

Bawdeswell Parish Council Reserves Policy

Introduction

Bawdeswell Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

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. However, there is no specified minimum level of reserves that an authority should hold.

It is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

Types of Reserves

Reserves can be categorised as general or earmarked.

Earmarked reserves can be held for several reasons:

- Maintenance / replacement – to plan and finance an effective programme of equipment and infrastructure replacement and plan future maintenance. These reserves are a mechanism to smooth expenditure so that repairs / replacement can be achieved without the need to increase the precept.
- Carry forward of underspend
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

General Reserves are funds which 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.

Earmarked Reserves

Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.

Any decision to set up a reserve must be made by the Council.

Expenditure from reserves can only be authorised by the Council.

Reserves should not be held to fund on-going 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 within the following 36 months. However, 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.

All Earmarked Reserves are recorded on a schedule held by the Responsible Financial Officer which lists the various Earmarked Reserves and the purpose for which they are held.

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.

General Reserves

The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. 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 risk assessment.

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.

Opportunity cost of holding reserves

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.

However, there is an “opportunity cost” of holding funds in reserves, in that these funds cannot then be spent on anything else. As an example, if these funds were used to repay debt, the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds. However, using reserves to pay off debt in this way would leave the Council with no funds to manage unexpected risks nor provide a mechanism to fund the planned expenditure for which the reserves were earmarked.

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.

Current level of financial reserves

The level of financial reserves held by the council will be agreed by the Parish Council during the discussions held regarding the setting of the budget for the next financial year.

The current level of general reserves to be held by the Council should be a minimum of six twelfths of the annual precepted figure, i.e. to fully cover six months’ expenditure. The figure of six twelfths of the precept is to be held rather than six months’ expenditure costs.

Therefore general reserves should be a minimum of £17125 for the total precept of £34250 in the financial year of 2026/27. The Council agreed to the following levels of reserves as at:

General reserve as at 31st March 2026 £16329.20

Community Car Scheme (CCS) £1407.83 (money to be returned to Breckland if scheme no longer operates). This money is held with general reserves (not included in figure above)

Earmarked Reserves £43897.44

Bluebell Rise – Maintenance of public open space £21723.22

Village Hall Driveway Maintenance £13698.94

Play area £4865.41

Defibrillator £557.73

Parish Council Noticeboard £1052.14

Trees £2000

The above levels of reserves were confirmed at a meeting on 2nd April 2026. £8700 taken from earmarked reserves 2023/24 to be returned to earmarked reserves (£5000 public open space, £3700 Driveway) over 3 years as approved. At 1st April 2026, £2483.34 remains outstanding (£2483.34 to be repaid annually financial year 2025/26 & 2026/27). Interest received from earmarked reserves account will be apportioned between the reserves at the financial year end.

Policy initially approved December 7th 2023, reviewed 4th July 2024, reviewed 3rd April 2025, reviewed 2nd April 2026