

# HOPESAY PARISH COUNCIL RESERVES POLICY

Adopted at the full Council meeting on 16<sup>th</sup> July 2018

## INTRODUCTION

The Council is required, under statute, to maintain adequate financial reserves in order 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.

However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

The Council will hold reserves for the following main purposes:

- A working balance to help cushion the impact of uneven cash flows, provide contingency, and avoid unnecessary temporary borrowing; following guidance and recommended good practice (e.g. Practitioners Guide, NALC, SLCC)
- Earmarked funds (Earmarked Reserves) to meet known or predicted specific requirements or improvement projects, and funds earmarked (ring fenced) for statutory reasons. The setting aside of funds over a period of time to meet known future expenditure reduces the impact of meeting the full expenditure in one year.

This policy on the establishment, maintenance and adequacy of reserves and balances will be reviewed annually.

## WORKING BALANCE / GENERAL FUND or RESERVE

The general fund or reserve, commonly termed the 'working 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 level of working balance is a matter of judgement and this policy does not prescribe a specific level. However, Council must maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment. The levels may change from year to year.

Guidance states that 'a council should typically hold between 3 and 12 months expenditure as a general reserve', 3 months (25%) applying to a larger council and 12 months (100%) applying to a very small one.

For a council of this size, budget/expenditure, and risk, this could be narrowed down to between 45% – 55% of the annual budget *excluding* significant projects such as CIL that use ring fenced funds, as those funds are not available for anything else.

**Financial Risk Management:** The general fund balance is to be maintained at a level based upon a financial risk assessment carried out by the RFO when setting the budget for the forthcoming year. The RFO will take account of the operational and financial risks facing council and the parish, base the assessment on Council's areas of income and expenditure, and take into account any provisions and contingencies that may be required.

A surplus on the general fund above the agreed required balance may be used to fund capital expenditure, be appropriated to earmarked reserves, or used to limit any increase in the precept for the subsequent year. If the general fund becomes depleted below the minimum recommended by the RFO and accepted by Council, the fund will be built up in subsequent years (primarily through an allocation from the annual budget/precept) to the agreed minimum balance.

# HOPESAY PARISH COUNCIL RESERVES POLICY

Adopted at the full Council meeting on 16<sup>th</sup> July 2018

## EARMARKED RESERVES

Earmarked Reserves represent 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. There will generally be a specific reason & purpose, limitations on how & when the reserve can be used, and management & control through annual review. Sometimes, money is given or raised for very specific purposes with the implicit or explicit understanding that it will not be used for anything else.

Election: a 'perennial' reserve built up to hold sufficient funds to pay for a contested election (some years ago, Shropshire Council estimated this would cost around £1,000), and also used to pay for uncontested elections (most recently £125 for the May 2025 election).

P3: the P3 money is not Council's. Council holds it for the P3 Group of volunteers who work with Shropshire Council's footpath officers. The Group does not have a bank account.

Memorial maintenance: this reserve is the remains of money originally collected by public donation for the WW1 commemoration. It was decided that using it to repair/maintain the war memorial was the most appropriate option.

Arbor Tree, Parish Maintenance, IT: the Arbor Tree reserve is built up gradually to cover periodic tree pruning as general maintenance & repair to the enclosure area. The Parish maintenance is built up to approx. £500 max by precepting £50 most years for general parish maintenance which if not used goes into this reserve towards the day when it will be required. The IT reserve can be used for anything IT related and need not be kept once depleted, but could be kept and added to for when Council needs to replace expensive equipment.

A small rural council cannot accurately predict when maintenance money will be needed – e.g. trees blown down in winter storms, flood damage, or accidental damage to structures. It does not make sense therefore to build the full estimated cost of a possible but unknown event into annual budgets, particularly when budgets are set before most severe winter weather each year. Holding Earmarked Reserves built up over time to a modest or realistic maximum means the funds are there if / when needed, and can help to avoid significant Precept increases.

The level of earmarked reserves will be reviewed by Council as part of the annual budget setting process in November/December/January, to ensure continuing relevance and adequacy.

## STATUTORY EARMARKED (RING FENCED) RESERVES

Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices. At Hopesay Parish Council this is:

Community Infrastructure Levy (CIL) Neighbourhood Fund Earmarked (Statutory) Reserve – this reserve holds the proceeds from the CIL Neighbourhood fund paid to Hopesay Parish Council by Shropshire Council. It can only be used in accordance with CIL regulations - refer to Shropshire Council CIL Team for current requirements. Council usually vires CIL funds from the Earmarked Reserve into its annual budget to use the money for various projects. If the CIL funds in a budget are not used by the end of that financial year they **must** be returned to the CIL Earmarked Reserve. They never ever become part of the Working Balance / General Fund / General Reserve.