



AINTREE VILLAGE PARISH COUNCIL

Reserves Policy

15th March 2019
Minutes 6933

Aintree Village Parish Council

Reserves Policy

1.0 Purpose

- 1.1 Aintree Village 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.
- 1.2 The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. 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.
- 1.3 According to 'The Good Councillor's Guide to Finance and Transparency (2018)' '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'.

2.0 Types of reserves

2.1 Reserves can be categorised as general or earmarked.

2.2 **Earmarked reserves** can be held for several reasons:-

- **Renewals** – to enable services to plan and finance an effective programme of vehicle and 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.
- **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.
- **Insurance reserve** to enable the Council to meet the excesses of claims not covered by insurance.

- **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.

2.4 **Statutory Reserves** - Councils can also hold reserves that arise out of the interaction of legislation and proper accounting practices. For example these could be Developers Contribution Reserves, which holds the proceeds from the acceptance of Open Space from developers, and can only be used for the maintenance for these areas such as wages and equipment.

3.0 Earmarked reserves

3.1 Earmarked Reserves represents 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.

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

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

3.4 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 which they were originally established.

3.5 All earmarked reserves must be 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.

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.

4.0 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. 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.

4.2 Setting the level of general reserves is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. 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 extreme pressure is put on the council's finances the council must keep a minimum balance sufficient to pay one month's salaries to staff in general reserves at all times.

5.0 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 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 reserves, in that these funds cannot then be spent on anything else. As an example, if these funds were used to repay debt the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, 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.

6.0 Current level of financial reserves

6.1 The level of financial reserves held by the council will be agreed by the Finance and General Purposes committee during the discussions held regarding the setting of the budget for the next financial year, and then submitted to the Parish Council for approval. It will need to take into account for example, paragraph 1.3 above, the financial implication of the intention of the Parish Council to bring in-house the ground maintenance contract, and the RoSPA report.

6.2 The Parish Council at its meeting on 21st January 2019 agreed as part of its budget and precept consideration to this year's level of general reserves to fully cover approximately six months of budget expenditure.

6.3 The council does not currently have any level of earmarked reserves.