

HOPESAY PARISH COUNCIL RESERVES POLICY

Adopted at the full Council meeting on 16th July 2018

INTRODUCTION

The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet 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 Responsible Financial Officer (RFO) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use

The Council will hold reserves for the following main purposes:

- A working balance to help cushion the impact of uneven cash flows, provide contingency, and avoid unnecessary temporary borrowing; following guidance and recommended good practice (e.g. JPAG Practitioners Guide, NALC, SLCC)
- Earmarked funds to meet known or predicted specific requirements or improvement projects, and funds earmarked for statutory reasons. The setting aside of funds over a period of time to meet known future expenditure reduces the impact of meeting the full expenditure in one year.

This policy on the establishment, maintenance and adequacy of reserves and balances will be reviewed annually.

WORKING BALANCE / GENERAL FUND

The general fund, commonly termed the 'working balance', is a balance on the council's revenue account which is not held for any specific purpose other than to cushion the council's finances against any unexpected short-term problems in the council's cash flow.

Sometimes mistakenly called a 'general reserve', the general fund (plus or minus any budget under/over spend) is only designated 'General Reserve' at year end for accounting purposes.

The level of general funds or working balances is a matter of judgement and this policy does not prescribe a specific level. However, Council must maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment. The levels may change from year to year.

Guidance states that 'a council should typically hold between 3 and 12 months expenditure as a general reserve' (*Good Councillors Guide on Finance & Transparency 2017*).

For a council of this size, expenditure, and risk, this could be narrowed down to between 6 – 9 months (50 – 75%) expenditure as a general fund, 50% being the absolute minimum acceptable level, with a preferred target of 55% - 70%.

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Financial Risk Management: The general fund balance is to be maintained at a level based upon a financial risk assessment carried out by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year. The RFO will take account of the strategic, operational, and financial risks facing council and base the assessment on Council's areas of income and expenditure and take into account any provisions and contingencies that may be required.

A surplus on the general fund above the agreed required balance may be used to fund capital expenditure, be appropriated to earmarked reserves, or used to limit any increase in the precept for the subsequent year. If the general fund becomes depleted below the minimum recommended by the RFO and accepted by Council, the fund will be built up in subsequent years (primarily through an allocation from the annual budget) to the agreed minimum balance.

EARMARKED RESERVES

Earmarked Reserves represents amounts that are generally built up over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. There will generally be a specific reason & purpose, limitations on how & when the reserve can be used, and management & control through annual review.

The level of earmarked reserves should be reviewed by Council as part of the annual budget setting process in November / December, to ensure continuing relevance and adequacy.

STATUTORY EARMARKED RESERVES

Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices. At Hopesay Parish Council this is:

Community Infrastructure Levy (CIL) Neighbourhood Fund Earmarked (Statutory) Reserve – this reserve holds the proceeds from the CIL Neighbourhood fund paid to Hopesay Parish Council by Shropshire Council. It can only be used in accordance with CIL regulations - refer to Shropshire Council CIL Team for current requirements.