

## **RESERVES POLICY**

Adopted 13<sup>th</sup> May 2024 – Minute no 0223/24

## Introduction

Crich 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.

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.

Local Councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes. It follows that the year-end General Reserve should not be significantly higher than the annual precept. If the amount of reserves at the year-end are above a certain level in relation to the annual precept the council must give an explanation of the reserves held to the Auditor.

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;
- A contingency to cushion the impact of unexpected events or emergencies;
- A means of building up funds, to meet known or predicted requirements There is no specified minimum level of Reserves that an authority should hold, and it is the responsibility of the Responsible Finance Officer to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use.

## Types of Reserve

The council holds 3 types of reserves categorised as: General Reserves, Specific Reserves, and Ringfenced Reserves

**General Reserves** (contingency) are funds that do not have restrictions as to their use. These Reserves can be used to smooth the impact of uneven cashflows, offset budget requirements or can be held in case of unexpected events or emergencies.

The level of General 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.

Guidance states that 'a council should typically hold between 3- and 12-months expenditure as a general reserve' (Good Councillor's Guide on Finance & Transparency)

Items to be considered will include:

- Salary inflation greater than budgeted level
- Contractual inflation greater than budgeted
- Income levels below budgeted level

- Unexpected essential repairs or maintenance work

Approval of the full council is required to move funds from the General Reserve

Any surplus of general reserve above the required balance in any year may be used to fund capital expenditure, be appropriated to specific reserves or used to limit any increase in the precept.

**Specific Reserves** (earmarked/allocated reserves) can be held for several reasons and shall be used only for the purpose for which they are created.

- Renewals – to enable services to plan and finance an effective programme of equipment replacement and planned maintenance. Since a modest change in the budget in any one year may have a disproportionate effect on the precept, these reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets dramatically from year to year.
- Carry forward of underspend - expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward this resource.
- Other Specific Reserves may be set up from time to time to meet known or predicted liabilities.
- Reserves should not be held to fund ongoing expenditure. This would be unsustainable, as at some point the reserves would be exhausted.
- Where the purpose of a Specific Reserve becomes obsolete, or where there is an over-provision of funds, the excess may on the approval of the Council be transferred to other budget headings within the revenue budget or to the General Reserves or to one of more other Specific Reserves.

**Ringfenced** - held for one purpose only and cannot be transferred, for example grants allocated for a specific project only, which may not be used for any other purpose The Responsible Financial Officer will keep a schedule of reserves held at the year-end.

- S106 Developers Contribution – generated through new housing developments.
- Other ringfenced funds, for example donations/grants for a specific item could occur during the year.

## **Procedure**

### **General Reserve**

The level of General Reserve is a matter of judgment and so this policy does not attempt to prescribe an overall level. The primary means of building general reserves

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.

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.

Even at times when extreme pressure is put on the council's finances the council must keep a minimum balance of General Reserves sufficient to pay 50% of total annual Administration Expenses, including staff salaries, at all times.

If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council is able to draw down from its Specific Reserves to provide short-term resources.

Any surplus of general reserve above the required balance in any year may be used to fund capital expenditure, be appropriated to specific reserves or used to limit any increase in the precept.

### **Specific Reserves**

Specific Reserves will be established on a 'needs' basis, in line with anticipated requirements. Any decision to set up a Reserve must be made by the Council. Expenditure from Reserves can be authorised in the same way as expenditure from budgets, as per Standing Orders.

Identifying all planned and committed expenditure items should form part of the year end accounting and budgeting procedure and thereby indicate an appropriate level of Reserves.

Specific Reserves may be created for projects and activities such as:

- Road safety and traffic calming projects
- Replace benches, waste bins, grit bins and notice boards
- Election expenses
- Maintenance of the defibrillator
- Other items that shall from time to time be considered necessary.

All Specific Reserves are to be recorded on a central schedule held by the Responsible Financial Officer which lists the various Specific Reserves and the purpose for which they are held.

Reserves should not be used to fund ongoing expenditure. To the extent that Reserves are used to meet short term funding gaps, they should be replenished in the following year. However, Specific Reserves that have been used to meet a liability (or project) would not need to be replenished, having served the purpose for which they were originally established.