

# Streethay Parish Council

## Reserves Policy

### Introduction

Streethay Parish Council is required to maintain adequate financial reserves to meet the needs of the Council. The purpose of this policy is to set out how the Parish Council will determine and review the level of reserves.

Sections 31A and 42A 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. There is no specified minimum level of reserves that a Council should hold, in legislation, however guidance on reserves is provided within the JPAG Practitioners' Guide. 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 earmarked or general reserves.

#### Earmarked reserves

Earmarked reserves can be held for several reasons as follows:

- Money given under a Section 106 agreement to be spent on a specific project or area within the village.
- Money given under a CIL agreement to be spent to support development by funding infrastructure that the council, local community and neighbourhoods want.
- Renewals – to enable the Council to plan and finance an effective programme of equipment and infrastructure replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward underspend - some services commit expenditure to projects but cannot spend the budget in that year. Reserves are used as a mechanism to carry forward these resources.
- Election Costs – An election could be called at any time if a vacancy becomes available.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.

Any decision to set up a reserve must be made by the Council at a full Council Meeting.

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/agreed.

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.

### **General reserves**

- 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.

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.

Setting the level of General Reserves is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

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.

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 cost of holding reserves**

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. As an example, if these funds were used to repay debt, the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds. However, using reserves to pay off debt in this way would leave the Council with no funds to manage unexpected risks nor provide a mechanism to fund the planned expenditure for which the reserves were earmarked.

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.

### **Current 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 current level of general reserves to be held by the Council should be 3 to 6 months essential expenditure to cover for example, items like salaries and pension payments.

### **Further Guidance**

[The Joint Panel on Accountability and Governance \(JPAG\) Practitioners' Guide 2021](#) contains supporting information on reserves on Pg38 5.31-5.33

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