replenished once that purpose has been achieved.
- Where the Council receives grant funding for a specific project or purpose, any unspent balance will be transferred into an earmarked reserve to ensure that the funds are used in accordance with the grant conditions.

A central schedule of earmarked reserves will be maintained by the RFO in Scribe, detailing each reserve and its purpose.

As part of the budgeting and year-end accounting process, the Council's Financial Risk Assessment will be reviewed to identify planned and unplanned expenditure and to help determine an appropriate level of reserves.

4. General Reserves

The level of general reserves is a matter of professional judgement. The primary means of building reserves will be through annual budget allocations, including replenishment of reserves used in the previous year.

When determining the appropriate level of general reserves, the Council will consider the key risks identified in its Financial Risk Assessment.

If, in exceptional circumstances, general reserves are depleted due to unforeseen spending pressures, the Council may temporarily draw on earmarked reserves to maintain liquidity.

The Council aims to maintain general reserves at approximately 50% of the current year's precept, with an absolute minimum of 25% to be retained even under significant financial pressure.

5. Opportunity cost of holding reserves

While holding reserves provides financial stability and generates investment income, there is an opportunity cost in that funds are not available for other uses. For example, using reserves to repay debt may save interest payments but would reduce flexibility to manage future risks or fund planned projects.

Given these trade-offs, the Council will review the level and purpose of all reserves annually as part of the budget-setting process to ensure they remain necessary and proportionate.

6. Current level of financial reserves

The level of reserves will be reviewed and agreed by the Council as part of the annual budget discussions. The Council will seek to maintain general reserves at approximately 50% of the current year's precept.

In addition to general reserves, the Council holds an earmarked reserve for the cemetery extension, maintained in a separate reserve account.

7. Review

This policy will be reviewed:

- Annually, as part of the budget-setting process (December–January); and
- Formally, every three years.