



# 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).

### *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 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

- 4.1 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.
- 4.2 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.
- 4.3 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:

<b>Budget Assumptions</b>	<b>Financial Standing and Management</b>
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,	The authority’s virement and end of year procedures in relation to budget

major contractual arrangements or major capital developments	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.

## 5. Governance concerning the Balances and Reserves

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.

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.

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

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.

## 6. Details of General and Earmarked Reserves 1st April 2021

### *Breakdown of Earmarked Reserves*

#### 6.1 Earmarked Reserves

Amount	Code	Reason
<b>£6,000</b>	101 / 4020	Staff Training [£3k per annum 20/21 & 21/22]
<b>£15,000</b>	101 / 4090	Election Funds [Y3 accrual of £5k per annum]
<b>£2,500</b>	102 / 4104	Boiler replacement
<b>£500</b>	302 / 4342	Skatepark repairs accrual
<b>£25,000</b>	605 / 4614	Tadpole Lane access

<b>£12,000</b>	605 / 4621	Community Bus replacement [Y3 of annual accrual over the next 10 years]
<b>£3,000</b>	605 /	Footpath project
<b>£2,500</b>	605 / 4617	Strategic Planning
<b>£250</b>	605 / 4618	Emergency Plan
<b>£66,750</b>		<b>TOTAL</b>

### *Breakdown of General Reserves*

#### 6.2 General Reserves

<b>Amount</b>	<b>Reason</b>
<b>£437,871</b>	To provide cashflow smoothing and any major unforeseen liability equates to 5 months reserves]

#### **Version Control**

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Adopted Full Council 28<sup>th</sup> January 2020 – Minute Ref 183.

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