

Lydford Parish Council

Reserves Policy

Summary

Councils are required to maintain cash reserves for various purposes. This document sets out the basis on which those reserves should be established and how they should be managed. In summary the Council needs to make sure it has sufficient cash to meet unforeseen circumstances, to provide a buffer against unexpected expenditure and to provide for certain specified events (e.g. the council elections). Reserves should be reviewed and set at least annually.

1. Introduction

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

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered during the annual review of the Councils Financial Strategy and preparation of the annual budget.

The Council will hold reserves for these three main purposes:

- A working balance to help cushion the impact of uneven cash flows – this forms part of the General Fund;
- A contingency to cushion the impact of unexpected events or emergencies – known as the Emergency Fund;
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund

2 General Fund Balance

The General Fund Balance, 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.

3. Policy

The General Fund Balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer 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 earmarked reserves or used to limit any increase in the precept.

5. General Fund Reserves

General Fund reserves are funds which do not have any restriction as to their use. These reserves can be used to smooth the impact or uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

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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 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.

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 earmarked 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 in the general reserves; this calculation is to be set by the Council annually when agreeing the risk assessment review.

General Fund reserves should 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, earmarked reserves that have been used to meet the specific objective of the reserve would not need to be replenished, having served the purpose for which they were originally established.

The main items to be considered are:

- Pay inflation is greater than budgeted
- Contractual inflation is greater than budgeted
- Council Assets required funding
- Undertake unexpected administrative duties
- Employment obligations

5. Financial Risk Management

In order to assess the adequacy of the General Fund when setting the annual budget, the Responsible Finance Officer 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. The financial risk assessment will be based upon the main financial risks identified in the Councils Risk Register.

6. Emergency Fund

The purpose of the Emergency Fund is to allow the Council to meet unforeseen or emergency expenses arising from sudden and short-lived events which could not have been reasonably foreseen. The creation of the Emergency Fund provides the Council with additional financial security in times of economic stress caused by short-term emergencies. Whilst the Emergency Fund remains a part of the General Fund it is a reserve which has been earmarked for a specific purpose, although the definition of that purpose is very broad.

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7. 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. 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 an earmarked reserve, will set out:

- The reason/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the management and control of the reserve;
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.
- Earmarked reserves can only be set up by the Council
- Expenditure from reserves can only be authorised by the Council.

8. Review of the Adequacy of Balances and Reserves

In assessing the adequacy of reserves the strategic, operational and financial risks facing the Council will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation, agreed and authorised by the Council.

Adopted by Lydford Parish Council (date)

Review (date)