

MUCH HADHAM PARISH COUNCIL

RESERVES POLICY

1. **Background**

- 1.1. Much Hadham Parish Council (the Council) must maintain adequate financial reserves to ensure its ongoing operational stability, manage financial risk, and meet unforeseen expenditure.
- 1.2. Where income in a month does not cover the expenses incurred in that month the Council will require to meet that shortfall from Reserves.
- 1.3. The Council maintains three types of Reserves:
 - a) General Reserve
 - b) Earmarked Reserves
 - c) Ringfenced Reserves
- 1.4. Unless there are reconciling items outstanding, the aggregate of the three reserves should match the aggregate of the bank balances. This is a check performed monthly as part of the Finance Report.
- 1.5. Purpose and controls for each of these are covered below.

2. **General Reserve**

- 2.1. The General Reserve of the Council comprises its cash flow and contingency funds to cover timing differences between income and expenditure, unexpected inflation, unforeseen events and unusual circumstances.
- 2.2. For a “smaller authority”, which covers the Council, official Guidance* is that the level of General Reserves be maintained at between 3 and 12 months of expected expenditure (with an expectation that it will be closer to 12 months) to ensure the required financial security.
- 2.3. The Council reviews and adjusts the expected level of General Reserves in the Budget and Precept setting process each January. The actual level is monitored at each monthly meeting as part of the Finance Report.

* Joint Panel on Accountability and Governance Practitioner’s Guide (JPAG)

3. **Earmarked Reserves (EMR)**

- 3.1. The Council may create an EMR where income and expenditure may occur in different financial years or spread across a number of years. For example:
 - a) To carry forward balances where an approved and budgeted project cannot be completed in the year.
 - b) To carry forward accumulated balances where a large project is to be funded from several years’ income.
 - c) To hold S106 monies received from developers until the specific expenditure is incurred.
- 3.2. EMR are important because they help control fluctuations in the General Reserve but

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they can only be established by approval at a Council Meeting for a specific purpose e.g. a project or predicted future liability.

- 3.3. EMR which are no longer required may be reviewed and released – transferred back to the General Reserve or another EMR – by specific approval at a Council meeting.
- 3.4. The Council reviews and adjusts the expected level of EMR in the Budget and Precept setting process each January. The actual level is monitored at each monthly meeting as part of the Finance Report.
- 3.5. Guidance does not set any limits for the size of EMR but they will be reviewed as part of the annual audit.

4. Ringfenced Reserves

- 4.1. Ringfenced Reserves are used to maintain separate specific cashflows from the normal operations of the Council.
- 4.2. The Council has created a Ringfenced Reserve for the operations of its Burial Authority. This reserve is different from other EMR as it cannot be released to the General Reserve or used for any other purpose.
- 4.3. This Ringfenced Reserve receives the benefit of all Burial Authority income and disburses all Burial Authority expenses in any period; were there to be an insufficient balance on the reserve, the expenses would be met from General Reserves. At each meeting of the Burial Authority, the movements on the reserve are reported.