



Lyneham and Bradenstoke Parish Council

Financial Reserves Policy

Adopted by Resolution of

Lyneham and Bradenstoke Parish Council

XXXXXXXXXX

This Policy will be reviewed annually
As part of the Budget and Precept setting process

PURPOSE

Lyneham and Bradenstoke Parish Council is required to maintain adequate Financial Reserves to meet the needs of the Parish Council. The purpose of this policy is to set out how the Council will determine and review the level of Reserves.

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 Clerk/Responsible Finance Officer to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use.

TYPES OF RESERVES

Reserves may be categorised as General or Earmarked. Earmarked Reserves can be held for several reasons and are intended to be restricted for that agreed use. General Reserves are funds that 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.

Earmarked Reserves (EMR)

Earmarked Reserves will be established for specific projects on a 'needs' basis, in line with anticipated requirements. Any decision to set up an Earmarked Reserve must be made by the Parish Council. Expenditure from Earmarked Reserves must only be for the purpose for which the funds were Earmarked originally and must be authorised in the normal way by the Parish Council. Once the specific project has been completed then that Earmarked Reserve can be dispensed with and any unspent funds be returned to the general funds held by the Parish Council. If the specific project is not completed by the end of the Financial year in which it was allocated, then any unspent funds in the Earmarked Reserve will

be carried forward to the next Financial year until the project is completed.

General Reserves

The level of General Reserves is a matter of judgment and so this policy does not attempt to prescribe an overall level. However, the current level of General Reserves to be held by the council is targeted to be a minimum of 40% of the annual precept figure.

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 General Reserves that have been consumed in the previous year.

The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Assessment & Management Schedule, which is reviewed annually.

If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council would be able to draw down from its Earmarked Reserves to provide short-term resources. However, the Earmarked Reserve must be replenished as soon as practicable and in any event not later than the following financial year.

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.

Opportunity costs of holding Reserves

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

Policy in Practice

The Council will hold Reserves for these three main purposes: -

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves
- A means of building up funds (Earmarked Reserves), to meet specific projects

Note:

This policy is in accordance with the Local Government Finance Act 1992, Local Government Act 2000, Local Government Act 2003 and guidance issued by NALC.