

Spratton Parish Council

Reserves Policy

1 Purpose

1.1 Spratton Parish Council 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 will determine and review the level of General Reserves. The Council's General Reserves is where all the revenue income and expenditure of the Council is accounted for. It does not include specific funds earmarked for long term projects.

1.2 Section 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. However, there is no specified minimum or maximum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer (RFO) in conjunction with the Chair of the Council's Resources Committee to advise the Council about the level of reserves.

2 Types of reserves

General Reserves

2.1 Reserves can be categorised as general (eg held to lessen the impact of uneven cash flows or unexpected events) or earmarked (held for a specific purpose)

Earmarked Reserves

2.2 Earmarked Reserves are held for five main reasons:

- Renewals – to enable the council to plan and finance an effective programme of equipment replacement and property maintenance. These reserves ensure that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of underspend – expenditure can be carried to projects that cannot be spent in the budget year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to meet estimated future claims to enable the Council to meet the excesses not covered by insurance.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

2.3 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.

3 Earmarked Reserves

3.1 The Governance and Accountability Practitioners' Guide (2018) sets out guidance and audit considerations for Town and Parish Councils.

3.2 Earmarked reserves will be established on a need basis in line with planned or anticipated requirements.

3.3 As outlined in the regulations, any decision to set up a reserve must be given by the Council.

3.4 Expenditure from reserves can only be authorised by the Council.

3.5 If reserves are used to meet short term funding gaps, they must be replenished in the following year. However, earmarked reserved 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.

3.6 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.

4. Working balances

4.1 The level of general reserves or working balances is a matter of judgment and so this policy does not attempt to prescribe a blanket level. The Council must build and maintain sufficient working balances to cover the key risks it faces, as set out in its financial risk assessment.

4.2 In practice to determine the precise level of reserves the Responsible Financial Officer and Resources Committee will consider the following factors:

- Inflation and interest rates,
- demand-led pressures,
- planned efficiency savings,
- financial risks,
- the availability of other funds,
- the overall financial standing of the Council,
- the Council's ability to manage in year budget pressures,
- the adequacy of the authority's insurance arrangements to cover major unforeseen circumstances.

4.3 if in extreme circumstances general reserves were exhausted due to 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.

5. Opportunity cost of holding reserves

5.1 In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding reserves in terms of interest earned on funds which are not utilised. This investment income is fed into the budget strategy.

5.2 However, there is are opportunity costs of holding funds in reserves, in that these funds cannot be spent on anything else.

5.3 Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

6. Governance concerning the Balances and Reserves

6.1 Spratton Parish Council will review the Reserves Policy as part of the review of Financial Regulations and report to the Parish Council as part of the budget setting process.

6.2 The Council will have the opportunity to review the levels of Earmarked Reserves held in accordance with the Parish Council's Financial Regulations and make recommendations for the creation of additional Earmarked Reserves as part of the annual budgeting process.

6.3 The Council will be required to identify the following when making recommendations 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

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