RESERVES POLICY

1 Introduction

Goring-on-Thames Parish Council is required to maintain adequate financial 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.

Local Councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes.

Local Government Finance Act 1992 s32 & 43 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 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 procedures for their establishment and use.

If the total of all reserves (earmarked and uncommitted) is greater than twice the precept, the council will be required to explain its reserves as part of the annual audit process. The auditor may highlight an excessive general reserve, but the final decision rests with the council.

As at 1 March 2026 the total reserve was £577,308. The 2026-7 precept is £238,846. When the Gardiner playground refurbishment work is paid for in April/May the total reserve will drop to below twice the precept.

Reserves can be categorised as Operating Reserves or Earmarked Reserves.

2 Operating (or General) Reserve

Operating Reserves (also known as 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, avoiding the need to include these unexpected events in the precept.

The level of Operating Reserve is a matter of judgement and so this policy does not attempt to prescribe a blanket level. External guidelines suggest 3-12 months of net revenue expenditure. Even at times when extreme pressure is put on the Council's finances the Council must at all times keep a minimum balance sufficient to pay one month's salaries to staff in the Operating Reserve.

Setting the level of the Operating Reserve is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. 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 the Operating Reserve was 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.

The Scribe accounting package used by GPC included the Operating Reserve as a Capital Reserve with the code “310 Operating (General) Reserve”.

For FY2026-7 the precept is set at £238,846 – 3 months of this is £59,712 and 6 months is £119,423.

3 Earmarked Reserves (EMRs)

Earmarked reserves must be held for specific, identified purposes (e.g., equipment or asset replacements, building or facility refurbishment, elections, community improvement projects) and cannot be used for other purposes without council approval. Other examples are:

a) Renewals – to enable services to plan and finance an effective programme of vehicle, equipment and infrastructure replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
b) Reserve holding Community Infrastructure Levy funds received whose use is restricted.
c) Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
d) Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
e) Carry forward of underspend – if the budget committed to a specific project could not spend the budget within that FY year the unspent resources can be carried forward into an EMR for that specific project with the formal approval of Full Council. Unspent budgets for completed projects shall not be carried forward to a subsequent year.

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.

Addition to or withdrawal from any earmarked reserve shall be agreed by the Council or Finance committee, except that the RFO has delegated authority for up to £5,000 expenditure from reserves between Council meetings, any such expenditure to be reported at the next Council meeting.

All Earmarked Reserves are recorded in the Scribe accounting package which lists the Earmarked Reserves and the purpose for which they are held.

The approval of a Earmarked reserve must be supported by:

a) a clear description of the project
b) a cost estimate of the project
c) the number of years over which the funds can be accumulated
d) an estimate of when the fund is anticipated to be spent.

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 in the following year. 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.

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.

4 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 strategy.

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.

5 Level of Financial Reserves

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

6 Review of the Policy

This policy was reviewed and updated by the Parish Council at its meeting on xx May 2026 and will be reviewed annually.

Signed: xx May 2026
Chair of the Council