



Higher Kinnerton Community Council

Financial Reserves Policy

2023-2024

1.1 Higher Kinnerton Community **(the Council)** is required to maintain adequate financial reserves **(Reserves)** to meet the needs of the Council. The purpose of this policy is to set out how the Council will determine and review the level of Reserves.

1.2 The Local Government Finance Act 1992 Sections 32 & 43 requires 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 should hold and it is the responsibility of the Responsible Finance Officer (the Clerk) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

1. TYPES OF RESERVES

Reserves are categorised as either general **(General Reserves)** (held to cushion the impact of uneven cash flows or unexpected events) or earmarked **(Earmarked Reserves)** (held for a specific purpose). Reserves are not held to fund ongoing expenditure as this is unsustainable and at some point, the reserves would be exhausted. Where 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) do not need to be replenished, having served the purpose for which they were originally established.

1.1 GENERAL RESERVES

a. These funds do not have any restrictions as to their use. They can be used to smooth the impact of uneven cashflows or significant pressures, offset the budget requirement if necessary or, can be held in case of unexpected events or emergencies which would not require an ongoing revenue commitment.

b. The level of General Reserves is a matter of judgment and this policy does not prescribe an overall level. However, the current advice on reserves set out in the Governance and Accountability for Local Councils in Wales – the Practitioners Guide (2019 Edition) is that it is generally accepted the amount of General Reserves held should lie within a range of three to twelve months of gross expenditure. However, the amount of General Reserves should be risk assessed and approved by the Council.

c. The primary means of building General Reserves is 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.

d. The Council should build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Assessment, which is reviewed annually.

e. If, in extreme circumstances, General Reserves are exhausted due to major unforeseen spending pressures within a particular financial year, the Council should draw down from its Earmarked Reserves to provide short-term resources.

f. Even at times when extreme pressure is put on the Council's finances the Council must hold a sufficient amount in General Reserves at all times.

1.2 EARMARKED RESERVES

a. These funds are held for specific reasons and are intended to be restricted to these agreed usages.

b. Earmarked Reserves are established on a 'needs' basis, in line with anticipated requirements and are included in the Expenditure from Earmarked Reserves can only be authorised by the Council.

c. Where Earmarked 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 do not need to be replenished, having served the purpose for which they were originally established.

d. Reviewing the Council's Budget and Financial Risk Assessment is part of the budgeting accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Earmarked Reserves for the Council.

2. GOVERNANCE CONCERNING THE BALANCES AND RESERVES

3.1 The Council will review this Reserves Policy as part of the review of Financial Regulations and reporting to the Council as part of the budget setting process.

3.2 The Council will have the opportunity to review the levels of Earmarked Reserves held in accordance with the Council's Reserves Policy and Financial Regulations and make recommendations for the creation of additional Earmarked Reserves as part of the annual budgeting process.

3.3 Changes in Earmarked Reserves shall be approved by Council as part of the budgetary control process.

3.4 General Reserve balances will be held by the Council to cushion the impact of uneven cashflows and the impact of unexpected, unforeseen, emergency and uninsured situations and will be reviewed annually.