

POULSHOT PARISH COUNCIL

RESERVES POLICY

1. Introduction

- 1.1. Reserves are an essential part of good financial management, they assist the Council to manage unpredictable financial pressures and plan for future spending commitments. The Parish Council needs to maintain adequate financial reserves to protect against risk, ensure contingencies are in place and to support investment in future projects which are beneficial to the Parish. Local Authorities are empowered to hold reserves through section 31a and 42a of the Local Government Finance Act 1992.
- 1.2. The purpose of this policy is to set out how the Council will determine and review the level of its Reserves.
- 1.3. [Sections 31a and 42a](#) of the Local Government Finance Act 1992 require local authorities in England to have regard to the level of reserves needed for meeting future expenditure when calculating the budget requirement. The amount that councils need or choose to hold in their reserves varies according to local circumstance.
- 1.4. Elected members are responsible for deciding what reserves their council holds when setting the budget; informed by their longer-term spending plans ([CIPFA Bulletin 13](#)). There is no set formula for determining the level of reserves that each council should have. Consequently, there is no specified minimum or maximum level of reserves that Poulshot Parish Council should hold, however the equivalent of 6 months of the annual budget should be held as a minimum. It is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure there are key protocols for their establishment and use.

2. Risk Management

- 2.1 The Parish Council manages risk by assessing the potential impacts of future events, based on the likelihood that they may occur and the severity of any impact. Mitigating actions are then identified to reduce the exposure and appropriate plans are put in place.

3. Types of Reserves

- 3.1 Currently, Poulshot Parish Council maintains two types of reserves;

a) Earmarked Reserves

This provides a means of accumulating funds, for use in a later financial year, to meet known or planned policy initiatives. Earmarked Reserves will increase through decisions of the Council and will decrease as they are spent on their specific intended purposes.

The purpose of an Earmarked Reserve is to set aside amounts for projects that extend beyond one year or as a contingency against a specific situation occurring. They may also be created to smooth irregular revenue expenditure by making an annual allowance in the budget (for example an Election Reserve). Once an Earmarked Reserve has been established by the Parish Council it is the responsibility of the Responsible Finance Officer to ensure funds are spent in line with their purpose. The purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant.

b) General Reserve

This represents the non-ring fenced (earmarked) balance of Council funds. The main purposes of the General Reserves are firstly to operate as a working balance to help manage the impact of uneven cash flows and secondly, to provide a contingency to cushion the impact of emerging or unforeseen events or genuine emergencies. In general, a robust level of reserve should be maintained and take account of operational and financial issues facing the Parish Council.

A well-run authority with a prudent approach to setting its budget will each year consider its level of general reserves. These general reserves will also need to be supported by earmarked reserves for specific needs, contingencies and commitments. In assessing the level of the Parish Council's reserves, account needs to be taken of the risks facing the Council in terms of any significant unforeseen expenditure requirements.

3.2 Other Restricted Reserves contain sums received with restrictions on how the monies may be spent, for example:

a) Construction Infrastructure Levy (CIL)

CIL Receipts - are the Councils' share of funds raised from developers undertaking new building projects in the Parish, these can be used to fund a wide range of infrastructure projects needed as a result of the developments such as park and green space improvements, provision of leisure facilities, play areas etc.

b) Section 106 funding (S106)

S106 Receipts – These are sums received from developers to finance specific projects such as the provision and maintenance of a play area etc. The use to which the funds can be put are generally contained within the agreement when the funds are handed over.

3.3 These funds require resolution of the Full Council to be moved or spent.

4. General Reserve

- 4.1 The purpose of general reserves is to minimise the possible financial impacts to the authority from; emergencies, unforeseen events and ad hoc emerging issues during the year.
- 4.2 The in-year use of general reserves requires Council approval and must not be used for any level of recurring spending, unless that spending will be included in the Revenue Budget for the following financial year. In all cases the use of reserves should be approved by the Responsible Financial Officer in consultation with the Council.
- 4.3 There is no prescribed level of general fund reserves but a level of 30% to 50% of annual operating budget ensures adequate provision in the event of any unforeseen occurrence which would affect cash flow.

5. General Fund Reserve – Risk Assessment

- 5.1 Identifying the risks allows the Council to take account of the circumstances around current structural change due to service provision and economic circumstances.
- 5.2 Risks can be identified as; risks from potential one-off events; risks which will have general financial consequences and actions that need to be in place to minimise the potential for financial support.

6. Assessment of Potential Risks (not covered by insurance)

- 6.1 Identifying the risks allows the Council to take account of the circumstances around current structural change due to service provision and economic circumstance.
- 6.2 Risks can be identified as follows:
 - risks from potential one-off events
 - risks which will have general financial consequences

7. Insurance Cover

- 7.1 The greatest risk facing Poulshot Parish Council is not being able to deliver the activity or services expected of it. The Parish Council manages many of the underlying risks when it reviews the robustness of insurance providers, insurance and its systems.
- 7.2 Zurich Municipal provide tailored insurance cover to suit the needs of the Parish Council. Employers Liability (£10,000,000), Public Liability (£10,000,000) and Fidelity Guarantee (£150,000) are statutory requirements under The Compulsory Insurance Act (1969) and S114 of the Local Government Act (1972). Other voluntary areas of cover include all risks (protection of physical assets), money, hirer's liability, libel and slander, personal accident and legal expenses.

8. Assessment of Potential Risks

- 8.1 In all types of undertaking there is the potential for events and consequences that may either be opportunities for benefits or threats to success. Risk management identifies what can go wrong and how to take proportionate steps to avoid this or successfully manage the consequences. The failure to manage risks effectively can be expensive in terms of litigation and reputation, and the ability to achieve desired targets, and, eventually, on the local community's Council Tax bills.
- 8.2 In order to assess the adequacy of unallocated general reserves, it is necessary to place an estimated financial value on the key strategic, operational and financial risks facing the authority and set aside a reasonable provision. The value of the risks to Poulshot Parish Council have been estimated by:
- considering the probability of each risk
 - considering the range, nature, complexity and scale of the risk
 - evaluating the financial consequences of each risk by taking into consideration budgeted figures for income and expenditure
 - setting aside amounts where applicable to cover contingencies
 - having regard to the provisions made by Parish Councils of a similar size and operation

9. Financial Responsibility

- 9.1. Under Poulshot Parish Council Standing Orders the Council is responsible for the overall management and control of the Parish Council's finances.
- 9.2 The role of the Council is to review the level of its balances and reserves and make the following decision in respect of general reserves:
- to consider the level of general reserve to be applied to the precept for each year.

10. Role of Responsible Financial Officer

- 10.1 It is the responsibility of the Responsible Finance Officer (RFO) to advise the Parish Council about the level of reserves that it should hold and ensure that it has clear protocols for their establishment and use.
- 10.2. There is no statutory minimum but there are four significant safeguards in place against the Parish Council over committing itself financially;
- (a) The balanced budget requirement.
 - (b) The year-end audit report from the Parish Council's Internal Auditor
 - (c) The External Auditor's responsibility to review and report on financial standing.

(d) [RFO S114 Power.](#)

- 10.2 Poulshot Parish Council, on the advice of their RFO, are required to make their own judgements on the level of reserves, taking into account all relevant local circumstances. Local circumstances vary. A well-managed authority with a prudent approach to budgeting should operate with reserves in the Parish Council's current range (30% to 50% of annual operating budget) given its emerging service responsibilities.
- 10.3 It is the responsibility of the RFO to ensure reserves are spent in line with their purpose. Where expenditure is planned in future accounting periods, it is prudent to build up reserves.
- 10.4 The RFO has a fiduciary duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent responsible stewardship of public funds.

11. Conclusion

- 11.1 Reviewing the Council's Financial Risk Assessment is part of the budgeting procedure. It helps to identify planned and unplanned expenditure items and thereby indicates an appropriate level of reserves.
- 11.2 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 forms part of the budget strategy.

This Policy will be reviewed annually by Council, or sooner should circumstances or legislation change.

Approved and Adopted on 25th July 2023