


# Reserves Policy

Thurston Parish Council

**Policy Approved:** Policy & Resources Committee 18 November 2026
**Presented to Council:** Full Council Meeting 2 December 2026
**Review Body:** Policy & Resources Committee
**Review Period:** Annually at budget setting or more frequent following legislative changes.
**Next Review:** Policy & Resources Committee November 2027

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## 1. Purpose of Policy

Thurston Parish Council (TPC) 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.

The Practitioners' Guide (March 2026 – to be applied to the Annual Governance and Accountability Returns covering the period 1 April 2026 to 31 March 2027) - requires all authorities to provide for contingencies and consider the need for general and earmarked reserves to finance both their day-to-day operations and future plans.

Furthermore, it is stated that smaller authorities have no specific rights to accumulates funds via the precept. All reserves should be reviewed and justified regularly (at least annually). It is good practice to publish both the level and rationale of all reserves.

## 2. Types of reserves

Reserves can be categorised as general, earmarked or restricted (CIL)

## 3. 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 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.

Setting the level of general reserves 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 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.

Even at times when extreme pressure is put on the council's finances the council must keep a minimum balance sufficient to pay three months' worth of contractual obligations to staff and contractors in general reserves at all times.

Council should also be aware of the guidance as given in Proper Practices (March 2026 which states that
"5.33. The general reserve of an authority comprises its cash flow and contingency funds to

cover unexpected inflation, unforeseen events and unusual circumstances.

5.34. The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure. The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure.
5.35. The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve".

It is expected that each authority will adopt a General Reserve policy that reflects its size, operational circumstances, risk profile and strategic objectives. Budget setting should be undertaken in a manner that maintains reserves at an appropriate and sustainable level. In determining the minimum level of reserves required, consideration should extend beyond anticipated income and expenditure to include risks that may affect financial stability.

## 4. Earmarked Reserves

Earmarked reserves can be used to cover items such as:

- Renewals – to enable services to plan and finance an effective programme of vehicle and equipment 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.
- Carry forward of underspend - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.

Other earmarked reserves may be set up from time to time to meet known or predicted liabilities and may include an insurance reserve to enable the council to meet the excesses of claims not covered by insurance.

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

Any decision to set up a reserve must be given by the council.

Expenditure from reserves can only be authorised by the council.

Reserves should not be held to fund ongoing 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.

All earmarked reserves are recorded on a central 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.

## 5. Restricted Reserves (CIL)

Neighbourhood CIL is passed to parish or town councils by MSDC where development is taking place.

The amount will be 15% or 25% depending on whether the community has an adopted Neighbourhood Development Plan (NDP). Thurston has an adopted NDP as of October 2019. The CIL Regulations 2010 as amended state that the parish council must spend the CIL income they received from the District on either:

- The provision, improvement, replacement, operation or maintenance of infrastructure;

or

- Anything else that is concerned with addressing the demands that development places on an area.

Providing CIL is spent in accordance with the above, CIL monies may be used to provide seed or match funding with other income streams and / or may be spent collaboratively with other parish councils, community interest companies or other providers to make the most efficient use of funding to benefit the community.

Thurston Parish Council has a five-year period in which to spend CIL monies from the date received, thus funds may be accumulated to provide for major projects.

These sums must be held in a designated reserve (restricted reserve) to support the expenditure on facilities and services to ensure that there is the capacity to sustain such growth.

Over time this will lead to a reduction in the total reserve available and all associated revenue costs will need to be brought into the revenue budgets funded by the Precept.

## 6. Policy In Practice

The Council will hold Reserves for these four main purposes: -

- A working balance to help cushion the impact of uneven cash flows – this forms part of the General Reserves.
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves.
- A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.
- A means of using funds to address the demands that development has placed on the area from the (CIL) Restricted Reserves.

## 7. Procedure

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

Expenditure from reserves can only be authorized by the Council.

The reserves will be reviewed by the Council as part of the annual budgeting process.

The Responsible Financial Officer will maintain a detailed schedule of all reserves which will form part of the accounts package.