

1. Introduction

- 1.1 Sections 32, 43 and 50 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated expenditure when calculating the budget requirement. However, there is no specified minimum or maximum level of reserves that an authority should hold. It is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure there are procedures for their establishment and use.

2. Purpose

- 2.1 Worplesdon 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 Council will determine and review the level of its general and earmarked reserves.
- 2.2 The Council will hold general reserves for three main purposes:
- (a) A **working balance** to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
 - (b) A **contingency** to cushion the impact of unexpected events or emergencies
 - (c) A **means of building up funds**, referred to as earmarked reserves, to meet known or predicted requirements.
- 2.3 The Council will hold earmarked reserves for four main purposes:
- (a) **Renewals** – to facilitate services, to plan and finance an effective programme of equipment and infrastructure replacement and planned asset maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets
 - (b) **Carry forward of underspend** – some services commit expenditure to projects but cannot be spent from the budget in year. Reserves are used as a mechanism to carry forward these resources
 - (c) **Insurance reserve** – to enable the Council to meet the excesses of claims not covered by insurance
 - (d) **Other earmarked reserves** may be set up from time to time to meet known or predicted liabilities.

3. Types of Reserves

General Reserves

- 3.1 The general reserves are funds which do not have any restrictions as to their use. These are sometimes referred to as 'working balances'. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary, or can be held in case of unexpected events or emergencies thereby enabling the Council to meet its legal, statutory and proper duties and responsibilities. These may include:
- Undertaking essential repairs or maintenance work

- Undertaking unexpected administrative duties or to challenge or deflect future threats to the Parish, its people and its environment
 - Making provisions for potential employment issues e.g. staff ill-health, redundancy obligations, disciplinary or grievance investigations/hearings
 - Short term cash flow difficulties.
- 3.2 The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building general reserves will be via an allocation from the annual budget and will form part of the medium-term financial strategy of the Council.
- 3.3 The level of financial reserves held by the Council will be considered during the budget setting process.

Earmarked Reserves

- 3.4 Earmarked reserves represent amounts that are generally built up over a period which are earmarked for specific items of expenditure to meet known, or anticipated liabilities or projects. The ‘setting aside’ of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year. The Council, when establishing an earmarked reserve, will set out:
- (a) The reason/purpose of the reserve
 - (b) How and when the reserve can be used
 - (c) Procedures for the management and control of the reserve
 - (d) A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4. Setting of reserves

- 4.1 The Governance and Accountability Practitioners’ Guide (2019) sets out guidance and audit considerations for Town & Parish Councils.
- 4.2 Earmarked reserves will be established on a “needs” basis, in line with planned or anticipated requirements.
- 4.3 As outlined in the regulations, any decision to set up a reserve must be made by the Council.
- 4.4 Expenditure from reserves can only be authorised by the Full Council, not by Committees.
- 4.5 If general 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. Virements¹ may be made by the Council at any time during the year - both to and from reserves (general and earmarked) by resolution of the Full Council.
- 4.6 All earmarked reserves will be recorded on a schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

¹ A virement is the transference of funds from one budget to another

- 4.7 Reviewing the Council's Financial Risk Assessment is part of the budgeting and year-end accounting procedures. It identifies planned and unplanned expenditure items, thereby indicating an appropriate level of reserves.

5. Working balances

- 5.1 Setting the level of general reserves or 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.
- 5.2 In practice, however, in determining the precise level of reserves, 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 insurance arrangements to cover major unforeseen risks |

6. Review of the Adequacy of Balances and Reserves

- 6.1 In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation.
- 6.2 Monies resulting from budgetary underspends will ordinarily be added to the general reserves. If, however, the general reserves are higher than necessary, working balances may be used to reduce the subsequent precept.
- 6.3 If in extreme circumstances general reserves were exhausted, due to unforeseen spending pressure within a particular financial year, the Council would be able to draw down from its earmarked reserves to provide short-term resources.

7. Current level of financial reserves

- 7.1 The Council's internal auditor (Mulberry & Co) has advised the level of general reserves to be held by the Council should be between 40 – 60% of the annual precept figure, i.e. to fully cover six months' expenditure.

8. Opportunity cost of holding reserves

- 8.1 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 the interest earned on funds which are not utilised. This investment income is fed into the budget strategy.
- 8.2 However, there is an “opportunity cost” of holding funds in reserves. As an example, if these funds were used to repay debt, the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds. However, using reserves to pay off debt in this way would leave the Council with no reserves to cover unforeseeable short-term funding gaps which may occur; and they would have to be replenished in the following year.

9. Governance regarding the Balances and Reserves

- 9.1 Worplesdon Parish Council will review its Financial Reserves Policy annually as part of the budget process. The levels of general reserves (which change throughout the year) will be reviewed, to establish whether they are still required and whether the levels are still appropriate.
- 9.2 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.
- 9.3 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 management and control of the reserve/s
 - A process and timescales for review of the reserve to ensure continuing relevance and adequacy.

10. Summary

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