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Financial Reserves Policy

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Date: ...29/06/22...

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Date: ...20/07/22...

Document History

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FINANCIAL RESERVES POLICY

Policy Statement

This Financial Reserves Policy shall form a part of the Financial Regulations of Stantonbury Parish Council and, as such, will be reviewed annually.

1. Purpose

The purpose of this policy is to set out how Stantonbury Parish Council will determine and review the level of its' Reserves.

Stantonbury Parish Council is required, under statute, to maintain adequate Financial Reserves in order to meet the needs of the Parish Council. Section 50 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 their Budget requirement. The Council's policy on the establishment, maintenance and adequacy of Reserves and balances will be considered annually and will be consistent with meeting the Council's overall strategic objectives.

The Council will hold reserves for three main purposes:

1. Working capital to meet the impact of uneven cash flows and avoid unnecessary temporary borrowing
2. To provide contingency to cover the impact of unexpected events or emergencies
3. A means of building up funds, to meet known or predicted requirements

There is no statutory minimum level of Reserves that an authority should hold, and it is the responsibility of the Responsible Finance Officer (RFO) to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use.

2. Scope

Types of Reserve - Reserves may be categorised as *Specific* or *General*.

2.1 Specific Reserves can be held for several reasons and shall be used only for the purpose for which they are created.

- **Renewals** – to enable services to plan and finance an effective programme of equipment replacement and planned property maintenance. Since a modest change in the budget in any one year may have a disproportionate effect on the precept, these reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets dramatically from year to year.
- **Insurance Reserve** – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
- **Carry forward of Underspend** - expenditure committed to a particular project but not spent in the budget year. Reserves can be used as a mechanism to carry forward this resource.
- **Developers Contributions** – proceeds from developers that can only be used for specified purposes.
- **Trading Accounts** – In some instance's surpluses may be retained for future investment.
- **Other Specific Reserves** may be set up from time-to-time to meet known or predicted liabilities.

Where the purpose of a *Specific Reserve* becomes obsolete, or where there is an over-provision of funds, the excess may on the approval of the Council be transferred to other Budget headings within the revenue budget or to *General Reserves* or to one or more other *Specific Reserves*.

Specific Reserves will be established on a 'needs' basis, in line with anticipated requirements. Any decision to set up a Reserve must be made by the Parish Council. Expenditure from Reserves can be authorised in the same way as expenditure from budgets, as per the Councils Financial Regulations and Standing Orders.

All *Specific Reserves* are to be recorded on a central schedule held by the RFO which lists the various *Specific Reserves* and the purpose for which they are held.

Reserves should not be used to fund ongoing expenditure. To the extent that Reserves are used to meet short term funding gaps, they should be replenished in the following year. However, *Specific Reserves* that have been used to meet a liability (or project) would not need to be replenished, having served the purpose for which they were originally established.

2.2 General Reserves are funds that do not have restrictions as to their use. These Reserves can be used to smooth the impact of uneven cashflows or can be held in case of unexpected events or emergencies. The level of the *General Reserve* for the forthcoming year will be based upon a risk assessment of the council's main areas of income and expenditure and consider any provisions and contingencies that may be required. Items to be considered will include:

- Salary Inflation greater than Budgeted Level
- Contractual Inflation greater than Budgeted
- Income Levels below Budgeted Level
- Unexpected Essential Repairs or Maintenance Work
- Costs incurred due to a Black Swan Event

The use of *General Reserves* must be authorised by the Council. Where the Reserve amount has arisen because of excess funds through cancelled or obsolete activities the Council may elect to use these funds for another purpose for which no other budget is available.

The level of *General Reserve* is a matter of judgment and so this policy does not attempt to prescribe an overall level. The primary means of building *General Reserves* will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year. The Council must build and maintain sufficient working balances to cover the key risks it faces, even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance of *General Reserves* sufficient to pay 25% of total annual Administration Expenses, including staff salaries, at all times.

3. Management and Control of Reserves

Movements in *Specific Reserves* and *General Reserves* shall be reported to the Council on a regular basis as part of the normal financial reports, and on an Annual basis as part of the Annual accounting report. The use of Reserves shall be approved by the Council having regard to this policy and Stantonbury Parish Council's Financial Regulations.

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.

The level of *General Reserve* shall be reviewed on an annual basis during the annual budgetary review. The minimum level of General Reserve shall be recommended to the

Council by the RFO. This will form part of the recommendations for the Annual Budget and Precept Request to the Council.

Specific Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the annual budgeting process. Recommendations on creation, amendment, cessation, or continuance of *Specific Reserves* will be given by the RFO to the Council by way of a report forming part of the recommendations for the Annual Budget and Precept Request. Approval for the creation, amendment, cessation, or continuance of *Specific Reserves* will be given by the Council.

If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council is able to draw down from its Specific Reserves to provide short-term resources.