Broadclyst Parish Council

Financial Reserves Policy 2021/2022

Table of Contents

1. Purpose ***2***

2. Financial Background ***2***

3. Types of Reserves ***2***

4. National Association Local Councils guidance on Reserves ***3***

5. General Reserves ***5***

6. Earmarked Reserves ***5***

7. Principles to Assess the Adequacy of Balances and Reserves ***6***

8. Governance Concerning the Balances and Reserves ***7***

9. Excess reserves ***8***

10. General Reserves Currently Maintained ***8***

11. Earmarked Reserves Currently Maintained ***9***

12. Document Information ***10***

Appendix 1 ***11***

Broadclyst Parish Council

Financial Reserves Policy 2021/2022

1. Purpose

Broadclyst Parish Council 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.

Section 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 then calculating the budget requirement; however, there is no specified minimum level of reserves that an authority should hold. It is the responsibility of the Responsible financial Officer and the Members of the Council to determine the level of reserves and to ensure that there are procedures for their establishment and use.

2. Financial Background

Broadclyst Parish Council projects that it will exit the 2020/21 financial year with General Reserves in excess of £180,000 and Earmarked Reserves of approximately £145,000 (based on the latest budget figures available)

In the financial year 2019/20[1] the Council ended the year with £111,146 in General Reserves and £148,897 in Earmarked reserves.

3. Types of Reserves

Reserves can be categorised as 'general' (held to cushion the impact of uneven cash flows or unexpected events) or 'earmarked' (held for a specific purpose).

General Reserves are often referred to as the 'working balance' and is money which is not earmarked for specific purposes but rather a sum of money held in anticipation of uneven cash flow or set aside to deal with unexpected events or emergencies. This is usually created through surplices as a result of activities being postponed, cancelled or coming in under budget. Reserves of this nature can be spent or earmarked at the discretion of Members, subject to approval by Council.

The 'General' or 'Emergency' Reserve needs to be regularly reviewed using a risk-based assessment.

Earmarked Reserves can be held for several reasons. As the name suggests these represent amounts which are 'earmarked' for specific items of expenditure to meet **known liabilities** or projects. Earmarked Reserves can be used to "smooth" the effects of certain expenditure commitments over

[1] https://www.broadclyst.org/parish-council/governance/finance?folder=202021_Accounts

a period of time thereby reducing the impact of significant expenditure in any one year. Earmarked Reserves are typically held for four main reasons:

- Renewals
  Used to plan and finance an effective programme of equipment replacement, planned property repair and maintenance or grounds maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry Forward of Under-spend
  Some expenditure budgeted for projects in a given financial year cannot be spent in that year. Reserves are used as a mechanism to carry forward these resources. **Carry forward should not be used to build up an unallocated fund with no specific plans for spending.**
- Insurance Reserve
  To enable the Council to meet the excesses not covered by insurance.
- Other Earmarked Reserves
  May be set up from time to time to meet known or predicted liabilities.

4. National Association Local Councils guidance on Reserves

Extract from Governance and Accountability for Smaller Authorities in England 2019[2]

> *"As with any financial entity, it is essential that authorities have sufficient Reserves (General and Earmarked) to finance both its day-to-day operations and future plans. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.*
>
> *General Reserve The generally accepted recommendation with regard to the appropriate **minimum** level of a Smaller Authority's **General Reserve** is that this should be maintained at between three (3) and twelve (12) months **Net Revenue Expenditure (N R E).** Net Revenue Expenditure (subject to any planned surplus or deficit) is effectively Precept\Levy less any Loan Repayment and/or amounts included in Precept\Levy for Capital Projects and transfers to Earmarked Reserves.*
>
> *The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months NRE,*

[2] https://www.nalc.gov.uk/library/publications/2897-the-practitioners-guide/file

the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent General Reserve.

In all of this it is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget so as to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.

Earmarked and Other Reserves None of the above in any way affects the level of Earmarked and/or Capital Receipts Reserves (EMR/CRRs) that a authority may or should hold. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually), and should be separately identified and enumerated.

Significant levels of EMRs in particular may give rise to enquiries from Internal and/or External Auditors."

Extract from "THE GOOD COUNCILLOR'S GUIDE TO FINANCE AND TRANSPARENCY"[3]

"Local councils need to hold an amount in reserves to meet unexpected expenditure, otherwise they could run out of money before the end of the financial year.

A council should typically hold between 3 and 12 months expenditure as a general reserve. If the general reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community.

Local councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year-end general reserve should not be significantly higher than the annual precept.

The council may have 'earmarked reserves' for specific projects, where money is allocated for a specific purpose but may not be spent in that financial year. This may include reserves to purchase or renovate a building, develop a sports facility or community centre.

[3] https://www.lalc.co.uk/wp-content/uploads/2012/07/2018-The-Good-Councillors-guide-on-finance-and-transparency-digital.pdf

Many councils also hold an 'election reserve', as all reasonable costs of holding local council elections can be fully recharged by the district or unitary council to the local council. In the case of contested elections for a council with several wards then these costs can be relatively high. If the amount of reserves at the year-end are above a certain level in relation to the annual precept then the council must advise the external auditor of why this level of reserves is required."

5. General Reserves

An Emergency or General Reserve will be held by the Parish Council to cushion the impact of uneven cash flows, and the impact of unexpected, unforeseen, emergency and uninsured situations.

The primary means of building a General Reserve will be through reallocation of funds e.g., where a project comes under budget or through allocation from the annual budget.

If in the most 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.

The Council must at all times keep a minimum balance sufficient to pay two month's salaries to staff and associated expenses e.g., National Insurance, tax contributions and pensions.

6. Earmarked Reserves

Earmarked Reserves will be established on a 'needs' basis in line with anticipated requirements.

Any decision to set up or extinguish redundant Reserves must be reviewed annually by the Finance Committee and recommended to full Council for formal approval. The Council will be required to identify the following when making recommendations for each reserve:

- The reason/purpose of the Reserve
- How and when the Reserve can be used
- Any procedures for the Reserve's management and control
- A process and timescales for review of the Reserve to ensure continuing relevance and adequacy
- Reserves should not be held to fund ongoing expenditure.
- All Earmarked Reserves are recorded on a central register held by the Responsible Financial Officer. The register should list the purpose for which the earmarked reserve is held.
- Reviewing the Council's Financial Risk Assessment is part of the annual budgeting by Committee and the year-end accounting procedures. Part of this process identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

Expenditure from Reserves can only be authorised by Full Council on the recommendation of the Finance Committee.

7. Principles to Assess the Adequacy of Balances and Reserves

A considerable degree of professional judgement is required in making any financial assessment and the Responsible Financial Officer can only be expected to provide advice with the help and possible guidance from the Members and other advisory sources.

Setting the budgets is the responsibility of the individual Committees in collaboration with the Responsible Financial Officer, reviewed by the Policy and Resources Committee and a recommendation then made to full Council for ratification and formal approval. This forms the foundation of setting the precept.

In order to assess the adequacy of Reserves when setting the budget, both the Responsible Financial Officer and the Committees should take account of the strategic, operational and financial risks facing the Committee/Council. The financial risks should be assessed in the context of the Council's overall approach to risk management. The Responsible Financial Officer should ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control.

Setting the level of Reserves is just one of several related decisions in the formulation of the long- and medium-term financial strategy as well as the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Parish Council's financial management arrangements. In addition to the cash flow requirements of the Council the following factors should be considered:

Budget Assumptions	Financial standing and management
Inflation and interest rates	The overall financial standing of the Parish Council (such as the level of borrowing, debt outstanding, collection rates etc.)
Estimates of the level and timing of capital receipts	The authorities track record in budget and financial management including the robustness of plans.
The treatment of demand led pressures	The Parish Council's capacity to manage in-year budget pressures
Planned efficiency savings / productivity gains	The strength of the financial information and reporting arrangements.

The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments. The availability of other funds to deal with major contingencies and the adequacy or provisions.	The Parish Council's virement and end of year procedures in relation to budget under / overspends. The adequacy of the insurance arrangements to cover major unforeseen risks.
Keeping increases to a minimum or within any applied capping.	Taking a balanced approach between likely expenditure and the ability of the community as a whole to absorb the financial impact of an increased precept.
Availability of other funding sources	Bearing in mind the possibility of other funding streams e.g., Section 106 or CILS monies or grants for projects.

Balancing the annual budget by drawing on 'General' or 'Emergency' Reserves must be viewed as a legitimate **short-term option** only. Such reserves must not be deployed to finance recurrent expenditure or to financial anticipated or foreseeable projects.

8. Governance Concerning the Balances and Reserves

The policy on Balances and Reserves will be reviewed annually as part of the review of Financial Regulations by the Finance Committee and reported to the Parish Council as part of the budget setting process.

This will include a report from the Responsible Financial Officer, prepared in collaboration with the Finance Committee, on the adequacy of the Reserves taking into account the forthcoming financial year and the Council's medium and long-term financial plans or projects.

The Responsible Financial Officer in collaboration with all Council Committees should review the levels of earmarked Reserves held and make recommendations to the Finance Committee on creation of additional Reserves as well as the extinction of redundant Earmarked Reserves as part of the Annual budgeting process. Any recommendations once reviewed by the Finance Committee will then be taken to full Council for formal approval.

General Reserves must be viewed as a short-term resolution of unexpected costs, they must not be used to finance recurrent expenditure or to finance foreseeable or anticipated projects.

Foreseeable or anticipated project costs should be properly budgeted for and included in Earmarked Reserves.

9. Excess reserves

Where reserves exceed the maximum agreed level, the amount should be held in a special Earmarked Reserve fund "Excess funding" and returned to the precepted taxpayer over a 3-year period reducing the fund by at least 35% per year by reducing the precept amount accordingly.

While an Excess funding account is present or where the target level of reserves is exceeded the Parish Council's annual budget should use funds from these account as contingency to the value of the recommended contingency amount.

10. General Reserves Currently Maintained

The level of General Reserves is to be not less than sufficient to pay two month's salaries to staff and associated expenses and be normally be kept at 3 months operating costs with a maximum amount of 6 months operating costs, i.e., half the annual precept and in any year.

In the financial year 2021/22 the maximum level of General Reserves will be capped at **£200,000** i.e., 6 months or half of the annual precept.

The target level of reserves set for the 2021/22 financial year shall be **£110,000** as per the risk-based model below and the Parish council holds more than this, but less than the maximum amount. To maintain this level no contingency is required in the budget for 2021/22.

The level of **general reserves** is calculated by using a risk-based model as below:

No	Risk	Effects/Action	Value of Risk
1	Loss or long term sickness of staff Long term risk mitigated by insurance	Council could not function effectively	£25,000
2	Major Loss of Service through fire/flood structural damage	Relocation of staff to home based working and	£5,000
3	Insurance Claims	Good claims management	£5,000
4	Uninsurable losses		£10,000

5	ICT Security/data corruption	Loss of service robust security policies, backup, firewalls and off-site electronic document storage	£5,000
6	Loss of Council Tax Support Grant	Funding shortfall.	£50,000
7	Election Reserve	Reserve to meet potential future Election Costs/By-election-Town Poll	£5,000
8	Unanticipated Legal costs	Legal costs that cannot be recovered	£5,000
Total			£110,000

11. Earmarked Reserves Currently Maintained

The level of **Earmarked Reserves** as at the 20/11/2020 is listed in Appendix 1 and at the end 2020/21 financial the total amount in EMR is projected to be in excess of £145,000

In line with this policy the overall level of EMR should restricted such that only "**known liabilities**", (see paragraph 2 above) and "**not be used to build up an unallocated fund with no specific plans for spending**" (ibid).

The overall level of Earmarked Reserves should be reduced to approximately £100,000 [4] and any excess reserves placed in the "Excess reserves" account (see page 8).

[4] Subject to EMR audit to be completed before year end

12. Document Information

Title:	Financial Reserves Policy
Status:	For release
Version:	2 January 2021
Consultation:	Finance Committee
Approved by	Full Council
Approval Date:	
Review Frequency:	Annually with Budget Approval
Next Review:	January 2022

Appendix 1

EMR account as at 20/11/2020[5]

320	EMR Buildings	10,809.67
322	EMR Bus shelters	10,000.00
325	EMR Car Park	8,000.00
331	EMR Rates	12,650.57
332	EMR I.T.	424.00
335	EMR Grounds Maintenance	3,280.00
340	EMR Election Costs	4,000.00
345	EMR Pavilions Maintenance	1,012.00
347	EMR Toilets Maintenance	1,740.00
350	EMR Neighbourhood Plan	6,820.15
355	EMR P3 Footpaths	1,585.00
359	EMR Youth Club	2,500.00
360	EMR Youth Worker	3,524.50
361	EMR Staffing Contigency	32,026.00
365	EMR Allotment	8,250.00
375	EMR Helipad/Defib	1,022.43
380	EMR Play Eqpm Maint/New/Repl	9,605.00
381	EMR Legal	4,355.00
382	EMR Youth Football	69.89
383	EMR Highways	3,847.68
384	EMR Crime/Traffic	2,500.00
385	EMR Service costs	2,779.00
386	EMR Twinning	1,654.00
387	EMR Vehicle operation/lease	2,918.00
388	EMR Compound	1,040.60
390	EMR Andrews Boiler	9,247.00
391	EMR Bowls maint/repairs	2,200.00
392	EMR Bowls seeds/fertilizers	2,173.00

[5] https://www.broadclyst.org/parish-council/governance/finance?folder=202021_Accounts