Haydon Wick Parish Council

Financial Reserves Policy

1. Purpose

1.1 Haydon Wick Parish Council is required to maintain adequate financial reserves to meet the needs of the Parish Council. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

1.2 Sections 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 level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

2. Types of reserves

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 Guidance from the Joint Panel on Accountability and Governance (JPAG) states:

- 2.3.1 *The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.*
- 2.3.2 *The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure.*
- 2.3.3 *The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserves.*

2.4 It is worth noting that the calculation for the number of months reserve is taken by calculating the budgeted Net Revenue Expenditure (NRE), this is the total of the annual budgeted expenditure, minus any Public Works Loan Board (PWLB) repayments and any contributions to Earmarked Reserves (EMRs). This means that as the Council's expenditure increases, so too must the minimum level of reserves.

~~2.1~~

Earmarked Reserves

2.2 Earmarked reserves are held for five main reasons:

- **Renewals** – to enable Council 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.
- **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.
- **Trading accounts** – in some instances surpluses are retained for future investment.
- **Insurance reserve** – to meet the estimate of 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**.

~~2.2~~1.1 ~~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.~~

3. Earmarked reserves

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

3.2 Earmarked reserves will be established on a "needs" 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 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.

3.6 All earmarked reserves are recorded on a schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

3.7 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 for the Parish Council.

4. ~~Working balances~~General Reserve levels

~~5.~~

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 Council 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 NRE for the following year.

4.2 ~~The level of general reserves or working balances is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building working balances 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~~As the Parish Council is a larger council with income and expenditure well in excess of £200,000.00 the Council should aim to keep reserves at between 3 and 5 months NRE. ~~.~~

4.3 Should levels fall below 3 months, Council will plan to rebuild the balance via precept levy. This can be done over no more than 3 years.

4.4 Should levels rise above 5 months, Council will plan to either:

- 4.4.1 Reduce the precept over the course of no more than 3 years by supplementing the income with general reserves or,
- 4.4.2 Transfering funds from general to earmarked reserves for specified projects.

~~5.1~~

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~~5.3 In practice however in determining the precise level of reserves about this minimum the Responsible Financial Officer will consider most if not all of the factors shown in the following table:~~

~~**Budget Assumptions**~~	~~**Financial Standing and Management**~~
~~The treatment of inflation and interest rates~~	~~The overall financial standing of the authority (e.g. level of borrowing, debt outstanding, council tax collection rates)~~
~~The treatment of demand-led pressures~~	~~The authority's capacity to manage in-year budget pressures~~
~~The treatment of planned efficiency savings~~	~~The strength of the financial information and reporting arrangements~~
~~The financial risks inherent in any significant new funding partnerships, major contractual arrangements or major capital developments~~	~~The authority's virement and end of year procedures in relation to budget under/overspends at council and committee level~~

~~The availability of other funds to deal with major contingencies and the adequacy of provisions~~	~~The adequacy of the authority's arrangements to cover major unforeseen risks~~

4.4 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 reserves.

~~6.~~5. Governance concerning the Balances and Reserves

~~6.1~~5.1 Haydon Wick Parish Council will review the Reserves Policy as part of the review of Financial Regulations and reporting to the Parish Council as part of the budget setting process.

~~6.2~~5.2 The Council will have the opportunity to review the levels of Earmarked Reserves held in accordance with the Parish Council's Financial Regulation and make recommendation for the creation of additional Earmarked Reserves as part of the annual budgeting process.

~~6.3~~5.3 The Council 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

~~6.4~~5.4 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.

~~7. Details of General and Earmarked Reserves 1st April 2022~~

~~Breakdown of Earmarked Reserves~~

~~7.1 Earmarked Reserves~~

~~**Amount**~~	~~**Code**~~	~~**Reason**~~
~~**£6,000**~~	~~101 / 4020~~	~~Staff Training~~
~~**£500**~~	~~302 / 4342~~	~~Skatepark repairs accrual~~
~~**£7,542**~~	~~307 / 4610~~	~~Unspent EMR Vehicles~~
~~**£3,674**~~	~~402 / 4002~~	~~Unspent Memory Café Salaries~~
~~**£10,813**~~	~~402 / 4320~~	~~Unspent Youth Engagement~~
~~**£5,444**~~	~~402 / 4330~~	~~Unspent Memory Café~~

~~**£250**~~	~~**605 / 4618**~~	~~Emergency Plan~~
~~**£30,549**~~		~~**TOTAL**~~

~~*Breakdown of General Reserves*~~

~~6.2 General Reserves~~

~~**Amount**~~	~~**Reason**~~
~~**£474,491**~~	~~To provide cashflow smoothing and any major unforeseen liability equates to 5 months expenditure~~

Version Control

HWPC **Reserves Policy**	Georgina Morgan-Denn Clerk to Council	1. Adopted 15th October 2019 - FC 123.1 A 2. Amended and approved at Full Council 28th January 20 – FC183 3. Reviewed Full Council 26th January 21 – FC 200 4. Reviewed Full Council 25th January 2022 – FC 180	Review date: Before 31.01.2023