St Michael Parish Council

Financial Reserves Policy

1. Purpose of a Financial Reserves Policy

St Michael Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation, but has no legal powers to hold reserves other than those for reasonable working capital needs or for specifically earmarked purposes. The purpose of this policy is to set out how the Parish 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 (Clerk) to advise the Parish Council about the level of reserves, and to ensure that there are key protocols for their establishment and use.

Reserves can be used for long-term planned or exceptional (unbudgeted or higher than expected) expenditure on the following conditions:

• The expenditure must not be recurring

• Income in reserves from the sale of fixed assets ('capital receipts') such as the sale of land, can only be used for capital projects, such as the acquisition and enhancement of land, building, vehicles, plant and equipment.

Budget allocations can be moved from one budget line to another during the course of a financial year, with approval from the Parish Council, as long as the total expenditure for the financial year is not exceeded.

2. Types of reserve

Reserves can be categorised as earmarked (held for a specific purpose), general (held to cushion the impact of uneven cash flows or unexpected events), or ringfenced (held for one purpose only and cannot be transferred).

2.1 Earmarked reserves

Earmarked reserves are a means of building up funds over several years to deliver a defined project, predicted liabilities or for known significant expenditure. They are not to be used for emergency operations. Earmarked reserves must be reviewed and/or established by the Council at the annual budget setting meeting. Any changes to the proposed use of reserves must be agreed by Council. The RFO will note earmarked reserves movements at the end of the financial year.

Earmarked reserves are held for specific projects or purposes, or to meet known or predicted liabilities, for example:

• Renewals – to enable the Parish Council to plan and finance an effective programme of equipment replacement. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.

• Carry forward of underspend – some expenditure is budgeted for projects, but is not spent in that financial year. Reserves are used as a mechanism to carry forward these resources.

2.2 General reserves

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. The Parish Council considers a prudent level of general reserves to be the equivalent of 12 months' annual expenditure, with extra regard given to the possibility of contested election expenses arising. If in extreme circumstances general reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council would be able to draw down from its earmarked reserves to provide short term resources. Even at times when extreme pressure is put on the Parish Council's finances, the Council must keep a minimum balance in its general reserves sufficient to pay three months' salary to staff. Agreement from full Council is required to move funds from the general reserves.

2.3 Ringfenced reserves

Ringfenced reserves are grants allocated for a specific project only, this money must not be used for any other purpose.

3. Review of reserves

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.

This policy along with a statement of reserves held shall be reviewed annually.

Recorded reserves at 31 March 2022	**£7,454**
Recorded reserves at 31 March 2023	**£8,857**
Recorded reserves at 31 March 2024	**£8,861**
Recorded reserves at 31 March 2025	**£6827**
Estimated reserves at 31 March 2026	**£6893**

The Parish Council considers that its reserve funds continue to be held at an appropriate level. While not formally earmarked, reserves have been built up and will be maintained towards meeting operating costs for approximately one year (c. £5,100) plus the potential charge for a future contested election (unknown but estimated £1,800). Provision may also gradually be made towards the eventual replacement of one or more of the Parish Council's bus shelters.

The Parish Council has taken into account the reduction of ~21% in the Council Tax Base following the Community Governance Review conducted in 2022 by St Albans City & District Council. It was agreed to lower the precept request to SADC for 2023/24 commensurately, from £5,225 to £4,225. For 2024/25 the precept requested from SADC is £4,542. For 2025/26 the precept requested was £6049 which is a larger increase than previous years as the reduced request can no longer be sustained. For 2026/27 the precept request was £6237 to allow for a gradual increase over time rather than a large impact in a future year.

Signed Chair

Adopted	2019	Minute reference 53/19 iii
Reviewed	March 2021	Minute ref 29/2021 ii;
	May 2022	Minute ref 42/2022 i
	March 2023,	Minute reference 24/2023
	March 2024.	Minute reference 24/2024
	March 2025	Minute reference 29/2025
	March 2026	Minute reference 42/2026