

ALLITHWAITE AND CARTMEL PARISH COUNCIL



RESERVES POLICY

Date Adopted: 9th November 2023.

Reviewed and approved: 9th May 2024.

Date of Review: Annually in May.

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Allithwaite and Cartmel Parish Council

Reserves Policy

1. Introduction

1.1 Allithwaite and Cartmel Parish Council (ACPC) is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

1.2 Sections 32 & 43 of the Local Government Act 1992 require local authorities to have regard to the level needed for meeting estimated future expenditure when calculating the budget requirement. (A Parish Council is the first tier of local government)

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) (for ACPC, the Parish Clerk) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

2. Types of reserves

2.1 Reserves can be categorised as “earmarked” or “general”.

2.2 Earmarked reserves can be held for a number of reasons.

2.2.1 Renewals – to enable services to plan and finance an effective programme of equipment replacement and planned maintenance. These reserves are a mechanism to smooth the expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.

2.2.2 Carry forward of underspend - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.

2.2.3 Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.

2.2.4 Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

- 2.3** General reserves are funds which 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.

3. Earmarked Reserves

- 3.1** Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements

- 3.2** Any decision to set up a reserve must be given by the Council.

- 3.3** Expenditure from the reserves can only be authorised by the Council.

- 3.4 Reserves must 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 a specific liability would not need to be replenished, having served the purpose for which they were originally established.

- 3.5** All earmarked reserves are recorded on central schedule held by the RFO which lists the various earmarked reserves and the purpose for which they are held.

- 3.6** 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.

4. General Reserves

- 4.1** The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level.

General reserves form part of the total funds available in the Parish Council's bank account(s) and are carried forward as additional funding to the annual precept.

- 4.2** The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

- 4.3** 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.

- 4.4** Even at times when pressure is put on the councils finances the council must keep a minimum balance sufficient to pay one month's salaries to staff in general reserve at all times.

5. Opportunity cost of holding reserves

- 5.1** 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 the terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy.

- 5.2** However, there is an "opportunity cost" of holding funds in earmarked reserves, in that these funds cannot then be spent on anything else.

As an example, if funds were used to repay debt the opportunity cost would equate to the saving on the payment of interest, offset by the loss of investment income on the funds.

However, using reserves to pay off debt in this way would leave the Council with no funds to manage unexpected risks, nor provide a mechanism to fund the planned expenditure for which the reserves were earmarked.

- 5.3** 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.

6. Management and Control of Reserves

- 6.1** The creation, or increase, of earmarked reserves is agreed by full council at the annual Precept meeting.

This is when the total expenditure for the following year, including expenditure out of Reserves, is agreed in the budget and Precept setting procedure.

- 6.2** The earmarked reserves and the general reserve will be reviewed by the Finance Committee at its quarterly meetings.
- 6.3** Recommendations on the amendment, cessation or continuation of Earmarked Reserves will be given by the Responsible Financial Officer to the Finance Committee quarterly.
- 6.4** The Finance Committee may recommend to full council that an earmarked reserve is closed, and the funds within it returned to the general fund, where that is deemed appropriate. For example, when it has been resolved by Council that a special project will not be completed or following the successful completion of a special project.
- 6.5** Both the earmarked reserves and the general reserve should be subject to a process of regular review, by both the Finance Committee and Full Council.