

# Necton Parish Council

## Financial Reserves Policy



### Document Control

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### Purpose

Necton 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 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 may be categorised as general or designated. Designated reserves can be held for several reasons and will 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.

### Designated Reserves

Designated 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, designated 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.

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.

## 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 will be **at least three twelfths** of the annual precept figure (e.g. £12,500 for year 2016-17).

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 several related decisions in the formulation of the medium term financial strategy, business plan 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 draw down from its designated reserves to provide short-term resources.

Even at times when extreme pressure is put on the council's finances the council must keep a minimum balance sufficient to **pay two month's salaries** to staff in general reserves at all times (e.g. £2,560 in year 2016-17)

## 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 parts of general reserves;
- A means of building up funds (designated reserves), to meet known or predicted requirements.

Designated reserves will be held for the following:

<b>Budget</b>	<b>Use</b>	<b>Max Cap £'s</b>
Street lights	Contingency above annual maintenance & energy	2000
Litter bins	Replacement	200
Dog waste bins	Replacement	200
Public seating	Establishment of new	1000
Public seating	replacement of existing	1000
Noticeboards	Repair & replacement	1000
Allotment	Repair (water, fencing, breach of tenancy)	1000
Village signs	Repair & replacement 2 signs	2000
Bus shelter	Repair & maintenance 3 shelters	3000
Bus shelter	Establishment of new on Hale Road	5000
Employment contingencies	Redundancy, sickness cover,	16,000
Playing Field fencing	Repair & maintenance	£10,000

These budgets are amalgamated into four reserve funds:

General reserve (3/12 of precept)	£12,500 (2016-17)
Street furniture	£9,400
Play area	£5,000
Employment	£4,000

Until 2020 there is another designated reserve fund for the upgrade of the current lighting stock to LED. Current funds (Oct 2016) are £14,000 and anticipated total budget for completion of upgrade is £25,000 approx.