

# Messingham Parish Council

## Financial Reserves Policy

### 1. Purpose

1.1 Messingham 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 and how they will be used.

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 Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

### 2. Types of reserves

2.1 Reserves can be categorised as general or earmarked.

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

2.3 Earmarked reserves are held for several reasons:

- Renewals – to enable Council to plan and finance an effective programme of equipment 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 of underspend - some services commit expenditure to projects, but cannot spend the budget in the year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

### 3. General Reserves

3.1 The level of general reserves or working balances is a matter of judgement and so this policy does not attempt to prescribe an overall level. Sector advice indicates that a value of between three months and a year of turnover should be used as a guide for the amount held.

3.2 The primary means of building working balances 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.

3.3 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.

3.4 The level of financial reserves will be taken into consideration by Full Council at the Annual Precept meeting when setting the Budget for the following financial year.

3.5 If in extreme circumstances general reserves were exhausted do to major unforeseen spending pressures within a particular financial year, the Council would be able to draw from its earmarked reserves to provide short term resources.

3.6 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.

#### **4. Earmarked reserves**

4.1 Earmarked reserves will be established on a "needs" basis, in line with planned or anticipated requirements.

4.2 Any decision to set up a reserve must be given by the Council.

4.3 Expenditure from reserves can only be authorised by the Council.

4.4 Reserves can only be used once and so should 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 would not need to be replenished, having served the purpose for which they were originally established.

4.5 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.

4.6 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 for the Parish Council.

#### **5. Opportunity cost of holding reserves**

5.1 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.

5.2 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.

5.3 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.

## **6. Details of General and Earmarked Reserves 2020/21**

### **6.1 General reserves**

The 2020/21 Precept of £69,500 was agreed at the Annual Precept meeting against a budget of £67,717 and a predicted year end bank balance of £33,904.78. The surplus precept of £1,783 to be placed in a Projects budget.

### **6.2 Earmarked Reserves**

Car Park - £10,000.

The closing Bank balance for 2019/20 of £44,806.11 included a precept amount of £10,000 for the Car Park project.

**Adopted by Full Council: 14 May 2018      Min: 1384/9i**  
**Reviewed: 13 July 2020    Min. 1524/16e**