

Haslington Parish Council

Reserves Policy

1. Introduction

- 1.1. Haslington Parish Council is required to maintain adequate financial reserves to meet the needs of the 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. The Governance and Accountability for Smaller Authorities in England, A Practitioners Guide March 2020 sections 5.31 to 5.33 advises this should be considered as part of the annual budgeting process. 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

- 2.1. Reserves can be categorised as earmarked (specific) or general (unrestricted).

- 2.2. Earmarked reserves can be held for several reasons:-

Renewals – to plan and finance an effective programme of new facilities and services, replacement and planned property and land maintenance. These reserves are a mechanism to smooth expenditure so that a sensible programme can be achieved without the need to vary budgets.

Carry forward of underspend – where some expenditure to projects cannot be spent in the budget year. Reserves can also be used as a mechanism to carry forward these resources.

Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.

Develop contributions – proceeds from a developer that can only be used for specified purposes

Grants / donations – funds which have been gifted or awarded to the Council and that can only be used for specific purposes

Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

- 2.3. General reserves are funds which do not have any restrictions as to their use. These reserves are 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.

3. Earmarked reserves

- 3.1. Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.
- 3.2. Any decision to set up an Earmarked Reserve must be given by the Council.
- 3.3. Expenditure from Earmarked Reserves can only be authorised by the Council.
- 3.4. Reserves should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished as soon as possible provided that the purpose for which the Reserve was set up continues to exist. 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.
- 3.5. All earmarked reserves are recorded by the Financial Officer which lists the various earmarked reserves and the purpose for which they are held.
- 3.6. 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.
- 3.7. Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, on approval by Council, be transferred to other budget headings within the revenue budget or general reserves or to one or more other Earmarked Reserves

4. General Reserves

- 4.1. 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 through the annual budgeting process. 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 general reserves 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
- 4.3. General reserves must be set with reference to the JPAG (Governance and Accountability for Smaller Authorities in England, Practitioners Guide). At present, the preference is that this is a third or 25% of the Councils expenditure budget
- 4.4. If in extreme circumstances general reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its earmarked reserves to provide short term resources.
- 4.5. Even at times when extreme pressure is put on the Council's finances, the Council must keep a minimum balance sufficient to pay three months salary of staff in general reserves at all times

5. Current level of financial reserves

- 5.1. The level of financial reserves held by the council will be agreed by the council during the discussions held regarding the setting of the budget for the next financial year and year end accounting procedures.
- 5.2. The current level of general reserves held by the council based on the 31 March 2020 year end assessment is 8 months of Precept and 51% of the core expenditure budget