



Financial Reserves Policy

Adopted at the Full Council 24th June 2020

Policy Statement

The purpose of this Policy is to set out how the Parish Council will determine and review the level of Reserves.

The Parish Council is required to maintain adequate financial reserves to meet the needs of the Parish. Under a statute of the Local Government Finance Act 1992* requires that Precepting Authorities in England identify the level of reserves required to meet future estimated expenditure when calculating the annual budget.

There are no specified minimum levels of Reserve mentioned in the 1992 Act, and it is therefore the responsibility of the Responsible Financial Officer (RFO) to advise the Council concerning the appropriate levels of reserves and to ensure that there is a procedure for execution of the amounts of reserve.

The policy on the adequacy and use of reserves and balances will be reviewed annually and may only be amended or varied by resolution of the full Council.

Scope

The Parish Council will hold two types of reserve for the following purposes:

- General Reserves – a working balance to help smooth the impact of unexpected or short term problems in the Parish Council's cash flow. This reserve acts to provide a contingency to reduce the requirement of temporary borrowing measures or a loan in an emergency. Both NALC & SLCC recommend this action as good practice. There is no restriction as to the use of these reserves.
- Specified Reserves (Earmarked Funds) – specific funds to meet the requirements of a project. Funds are set aside over a period of time to meet the expected cost of a project to enable expenditure to be spread over more than one year if necessary.

General Fund & Working Balance

The level of general funds and a working balance is based upon a risk assessment of the Parish Council's main areas of expenditure, and income (the latter if relevant), and will also include any contingencies. No prescribed specific level is placed against working balances and the (RFO) must make a judgement based upon the following factors:

- Salary inflation if greater than the budget set.
- Unexpected maintenance repair costs.
- Contractual inflation costs if greater than the budget set.

The Parish Council must maintain a sufficient level of working balance in order to cover any agreed key risks identified in the Financial Risk Assessment. Finance and transparency rules state that a Council should maintain a general reserve to meet between 3 and 12 months expenditure.

As a general fund 50% minimum should be the minimum reserve with a recommendation that between 55% and 70% be held.

General Reserves

Setting the general reserves level is integral to the annual budget and represents a medium term financial strategy. The Parish Council should aim to build and maintain sufficient working balances to cover the key risks faced. The minimum level of General Reserve shall be recommended to the Parish Council by the (RFO) and will form part of the Precept request.**

In the event that General Reserves are exhausted due to major or unforeseen expenditure pressures in a financial year the Parish Council are entitled to draw or transfer funds from its Specific Reserves (Earmarked Funds) for short term purposes

Specific Reserves

These reserves are held for a number of reasons and created for specific purposes as identified below as 'Earmarked' funds. The level of earmarked reserves shall be reviewed by the Parish Council as part of the annual budget setting process to address the adequacy of levels for specific projects and their continued need.

Should a project be cancelled or where the purpose of a specific reserve becomes obsolete excess funds can be transferred to other budget headings at the approval of full Council. The formation or cessation of a specific reserve shall be provided for by the (RFO) in the annual Budget and Precept summary.

Specific Earmarked Reserves

Any decision to set up a Reserve must be approved by full Council and expenditure shall be authorised in the same fashion as expenditure from budgets in accordance with Standing Orders.

The Parish Council projects:

- Recreation Playground Equipment installation and maintenance
- Community Events, Big Event & Christmas Fair
- Climate Change Emergency (BOTHER)

Statutory Earmarked Reserves

The Parish Council may hold funds which transpire from the following items as a result of changes in Local Government Legislation.

- Community Infrastructure Levy (CIL)
- Neighbourhood Fund

Management and control of Reserves

Forming part of the regular monthly accounting reports a reconciliation of financial balances on the Parish Council General account and Earmarked Funds account listing all movements on the accounts shall be reported at full Council.

Financial Risk Management

As mentioned above, an assessment will be carried out by the (RFO) during the budget process which will address both the strategic and operational financial risks which face the Parish Council.

Once the balance has been agreed any balance in excess of the general fund can be deemed to be a surplus amount and may be used to fund capital expenditure. Any surplus amount can also be transferred (by resolution) to Earmarked Reserves or to limit any potential increase in the Precept for the subsequent year.

* Finance Act 1992 Section 50 (and Sections 32 & 43)

** (LGA) 2003 Sections 26 & 27

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