



BISHOPSTEIGNTON PARISH COUNCIL

RESERVES POLICY (P.008)

Bishopsteignton 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. As with any financial entity, it is essential that the parish council have sufficient reserves (general and earmarked) to finance both their day-to-day operations and future plans.

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 keep 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 procedures for their establishment and use.

Types of Reserves

Reserves can be categorised as general or earmarked.

General Reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

Earmarked Reserves can be held for several reasons:

- Renewals – to enable the council to plan and finance an effective programme of asset and infrastructure maintenance and replacement. The funds required are built up incrementally over several years when considering asset conditions and asset life. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets with sudden increase/decrease when expenditure is required.
- Carry forward of underspend – some ongoing projects may have committed expenditure which spans different financial years. Reserves are used as a mechanism to carry forward these resources.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

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 approved by the Council. Earmarked reserves must be held for genuine and intended purposes and their level should be subject to annual review and justification. They should be separately identified to prevent query from internal and external auditors.

To the extent that reserves may be used to meet short term funding gaps, they must be replenished in the following financial 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.

All earmarked reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held. Reviewing the Council’s

Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of reserves.

Where the purpose of an 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 budget, to general reserves or to one or more other earmarked reserves.

General Reserves

The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket 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.

Additional funds to be kept as general reserves are:

- Unspent earmarked funds from the previous financial year which are no longer required to be earmarked for the same purpose; underspend on a completed project.
- Interest earned on funds held in the bank account/s.

Setting the level of general reserves is one of several decisions in the formulation of the medium-term financial strategy and the annual budget. The Council must maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment. A logical and well used practice is to ensure three months' worth of day to day running costs is held as a general reserve. Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to always pay one month's salaries to staff in General Reserves.

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.

In addition to allowing the Council to manage unforeseen financial pressures and to plan for known or predicted liabilities, there is a benefit to holding general reserves, and/or an earmarked reserve which is unlikely to be utilised in the immediate future, to be held where interest earned provides an income. This method of collecting investment income should be factored into the budget strategy if adopted.

Given the opportunity costs of holding reserves in a relevant interest return account/investment, 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.

Level of Financial Reserves

The level of financial reserves held by the council will be agreed by the Parish Council during the discussions held regarding the setting of the budget for the next financial year. The level of general reserves to be held by the Council shall be three months of the annual precepted figure, i.e. to fully cover three months' expenditure. (NALC recommendation 3-12 months).