Essex Association of Local Associations

Supporting local town and Associations within Essex

Reserves Policy

Adopted 18th January 2024

1. Purpose

1.1 **Essex Association of Local Associations is required to maintain adequate financial reserves to meet the needs of the Association. The purpose of this policy is to set out how the Association will determine and review the level of reserves.**

2. General Reserves

2.1 **Reserves can be categorised as general (e.g. held to cushion the impact of uneven cash flows or unexpected events) or earmarked (held for a specific purpose).**

2.2 **General reserves or working balances are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of significant pressures, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies which would not require an ongoing revenue commitment.**

2.3 **The policy of the Association is to hold 6 months of overheads expenditure in general reserves. This will not include any expenditure for which an earmarked reserve has been created.**

2.4 **Earmarked reserves are held for five main reasons:**

2.4.1 **Renewals – to enable the Association to plan and finance an effective programme of equipment replacement and planned property maintenance (if appropriate). These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.**

2.4.2 **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.**

2.4.3 **Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.**

3. Earmarked reserves

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

3.2 **Any decision to set up a reserve must be given by the Executive committee, being advised by the Finance Sub-committee**

3.3 **Expenditure from reserves can only be authorised by the Executive.**

3.4 **If 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.**

3.5 **All earmarked reserves are recorded on a schedule held by the Financial Controller which lists the various earmarked reserves and the purpose for which they are held.**

3.6 **Reviewing the Association'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 for the Association.**

4. General Reserves

4.1 **Setting the level of working balances is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget. The Association must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment. The general reserves balance will be reviewed at least annually, during budget setting, taking into consideration the budgeted expenditure for the following year.**

4.2 **The Association will aim to keep reserves at 6 months of overheads expenditure for which no earmarked reserve exists.**

4.3 **If in extreme circumstances general reserves were exhausted due to unforeseen spending pressures within a particular financial year, the Association would be able to draw down from its earmarked reserves to provide short-term reserves.**

5. Governance concerning the balances and reserves.

5.1 **The Finance Sub-committee will review the Reserves Policy as part of the review of Financial Regulations and reporting to the Executive as part of the budget setting process.**

5.2 **The Finance Sub-committee will have the opportunity to review the levels of Earmarked Reserves held in accordance with the Association's Financial Regulations and make recommendation for the creation of additional Earmarked Reserves as part of the annual budgeting process.**

5.3 **The Finance Sub-committee will be required to identify when making recommendation for each reserve:**

- **The reason for/purpose of the reserve**
- **How and when the reserve can be used**
- **Procedures for the reserve's management and control**
- **A process and timescales for review of the reserve to ensure continuing relevance and adequacy**

5.4 **General Reserve balances will be held by the Association to cushion the impact of uneven cash flows and the impact of unexpected, unforeseen, emergency and uninsured situation and will be reviewed annually.**