Weston Under Redcastle Parish Council

Financial Reserve Policy

Introduction

Weston Under Redcastle 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.

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 whencalculating 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.

Earmarked reserves can be held for several reasons:

- Renewals – to enable services to plan and finance an effective programme of vehicle, 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 - some services commit expenditure to projects, butcannot 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 coveredby insurance.

- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

- 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. Any decision to set up a reserve must be made by the Council. 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 FinancialOfficer 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

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 throughan 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 drawdown 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 keepa minimum balance sufficient to pay one 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 budgetstrategy.

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 theminimum 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 tomanage 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 andthat the level is still appropriate.

Current financial reserves

Reserve Funds:
£3500 for the financial year 2022-2