



# RESERVES POLICY

Drayton Parish Council

Policy Holder: Finance & General Purposes Committee

Version 1.0

<b>Approval Date:</b>	12 <sup>th</sup> February 2026	<b>Approval Route:</b>	Council
<b>Review Date:</b>	+4 Years	<b>Policy Holder:</b>	Finance & General Purposes Committee

## Document Change History

This is version 1.0 of the Reserves Policy and it is the responsibility of the Parish Clerk to ensure that new versions are communicated to Council and made available per the adopted Publication Scheme.

It is the responsibility of the reader to familiarise themselves with this version of the document.

This document is subject to revision and is maintained electronically. Electronic copies are version controlled and printed copies are not subject to this control.

## Summary of Changes

Version 1.0 February 2026	
Ref.	Change
N/A	N/A

## Purpose

The purpose of the Reserves Policy is to set out the Council's approach to holding and managing financial reserves to ensure the ongoing financial stability, sustainability and resilience of the Council.

Per section 32 and 43 of the Local Government Finance Act 1992, local authorities are required to have regard to the level of reserves needed. Similarly, section 5.32 of the Practitioner's Guide issued by the Smaller Authorities Proper Practices Panel states that smaller authorities have no specific rights to accumulate funds via the precept and all reserves should be reviewed and justified at least annually.

The Council holds reserves to meet unexpected or emergency expenditure, manage cashflow and timing differences in income and expenditure, support planned projects and future commitments, mitigate the financial impact of risks and uncertainties and support medium- and long-term financial planning.

The policy aims to support the Council's duty to ensure proper stewardship of public funds and compliance with relevant governance and accounting requirements.

## Principles

In managing its reserves, the Council will be guided by the following principles:

1. The Council will maintain reserves at a level that is prudent and justified by an assessment of financial risk, liabilities and future commitments.
2. The level, purpose and movement of reserves will be reviewed at least annually and be clearly documented, reported, and approved by Council.
3. The scale and structure of reserves will be proportionate to the size and responsibilities of Council.
4. Reserves will be held for general financial resilience and for clearly defined specific purposes.
5. Decisions regarding the establishment, use or release of reserves will be subject to council oversight and formal resolution.

## Scope

This policy applies to all financial reserves held by the Parish Council categorised as follows:

1. **General Reserves:** held to provide financial protection and flexibility against unexpected inflation, unforeseen events and unusual circumstances.
2. **Earmarked Reserves:** held for genuine and identifiable purposes and projects.
3. **Restricted Reserves:** held in accordance with external conditions.

## **Responsibilities**

The Council is responsible for:

- ✓ Approval of the Reserves Policy and supporting procedures and systems.
- ✓ Reviewing the reserve levels as part of the annual budget process.
- ✓ Approving the establishment, amendment, cessation or continuation of reserves.

The Policy Holder is responsible for:

- ✓ The review of this policy and supporting procedures and recommendations to Council for amendment.
- ✓ Monitoring and maintaining overall compliance with this policy.

The Parish Clerk is responsible for:

- ✓ Advising Council on appropriate reserve levels.
- ✓ Reporting on the status and adequacy of reserves.
- ✓ Ensuring reserves are accounted for correctly in the Council's financial records.
- ✓ Maintaining a detailed schedule of all reserves which will form part of the accounts package.

The Councillors are responsible for:

- ✓ Familiarising themselves with this policy and supporting documentation.

## **Further Information and Supporting Documents**

Policy Monitoring, Review and Approval

To ensure the Council continues to meet the principles laid out in this policy, the Policy Holder will:

1. Review this policy and supporting documentation every 4 years and in response to relevant changes to legislation and/or government guidance.
2. Review this policy and supporting documentation as a result of any other relevant significant change or event.
3. Adopt and maintain a Reserves Procedure that clearly indicates how reserves are reviewed, approved and monitored.
4. Adopt a structured approach to reserve management to ensure that essential records of the Council's activities is maintained in appropriate detail.

### Supporting Documentation

Document Title	Description
Reserve Procedure	Sets out the adopted procedure for how reserves are reviewed, approved and monitored.

## Introduction

In line with the principles set out in the Reserves Policy, the procedure sets out the Council's approach to the review, approval and monitoring of reserves.

### **1. General Reserves**

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.

- 1.1. 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 which have been spent in the previous year.
- 1.2. If in extreme circumstances General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council will be able to draw down from its Earmarked Reserves to provide short term resources.
- 1.3. Setting the level of General Reserves is agreed as part of the annual budget exercise. The Council must build and maintain sufficient working balances to cover key risks it faces, as expressed in the financial risk assessment.
- 1.4. In line with the Practitioner's Guide issue by the SAPP, 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 3- and 12-months net revenue expenditure.
- 1.5. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months.
- 1.6. In practice, any authority with income and expenditure in excess of £200,000.00 should plan towards 3 months equivalent General Reserve.
- 1.7. When determining the minimum level of reserves, Council will consider the level of income and expenditure as well as situations that may lead to a loss in self-generated income and adapt the General Reserve accordingly.
- 1.8. Even at times when extreme pressure is put on the Council's finances, the Council must keep a minimum balance sufficient to pay 3 month's worth of contractual obligations to staff and contractors in General Reserves at all times.
- 1.9. The minimum level of General Reserve shall be recommended to the Council by the Responsible Financial Officer and form part of the recommendations for the annual budget and precept request approved by Council.

### **2. Earmarked Reserves**

Earmarked Reserves can be held for several reasons including:

- **Renewals:** Equipment replacement and planned property maintenance enabling a replacement programme without the need to vary budgets.
- **Carry forward of underspend:** Some services commit expenditure to projects, but cannot spend in the current project year. Earmarked Reserves can be used as a mechanism to carry forward these resources.

- **Other:** Earmarked Reserves may be set up from time to time to meet known or predicted liabilities and may include an insurance reserve to enable the council to meet the excesses of claims not covered by insurance.
- 2.1. Earmarked Reserves are allocated to a designated Committee for review as part of the annual budget exercise to ensure Earmarked Reserves remain necessary and relevant. Committees may make recommendations for the creation, amendment, cessation or continuation of allocated Earmarked Reserves for approval by Council.
  - 2.2. A decision to establish an Earmarked Reserve must be approved by Council on a 'needs basis' in line with anticipated requirements and must be recorded as part of the Council's accounts package including the purpose for which it is held.
  - 2.3. Expenditure from Earmarked Reserves can be authorised according to 4.11 of the Council's adopted Financial Regulations.
  - 2.4. Movements in Earmarked Reserves shall be reported quarterly via the Finance & General Purposes Committee as part of the Budget Variance Report.
  - 2.5. Reserves should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent where Earmarked Reserves are used to meet short term funding gaps, they must be replenished in the following year.
  - 2.6. Earmarked Reserves 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.
  - 2.7. 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 Council, be transferred to General Reserves or to one or more other Earmarked Reserves.

### **3. Restricted Reserves**

Restricted reserves are those reserves that are restricted by external conditions and funds must be used as specified.

- 3.1. Community Infrastructure Levy (CIL) is one example of Restricted Reserves. Parish Councils receive a minimum of 15% of CIL monies raised from development within their area or 25% for those Councils with a Neighbourhood Plan.
- 3.2. The CIL Regulations 2010 restrict reserves for "*the provision, improvement, replacement operation or maintenance of infrastructure or anything else that is concerned with addressing the demands that development places on the area.*"
- 3.3. Providing CIL is spent in accordance with the above, CIL monies may be used to supplement other income streams and/or may be spent collaboratively with other parish councils, community interest companies or other providers to make the most efficient use of funding to benefit the community.
- 3.4. Council's have a five-year period in which to spend CIL monies from the date received.
- 3.5. CIL is held in a designated Earmarked Reserve and may be accumulated to provide for major projects.

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- 3.6. In line with procedures for Earmarked Reserves, expenditure from the Earmarked Reserve for CIL can be authorised according to 4.11 of the Council's adopted Financial Regulations.