Cratfield Parish Council

FINANCIAL RESERVES POLICY

Introduction
The 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.

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.

Types of Reserves
Reserves can be categorised as General or Earmarked.

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.

Setting the level of general reserves is one of the 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 risk assessment.

If in extreme circumstances general reserves are 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 Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2020 edition) advises: "The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserve is that this should be maintained at between three and twelve months Net Revenue Expenditure."

Earmarked Reserves can be held for several reasons:

- 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 of underspend – if the Council commits expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.

- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
- Restricted – used purely for a set reason, cannot be transferred to other uses.
- 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
Earmarked Reserves will be established on a "needs" basis, in line with anticipated requirements. Expenditure from reserves can only be authorised by the Council.

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.
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 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.

Within the earmarked reserves are some restricted funds; these are funds that can only be spent on a specific project or type of expenditure. Examples of this would be Locality Grants received from District & County Councillors and Community Infrastructure Levy (CIL).

Current Level of Reserves
The current schedule is reviewed and approved bi-monthly by the Council at full council meetings with virements (transfers in or out) clearly marked.

The final reserves figures are considered at the year-end meeting.