

HOLME VALLEY PARISH COUNCIL



RESERVES POLICY

1. Introduction

- 1.1 Holme Valley Parish Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the Council. Sections 32 and 43 of the Local Government Finance Act 1992 require that precepting authorities in England have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.¹ 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.
- 1.2 The determination of the Council's reserves should be consistent with meeting the Council's overall strategic objectives, i.e.
- Improving the quality of amenities in the Valley.
 - Promoting the Valley and encouraging inward investment and visitors.
 - Strengthening the quality of its community.
 - Optimising the Council's administrative costs, assets and income from assets.
- 1.4 The Council's policy on the establishment, maintenance and adequacy of reserves and balances must therefore be considered annually.

2. Types of Reserves

- 2.1 The Council will hold reserves for three main purposes:
- General Reserves - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
 - A Contingency to cushion the impact of unexpected events or emergencies – this also forms part of General Reserves;
 - 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.
- 2.2 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.
- 2.3 The general fund balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Financial Officer (RFO) 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.

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2.4 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.

2.5 Even at times when extreme pressure is put on the Council's finances, the Council must keep a minimum balance sufficient to pay three months' salaries to staff in general reserves at all times.

3. Financial Risk Management

In order to assess the adequacy of the general fund when setting the annual budget, the RFO 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 main items to be considered are:

Budget Assumptions	Financial standing and management
The treatment of inflation and interest rates	The overall financial standing of the Council (level of borrowing, debt outstanding, collection rates etc).
Estimates of the level and timing of capital receipts	The Council's track record in budget and financial management including the robustness of the medium term plans.
The treatment of demand led pressures.	The Council's capacity to manage in-year budget pressures.
The treatment of 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 of provisions.	The Council's virement and end of year procedures in relation to budget under/over-spends. The adequacy of the insurance arrangements to cover major unforeseen risks.



4. Earmarked Reserves

4.1 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.

4.2 Earmarked reserves will be established on a 'needs' basis, in line with anticipated requirements.

4.2 Any decision to set up a reserve must be given by the Council.

4.3 Expenditure from reserves can only be authorised by the Council.

4.4 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 a specific liability would not need to be replenished, having served the purpose for this they were originally established.

4.5 All earmarked reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

4.6 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.

4.7 There is, in practice, no upper or lower limit to earmark reserves 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.

5. Current level of financial reserves

5.1 The level of financial reserves held by the Council will be agreed by the Finance & Management Committee during the discussions held regarding the setting of the budget for the next financial year.

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5.2 The Joint Panel on Accountability and Governance Practitioners Guide affirms that 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- and twelve-months Net Revenue Expenditure (NRE). NRE is effectively the Precept. 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, 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.

Given that the NRE/Precept of Holme Valley Parish Council is in the range of £270,000-£290,000, the General Reserve should be calculated for 3 months. This means that general reserves should be in the range of £67000-£72500.²

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1.1 It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.¹ From Joint Panel on Accountability and Governance Practitioners Guide "Reserves" 5.31 p38

4.7 None of the above in any way affects the level of Earmarked and/or Capital Receipts Reserves (EMR/CRRs) that an 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.² From Joint Panel on Accountability and Governance Practitioners Guide "Reserves" 5.31 p38

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