

WELSHAMPTON AND LYNEAL PARISH COUNCIL

FINANCIAL RESERVES POLICY

This Financial Reserves Policy was adopted by the Council at the Meeting held on 12 August 2020

Introduction

Welshampton and Lyneal 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.

Section 49A 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.

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 Clerk/Responsible Finance Officer to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use. Reserves can be categorised as General or Earmarked.

Reserves should not be held to fund on-going 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 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.

General Reserves

General Reserves are funds that do not have restrictions as to their use. These Reserves can be used to smooth the impact of uneven cashflows or can be held in case of unexpected events or emergencies.

The level of the General Reserve for the forthcoming year will be based upon a risk assessment of the council's main areas of income and expenditure and consider any provisions and contingencies that may be required.

The use of General Reserves must be authorised by the Council. Where the reserve amount has arisen because of excess funds through cancelled or obsolete activities the Council may elect to use these funds for another purpose for which no other budget is available.

Earmarked Reserves

Earmarked Reserves can be held for several reasons and will 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 property 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.
- Statutory Reserves – for example, Community Infrastructure Levy Neighbourhood Funds.
- Other Earmarked Reserves may be set up from time to time to meet known or predicted liabilities.

Where the purpose of a Earmarked 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 General Reserves or to one or more other Earmarked Reserves.

Management of General and Earmarked Reserves

Movements General and Earmarked Reserves will be reported to the Council on a monthly basis as part of the normal accounting reports, and on an annual basis as part of the annual accounting report.

Given the opportunity costs of holding Reserves, it is critical that Reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

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