Earl Stonham Parish Council: Reserves Policy

1. Purpose

Earl Stonham Parish Council is required to maintain adequate financial reserves to meet its contractual needs, manage unexpected events, and secure smooth financial operations. This policy defines the framework for the management, review, and use of these financial reserves.

2. Types of Reserves

The Council holds two distinct categories of reserves:

2.1 General Reserves

- **Definition:** Unrestricted funds that are not allocated to any specific project or expenditure.
- **Purpose:** To manage uneven cash flows, protect against budget variances, and provide a buffer for immediate, unforeseen emergencies.
- **Target Level:** The Council aims to maintain a General Reserve balance equal to between 3 and 12 months of its Net Revenue Expenditure (NRE).

2.2 Earmarked Reserves (EMRs)

- **Definition:** Ring-fenced funds held for specific, clearly defined future purposes.
- **Purpose:** To fund long-term capital assets, project renewals, election costs, or anticipated legal liabilities.
- **Management:** Every EMR must serve a specific project, have a clear rationale, and be reviewed annually to prevent unnecessary fund hoarding.

3. Procedure for Management and Review

- **Responsibility:** The Responsible Financial Officer (RFO) is responsible for monitoring reserves and advising the Council on adequacy.
- **Annual Assessment:** The RFO evaluates the current and projected levels of both General and Earmarked Reserves during the budget-setting process each year.
- **Council Approval:** The level and allocation of reserves must be formally reviewed and approved by the Council alongside the annual budget and Precept demand.
- **Virement:** Any movement of funds between General and Earmarked Reserves requires explicit Council resolution.

4. Governance & Exceptions

- **Excessive Reserves:** If General Reserves exceed the target range, the Council will consider a planned reduction through targeted infrastructure investments or a Precept adjustment.
- **Depleted Reserves:** If General Reserves fall below the minimum target level, the RFO must present a recovery plan to restore balances during the next budget cycle.

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Next Review Date: July 2027