

PETERCHURCH PARISH COUNCIL

FINANCIAL RESERVES POLICY

1. Purpose

PETERCHURCH Parish Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. 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:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves;
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the general reserves;
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the general fund.

2. The Governance & Accountability for Local Councils Practitioners Guide 2014

2.25 ...as councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes, whenever a council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor. Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the council. However, the amount of general reserve should annually be risk assessed and approved by the Council.

3. Types of Reserves

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

Financial Reserves Policy 2021

Specific Reserves: - as the name suggests these represent amounts which are “earmarked” for specific items of expenditure to meet known or predicted liabilities or projects. Specific Reserves are often used to “smooth” the effects of certain expenditure commitments over a period of time, thereby reducing the impact of significant expenditure in any one year. “Earmarked” reserves are typically held for five main reasons:

Renewals: - to plan and finance an effective programme of equipment replacement and planned property repair/maintenance; and grounds maintenance. 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 expenditure budgeted for projects in a given financial year cannot be spent in that year. Reserves are used as a mechanism to carry forward these resources.

Trading accounts: - in some instances surpluses may be 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.

General Revenue Balances: - this is often referred to as the “working balance”. This typically comprises of three elements. The first is a sum of money which is not earmarked for specific purposes but rather set aside to deal with unexpected events or emergencies. This “minimum working balance” needs to be regularly reviewed using a risk based assessment. The second is money held in anticipation of uneven cash flow (for example the precept income received six monthly in advance and VAT reclaimed quarterly retrospectively), any amount held in excess of these make up the third sum of monies, and is usually created through surpluses as a result of activities being postponed or cancelled. Reserves of this nature can be spent or earmarked at the discretion of members, subject to approval by Council.

4. Legislative and Regulatory Framework

The Chartered Institute of Public Finance and Accountancy published guidance in 2003 in support of these matters and it is a requirement of the guidance, backed by legislation through the provisions contained in the Local Government Act 2003 that the Council's Responsible Financial Officer reports to members on the robustness and plans to utilise the Council's reserves and balances. The statement to all members should include:

- The estimated opening and closing General Revenue Balances for the year;
- The estimated addition to and withdrawal from Balances;

The Responsible Financial Officer is also required to provide a statement on the adequacy of the General Revenue Fund, reserves and provisions in relation to the forthcoming financial

Financial Reserves Policy 2021

year and also over the medium term. In reporting generally on the reserves and balances, the Responsible Financial Officer is also required to report on the Specific Reserves of the Parish Council, outlining the purpose for which each is held, establishing an appropriate level of reserve and highlighting any proposed changes during the forthcoming year.

5. Financial Risk Management

In order to assess the adequacy of the general fund when setting the annual budget, the RFO will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the Council's main areas of income and expenditure and take into account any provisions and contingencies that may be required.

6. Reserves

The Council, when establishing a reserve as part of the annual budget setting process will set out:

- The reason / purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the management and control of the reserve;
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

The following reserves are currently planned to be held by the Council as at 31 March 2021:-

Type of reserve	Description/Use	Balance £
Earmarked	Election Fund	£3,500
Earmarked	Garden Club Donation	£157.54
Earmarked	Contingency	£2,000
Earmarked	Recreation Sports Facilities	£16,186
Earmarked	<ul style="list-style-type: none">• Key Objectives:<ul style="list-style-type: none">○ Traffic○ Drainage○ Facilities○ Environment○ Wellbeing	<ul style="list-style-type: none">£3,000£3,000£3,000£3,000£3,000£3,000
General		£16,942.46
Total Reserves		£53,786.00

Financial Reserves Policy 2021

7. Review of the adequacy of balances and reserves

In accessing the adequacy of reserves the strategic, operational and financial risks facing the Council will be taken into account. The level of all reserves will be reviewed as part of the annual budget preparation.

Approved and adopted by PETERCHURCH Parish Council on 23rd September 2021