Great Locality
Proud Community

GREAT LINFORD PARISH COUNCIL

Reserve Policy

Author: **Eirwen Tagg Parish Manager**

Reviewed by: **Finance Governance and Asset Committee**

9th May 2022

Approved by: **Full Council 25th May 2022**

Document History:

Version	Description of Changes	Date Effective
draft1	Draft for finance and governance working group – previous policy updated	1909
Final 2	Agreed May 2021	
Final 3	Agreed May 2022	25/5/2022

POLICY

1. Purpose

1.1. Great Linford 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 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 or maximum 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 key protocols for their establishment and use. The good Cllr guide advises that a council should typically hold between 3 and 12-months expenditure as a general reserve and that any year-end general reserve should not be significantly higher than the annual precept.

2. Types of reserves

2.1. *General Reserves*

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).

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.

2.2. *Earmarked Reserves*

Earmarked reserves are held for four main reasons:

2.2.1. **Renewals** – to enable Council to plan and finance an effective programme of replacement of GLPC equipment and 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.

2.2.2. **Carry forward of underspend** - some cost centres commit expenditure to projects or new initiatives but are not spent within the year for valid reasons. Reserves can be used to ring fence these resources in the next financial year.

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

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

2.3. *Investment* reserves

These are monies that the council agrees to put in an investment product to be used for capital expenditure at a future date. It is a medium-term investment (5 years plus) it generates interest. Legislation requires this to be included on the asset register and NOT the Balance sheet, its disinvestment should be used for a capital project.

POLICY

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. Council is required to agree a new EMR account, any change to the account and its removal from the EMR account.
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.
3.6. 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.
3.7. 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.

4. General reserves

4.1. General reserves should be considered as the cash in the bank not defined for any one item but is the monies required for the annual budget expenditure and any working balance.
4.2. The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level but advocates that the general reserves should not fall below 5 months expenditure nor be higher than 12 months.
4.3. General reserves are calculated as the general reserves divided by the monthly net baseline expenditure plus monthly required contribution to earmarked reserves. This then allows for flexibility when council are faced with future known activities that have unknown expenditure challenge council e.g. having £100k in reserves allowed match funding for project expenditure.
4.4. Building general reserves occurs 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.
4.5. Agreeing the level of the general reserves should be formulated once there is an appreciation of the medium-term financial strategy and the next year's annual budget. The Council must build and maintain enough working balances to cover the key risks it faces, as expressed in its Risk register.
4.6. The following factors should be considered when determining the level of reserves appropriate. The RFO will consider these when collating the medium term forecast as required in the Financial Regulations.

Budget assumptions	Financial standing and management
1. 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)
2. The treatment of demand-led pressures	The authority's capacity to manage in-year budget pressures

Budget assumptions	Financial standing and management
3. The treatment of planned efficiency savings	The strength of the financial information and reporting arrangements
4. 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
5. 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

5. **Governance concerning the Balances and Reserves.**

5.1. Finance, Governance and Assets Committee will report its recommendations to Council once it has annually reviewed:

5.1.1. the medium term forecast before the budget process starts in September and review the findings against, the agreed Reserves Policy.

5.1.2. the level of general reserves predicted in the Medium-Term forecast using the previous year's actual income, expenditure and reserves levels, the current years budgeted levels and the 4-year forecast.

5.1.3. the levels of Earmarked Reserves held in accordance with the Financial Regulations, long term projects and asset maintenance requirements.

5.1.4. the Council's Risk Register is part of the budgeting process along with an assessment of the year end accounting procedures, this will identify planned and unplanned expenditure items and they should feed into the required level of reserves.

5.2. Finance, Governance and Assets Committee will review the MTFP once the annual budget has been determined by all committees and the December Annual Budget is to go to council.

6. Associated documents

6.1. Medium Term Forecast Plan – as noted in financial regulations
6.2. Financial Regulations - budget process
6.3. Omega/Excel Budget spreadsheets