



## NEWTON AND BIGGIN PARISH COUNCIL

### FINANCIAL RESERVES POLICY 202~~3~~4

#### Purpose

The Parish Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the council. Section 50 of the Local Government Financial Act 1992 requires that precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirements.

There is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer (RFO) to advise the council about the level of reserves and to ensure that there are procedures for their establishment and use. However, the Practitioners Guide to Proper Practice (March 2019) advises that each authority adopts a Reserves Policy and goes on to give guidance that the minimum level of the General Reserves should be maintained at between 3- and 12-months Net Revenue Expenditure (precept less loan repayments and transfers to earmarked reserves), depending on the size of the organisation. Newton and Biggin Parish Council have identified ~~£13,000~~ £14,900 as its General Reserve which represents circa ~~8~~ 7 months, which is within these parameters.

#### 1. Types of Reserves

1.1 **General Fund Reserves** - These represent the non-ring fenced (earmarked) balance of parish council funds. The main purposes of the General Fund 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 council. The level of general funds is a matter of judgement and this policy does not prescribe a specific level. However, the council must maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment. The levels may change from year to year.

1.2 **Specific Reserves** - As the name suggests these represent amounts which are 'earmarked' for specific items of expenditure to meet known or predicted liabilities or projects. These reserves are often used to 'smooth' the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year. These reserves are typically held for five main reasons:

1.2.1 Projects - to plan to finance a project in the future.

1.2.2 Renewals - to plan and finance an effective programme of equipment replacement and planned property repair/maintenance and ground maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budget, such as notice boards, computers etc.

1.2.3 Carry forward of underspend - 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.

1.2.4 Insurance Reserve - to meet the estimate of future claims to enable the council to meet the excesses not covered by insurance.

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

## **2. Policy in Practice**

The Newton and Biggin Parish Council will hold reserves for these three main purposes:

- (a) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of the general reserves
- (b) A contingency to cushion the impact of unexpected events or emergencies - this also forms part of the general reserves
- (c) A means of building up funds (earmarked reserves). To meet known or predicted requirements.

## **3. Legislative and Regulatory Framework**

The Chartered Institute of Public Finance and Accountancy (CIPFA) published guidance in 2003 in support of these matters and it is a requirement of the guidance, backed by legislation through the provisions contained in the local government Act 2003 that the councils RFO reports on the robustness and plans to utilise the councils reserves and balances. The RFO is also required to provide a statement on the adequacy of the general revenue fund, reserves and provisions in relation to the forthcoming financial year and also over the medium term. In reporting generally on the services and balances, the RFO is also required to report on the Specific Reserves of the Council and highlighting any proposed changes during the forthcoming year.

The council are required to make their own judgements on the levels of reserves, taking into account all relevant local circumstances. Local circumstances vary. A well-managed organisation with a prudent approach to budgeting should operate with reserves in the council's current range given its service responsibilities.

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 in advance. The RFO has a fiduciary duty (a duty of trust) to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent responsible stewardship of public funds.

## **4. Principles to Assess the Adequacy of Balances and Reserves**

In order to assess the adequacy of unallocated general reserves when setting the budget, the RFO should take account of the strategic, operational and financial risks facing the council. The financial risks should be assessed in the context of the council's overall approach to risk management. The RFO needs to ensure that the council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.

Setting the level of general reserves is just one of several related decisions in the formulation of the medium-term financial strategy and 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.

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Chair Signature:

Minute Reference:

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