

HALE PARISH COUNCIL

RESERVES POLICY (June 2020)

1. Introduction

The Council is required, under statute, to maintain adequate financial reserves to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

As councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes, whenever a council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered annually.

The Council will hold reserves for these three main purposes:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves; ^[1]_[SEP]
2. A contingency to cushion the impact of unexpected events or emergencies – this also forms parts of general reserves; ^[1]_[SEP]
3. A means of building up funds, often referred to as specific reserves, to meet known or predicted requirements; specific reserves are accounted for separately but remain legally part of the general fund. ^[1]_[SEP]

2. General Fund balance

The general fund balance, is a balance on the council's revenue account which is not held for any specific purpose other than to cushion the council's finances against any unexpected short-term problems in the council's cash flow.

The general fund balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to specific reserves or used to limit any increase in the precept.

3. Financial Risk Management

The level of general funds or working balances is a matter of judgement and this policy does not prescribe a specific level.

In order to assess the adequacy of the general fund when setting the annual budget, the RFO will take account of the strategic, operational and financial risks facing the council. The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the council's main areas of income and expenditure and take into account any provisions and contingencies that may be required.

Guidance states that 'a council should typically hold between 3 and 12 months expenditure as a general reserve' (*Good Councillors Guide on Finance & Transparency 2017*).

The current general fund balance is contained in Appendix A – Hale Parish Council General Fund Reserve

4. Specific Reserves

Specific Reserves represents amounts that are generally built up over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. The 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year.

The Council, when establishing a specific reserve, will set out:

1. The reason / purpose of the reserve; [L]
[SEP]
2. How and when the reserve can be used; [L]
[SEP]
3. Procedures for the management and control of the reserve; a process and timescale for [L]
[SEP] review of the reserve to ensure continuing relevance and adequacy. [L]
[SEP]

The current specific reserves are contained in Appendix B – Hale Parish Council Specific Reserves

5. Review of the adequacy of balances and reserves

In accessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of specific reserves will be reviewed as part of the annual budget preparation.

Appendix A – Hale Parish Council General Fund Reserve

General Fund Reserve £13840.00

It should be noted that the precept for 2020/2021 is £13790.00 therefore the reserve is not significantly higher than the annual precept.

The 2021/21 annual budget is £15055. Administration and considered essential annual expenditure forms £13480 of the annual budget.

Therefore the General Reserve represents just over 100% of this expenditure and is the maximum recommended figure.

Appendix B – Hale Parish Council Specific Fund Reserve

Woodfalls Cross improvements £1125
Cemetery planting £287