

## FINANCIAL RESERVES POLICY



### PURPOSE

Whitwick 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.

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 Parish 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

Reserves may be categorised as General or Earmarked. Earmarked 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 cash flows, offset the budget requirement, if necessary, or can be held in case of unexpected events or emergencies.

**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.

**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 35% of the annual expenditure figure.

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.

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 in May.

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. The Council is increasingly responsible for management of buildings, land (including play equipment and trees) and employment of staff.

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**

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**

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

- ❖ A working balance to help cushion the impact of uneven cash flows 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.