



MARTOCK PARISH COUNCIL

Council Reserves Policy

This policy was approved by the Full Council at its meeting on 27th March 2019

I. PURPOSE

- 1.1** Martock Parish Council is required to maintain adequate financial reserves. The purpose of this policy is to set out how the Council will determine and review the level of reserves.
- 1.2** *Sections 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 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 to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

2. TYPES OF RESERVE

- 2.1** Reserves can be categorised as general (e.g. held to cushion the impact of uneven cash flows or unexpected events) or earmarked (held for a specific purpose).
- 2.2 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. 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 always keep a minimum balance enough to pay three month's salaries to staff in General Reserves.
- 2.3 Earmarked Reserves** Are established on a "needs" basis, in line with anticipated requirements. As outlined in the regulations, any decision to set up a reserve must be given by the Council. The Governance and Accountability Practitioners' Guide (2018) sets out guidance and audit considerations for Town & Parish Councils.

Earmarked reserves can be held for different reasons:

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

2.3.2 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.

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

2.3.4 Investments – in some instances surpluses are retained for future investments (see Investment Strategy Document)

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

2.4. Any decision to set up a reserve must be done by resolution of the Council. If 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. All earmarked reserves will be recorded on a schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held. 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.

3. CURRENT LEVELS OF FINANCIAL RESERVES

3.1 In determining the precise level of reserves at the minimum requirement, the Responsible Financial Officer will consider budget assumptions, such as, interest and inflation rates, financial risks and the availability of other funds to deal with major contingencies and financial standing and management, the overall financial standing of Martock Parish Council, the capacity to manage budget constraints, the council's virement and end of year overspends at council and committee level, and the adequacy of the council's insurance arrangement to cover any major unforeseen risks.

3.2 If in extreme circumstances general reserves were exhausted due to 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. OPPORTUNITY COST OF HOLDING RESERVES

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

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

4.3 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.

5. GOVERNANCE CONCERNING THE BALANCES AND RESERVES

- 5.1** Martock Parish Council will review The Reserves Policy as part of the review of Financial Regulations (Section 18) and reported to the Parish Council as part of the budget setting process.
- 5.2** The Council will have the opportunity to review the levels of Earmarked Reserves held in accordance with the Parish Council's Financial Regulations and make recommendations for the creation of additional Earmarked Reserves as part of the annual budgeting process.
- 5.3** The Council will be required to identify the following when making recommendations for each reserve:
- 5.3.1** The reason for/purpose of the reserve.
 - 5.3.2** How and when the reserve can be used.
 - 5.3.3** Procedures for the reserve's management and control.
 - 5.3.4** A process and timescales for review of the reserve to ensure continuing relevance and adequacy.
 - 5.3.5** General Reserve balances will be held by the Parish to cushion the impact of uneven cash flows and the impact of unexpected, unforeseen, emergency and uninsured situation and will be reviewed annually.

The agreed minimum level of reserves to be held by Martock Parish Council for the 2019/20 financial year are:

General Reserve £69,530.00

Parish Plan Earmarked Reserve £81,400.00

Martock Parish Council

Adopted Date: 27th March 2019

Review Date: 30th April 2020

Review due: April 2021

Date of Amendment	Amendment No	Details of changes made	Changed by