

Aynho Parish Council

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Aynho Parish Council Reserves Policy

1. Introduction

The Council is required, under statute, to maintain adequate financial reserves to meet the needs of the organisation.

Section 49A of the **Local Government Finance Act 1992** requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

As councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes, whenever a council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered **annually**.

The Council will hold reserves for three main purposes:

1. **A working balance** to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the **general reserves**.
2. **A contingency** to cushion the impact of unexpected events or emergencies – this also forms part of the **general reserves**.
3. **Earmarked reserves**, which are funds built up to meet known or predicted requirements. Earmarked reserves are accounted for separately but remain legally part of the **general fund**.

2. General Fund Balance

The general fund balance, commonly termed the "**working balance**", is a balance on the Council's revenue account which is not held for any specific purpose other than to cushion the Council's finances against unexpected short-term problems in the Council's cash flow.

The general fund balance is to be maintained at a level based upon a **risk assessment carried out annually by the Responsible Finance Officer (RFO)** when setting the budget for the forthcoming year.

In determining the appropriate level of general reserves, the Council will also have regard to guidance issued to local councils which suggests that general reserves should normally be maintained at a level equivalent to **between three and twelve months of net revenue expenditure**, depending on the level of financial risk faced by the authority.

Aynho Parish Council has resolved that **at any time the General Fund balance should never exceed the value of the current year precept.**

Any surplus above the required balance may be used to:

- fund capital expenditure,
- be appropriated to earmarked reserves, or
- be used to limit any increase in the precept.

3. Financial Risk Management

In order to assess the adequacy of the general fund when setting the annual budget, the **Responsible Finance Officer (RFO)** will take account of the **strategic, operational and financial risks** facing the Council.

The required level of the general fund balance for the forthcoming year will therefore be based upon a **risk assessment of the Council's main areas of income and expenditure** and will take into account any provisions and contingencies that may be required.

4. Earmarked Reserves

Earmarked reserves represent amounts that are generally built up over a period of time and are set aside for **specific items of expenditure** to meet known or anticipated liabilities or projects.

Setting aside funds to meet known future expenditure reduces the impact of meeting the full cost in a single year.

When establishing an earmarked reserve, the Council will set out:

1. The **reason or purpose** of the reserve;
2. **How and when** the reserve can be used;
3. **Procedures for the management and control** of the reserve;
4. A **process and timescale for review** of the reserve to ensure continuing relevance and adequacy.

Adopted 7th April 2026

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The current earmarked reserves are listed in the **financial reports issued monthly to councillors.**

5. Review of the Adequacy of Balances and Reserves

When assessing the adequacy of reserves, the **strategic, operational and financial risks** facing the authority will be taken into account.

The level of earmarked reserves will be **reviewed as part of the annual budget preparation process.**

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Next Review: April 2028

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