

# WHINBURGH & WESTFIELD PARISH COUNCIL

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## Financial Reserves Policy

### 1. Purpose.

- 1.1. Whinburgh & Westfield Parish Council (the Council) is required to maintain adequate Financial Reserves to meet the needs of the Council. The purpose of this policy is to set out how the Council will determine and review the level of Reserves.
- 1.2. The Local Government Finance Act 1992 Sections 32 & 43 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. There is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Finance Officer (the Clerk) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

### 2. Types of reserves.

Reserves are categorised as either General (held to cushion the impact of uneven cash flows or unexpected events) or Earmarked (held for a specific purpose). Earmarked reserves can further be noted as being Restricted, for example in the situation where outside funding is given to the Council to fulfil a specific purpose, and where, if they are not used for this one purpose, they must be returned. Reserves are not held to fund ongoing expenditure as this is unsustainable and at some point, the reserves would be exhausted. Where 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 (or project) do not need to be replenished, having served the purpose for which they were originally established.

### 3. General Reserves.

- 3.1. These funds do not have any restrictions as to their use. They can be used to smooth the impact of uneven cashflows or significant pressures, offset the budget requirement if necessary or, can be held in case of unexpected events or emergencies which would not require an ongoing revenue commitment.
- 3.2. The level of General Reserves is a matter of judgment and this policy does not prescribe an overall level. However, the *Practitioners' Guide* produced by the Joint Panel on Accountability and Governance (March 2021) says, "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 (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. "
- 3.3. The primary means of building General Reserves is 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.
- 3.4. The Council should build and maintain sufficient working balances to cover the key risks it faces.

- 3.5. If, in extreme circumstances, General Reserves are exhausted due to major unforeseen spending pressures within a particular financial year, the Council should draw down from its Earmarked Reserves to provide short-term resources.
- 3.6. Even at times when extreme pressure is put on the Council's finances, the Council must keep a minimum balance, sufficient to pay three month's salaries to staff, in General Reserves at all times.

#### **4. Earmarked Reserves.**

- 4.1. These funds are held for five main reasons and are intended to be restricted to these agreed usages:
  - 4.1.1. Renewals --to enable the 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.
  - 4.1.2. 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.
  - 4.1.3. Insurance reserve - to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
  - 4.1.4. Restricted earmarked reserves - to hold funds are received from outside sources for a specified and specific purpose, and which are subject to being return if not used for that purpose, to ensure that they are not diverted elsewhere.
  - 4.1.5. Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
- 4.2. Earmarked Reserves are established on a 'needs' basis, in line with anticipated requirements. Any decision to set up an Earmarked Reserve must be given by the Council. Expenditure from Earmarked Reserves can only be authorised by the Council.
- 4.3. Where Earmarked Reserves are used to meet short term funding gaps (see para 3.5), they must be replenished in the following year. However, Earmarked Reserves that have been used to meet a specific liability do not need to be replenished, having served the purpose for which they were originally established.
- 4.4. All Earmarked Reserves are recorded on a schedule held by the Responsible Finance Officer, which lists the various Earmarked Reserves, the purpose for which they are held and transactions as the reserves are used for the intended purpose.
- 4.5. As part of the budgeting process the Council review the appropriate level of Earmarked Reserves.

#### **5. Governance concerning the balances and reserves.**

- 5.1. The Council will review the Reserves Policy as part of the review of Financial Regulations and reporting to the Council as part of the budget setting process.
- 5.2. The levels of the various Reserves will be reported to the Council in the monthly Financial Reports presented at Council Meetings, and at that time may agree transfers as necessary.

- 5.3. The Council will be required to identify when making recommendations for each Earmarked Reserve:
  - 5.3.1. The reason/purpose for the reserve;
  - 5.3.2. How and when the reserve can be used;
  - 5.3.3. Procedures for the management of the reserve; and
  - 5.3.4. A process and timescale for a review of the reserve to ensure continuing relevance and adequacy.
- 5.4. General Reserve balances will be held by the Council to cushion the impact of uneven cash flows and the impact of unexpected, unforeseen, emergency and uninsured situations and will be reviewed annually.

Approved by the Council on 20 April 2021