



# MELKSHAM WITHOUT PARISH COUNCIL

## Financial Reserves Policy

**Reviewed by Finance Committee 8<sup>th</sup> January 2024- no changes made (min.344/23). Approved for adoption at Full Council 22<sup>nd</sup> January 2024.**

### **Purpose**

Melksham Without 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 such reserves, and how they will be used.

Local government legislation requires parishes to have regard to the level of reserves needed for meeting estimated future expenditure, when calculating their budget. However, there is no specified minimum or maximum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer, to advise the Council about the level of reserves, and to ensure that there are key protocols for their establishment and use.

### **Types of reserves**

Reserves can be categorised as earmarked (held for a specific purpose), or general (held to cushion the impact of uneven cash flows or unexpected events).

**Earmarked Reserves** (or Specific Reserves) – are held for specific projects or purposes, or to meet known or predicted liabilities. Specific Reserves are often used to “smooth” the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year (e.g. setting of up new Village Halls, replacing large items of capital equipment).

**General Reserves** – is a sum of money that is not earmarked for specific purposes, but rather set aside to deal with unexpected events or emergencies, and to provide a working capital cushion to deal with uneven cash flows. The level of this working balance needs to be regularly reviewed using a risk-based assessment.

### **Adequacy and Use of Reserves**

**Earmarked reserves**, which are set aside for special projects, should be realistic and approved by the council. When approving specific reserves, the Council should consider:

- The reason for/purpose of the reserve
- How and when the reserve can be used
- Procedures for the reserve’s management and control

- A process and timescales for review of the reserve to ensure continuing relevance and adequacy.
- The Parish Council has agreed that these Reserves shall be further classed as either **Short Term** (for use within 3 years) and **Medium Term** (for use over 3 years); and this breakdown is used when reporting to the External Auditor on use of Reserves.
- The Parish Council holds some Reserves that are **Ring Fenced**, and can only be used for specific projects or assets. This is usually dependent on stipulations associated from the source of funding, for example Section 106 funding from new housing developments which state their use in the S106 legal agreement. Other funds such as CIL (Community Infrastructure Levy) and Community Solar Farm Funding have stipulations on use, but usually a wider range of uses.
- The Parish Council holds some Reserves on behalf of more than one body, for joint projects. For example, the Shurnhold Fields Open Space Maintenance Fund is held by Melksham Without Parish Council as lead council on this joint project with Melksham Town Council.

**General reserves** will lie at one month's expenditure, with any virement from Ear Marked reserves to be made if and when necessary. *For clarity, this General Reserve is the carry over figure at year end to the next financial year.*

In assessing the adequacy of general reserves, account should be taken of the strategic, operational and financial risks facing the Council. The financial risks should be assessed in the context of the Council's overall approach to risk management, its medium term financial strategy, and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget, alongside a consideration of the Parish Council's financial management arrangements.

The Finance Committee will report on the robustness of, and plans (if any) to utilise or build up the Council's reserves. Drawing on the general reserves to balance the annual budget may be viewed as a legitimate short-term option. However, if reserves are to be deployed to finance recurrent expenditure this should be made explicit.

The Finance Committee is also required to report on the specific reserves of the Parish Council, outlining the purpose for which each is held, establishing an appropriate level of reserve and highlighting any proposed changes during the forthcoming year.

### **Governance**

This policy is approved by, and should be regularly monitored by the Finance Committee. The Parish Council must approve any changes to this policy.

*This policy was based on an example by Holt Parish Council which the Melksham Without Parish Council Finance Committee considered and recommended on 9<sup>th</sup> May 2016, approved by Full Council at the Annual Council Meeting, 23<sup>rd</sup> May, 2016. Reviewed by Finance Committee 14<sup>th</sup> June 2021 and changes recommended*

*and approved at Full Council 28<sup>th</sup> June 2021. Reviewed by Finance Working Party 10<sup>th</sup> January 2022- No changes made. Reviewed by Finance Committee January 2023 – no changes made.*