

# FINANCIAL RESERVES POLICY

## INTRODUCTION

1.1 Stanwick 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.

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 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.

## TYPES OF RESERVES

2.1 Reserves may be categorised as General or Earmarked. Earmarked Reserves, also known as Capital Reserves, can be held for several reasons and are intended to be restricted for that agreed use. General Reserves are funds that do not have any restrictions as to their use. These Reserves can be used to smooth the impact of uneven cashflows, offset the budget requirement, if necessary, or can be held in case of unexpected events or emergencies.

**2.2 Earmarked Reserves** – Earmarked Reserves will be established on a ‘needs’ basis, in line with anticipated requirements. Any decision to set up a Reserve must be given by the Parish Council. Expenditure from Reserves can only be authorised by the Parish Council.

Reserves will 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 in the following year. However, Earmarked Reserves that have been used to meet a specific liability (or project) would not need to be replenished, having served the purpose for which they were originally established.

**2.3 General Reserves** – the level of General Reserves is a matter of judgment and so this policy does not attempt to prescribe an overall level. However, the current level of General Reserves to be held by the council is targeted to be a minimum of 50% of the annual precept figure.

2.3.1 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.

2.3.3 The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Assessment & Management Schedule, which is reviewed annually.

2.3.4 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.

2.3.5 Even at times when extreme pressure is put on the Council’s finances the Council must keep a minimum balance, sufficient to pay three month’s salaries to staff, in General Reserves at all times.

## Opportunity costs of holding Reserves

3.1 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. However, there is an “opportunity cost” of holding funds in Reserves, in that these funds cannot then be spent on anything else. 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.

## POLICY IN PRACTICE

4.1 The Council will hold Reserves for these three main purposes:

- A working balance to help cushion the impact of uneven cashflows and avoid unnecessary temporary borrowing – this forms part of the General Reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves
- A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.

### Earmarked Reserves

5.1 Earmarked reserves are held for the following specific purposes:

Green Project Fund	Fund to support Parish Council projects that meet the Green Strategy or appropriate village community group grant applications
Cemetery Extension Fund	Fund to contribute to the acquisition of land and works required to provide additional burial space
Headstone Levy	Fund to contribute to work on unsafe headstones where the appropriate owner cannot be traced. Each memorial application contributes £20.00 to the fund (Minute 150 18 <sup>th</sup> March 2004)
Playground Repairs Fund	Fund to contribute to work on repairs in the play area at the recreation ground
Election Fund	Fund to contribute to the cost of a contested election. Fund maintained at £2500.00 and when drawn down, will be replenished annually until the full balance is held
Parish Fields Fund	Fund for works at Parish Fields
Church Wall Fund	Fund to cover repairs to the church wall that cannot be met by insurance
Office Equipment Renewal Fund	Fund to contribute towards replacement office IT equipment. Fund established 2023 and to be built up annually
Cemetery Future Works Fund	Fund to contribute to future improvements/enhancements at Stanwick Cemetery. Fund established 2023 and to be built up annually

5.2 The balance of each fund will be provided on each month end bank account reconciliation.

5.3 The Council will review the Earmarked Reserve Funds to determine if the fund is still required and the fund levels are appropriate as part of the budget setting process.

5.4 Certain funds will be added to regularly, without corresponding expenditure, as part of financial risk management to mitigate against future significant expenditure.

5.5 Where funds are drawn down to a zero balance due to necessary expenditure, consideration will be given to whether the fund should be rebuilt, and if so, an annual amount will be set as part of the budgetary process.

### Reserves Accounting

6.1 A separate financial record will be kept to record financial movements in the General Reserve Funds and Earmarked Reserves.

6.2 Expenditure against the Earmarked Reserves will be recorded in the payments ledger in the normal manner.

6.3 Interest received on bank accounts will be applied to the General Reserve Fund.

### Policy review

7.1 This policy will be reviewed every 3 years or more frequently if required.

Date adopted	Minute reference