

Reserves Policy



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KEGWORTH PARISH COUNCIL RESERVES POLICY

Introduction

Kegworth Parish 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.

Local authorities are required to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. 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 the establishment and use of a reserve.

Types of Reserves

Reserves can be categorised as general reserves, or earmarked reserves.

Earmarked reserves can be held for several reasons:

- Renewals – to enable services to plan and finance an effective programme of vehicle, equipment and infrastructure 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 for a specific purpose.
- 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.

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.

Earmarked Reserves

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

Any decision to set up any reserve will be made by the Council. Expenditure from reserves may only be authorised by the Council.

Reserves will not be held to fund on-going expenditure. This would be unsustainable as the reserves would eventually be exhausted.

All earmarked reserves are recorded on a spreadsheet held by the Clerk which lists the various reserves and the purpose for which they are held.

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.

General Reserves

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 used in the previous year.

Setting the level of general Reserves is one of several related decisions in the formulation of the financial strategy and the annual budget. The Council will build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

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.

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.
Opportunity cost 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 because of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy.

Level of Financial Reserves

The level of financial reserves held by the Council will be agreed by the Parish Council during the discussions held regarding the setting of the budget for the next financial year.

In line with Section 5.33 of the Joint Panel on Accountability and Governance Practitioners Guide March 2022, Kegworth Parish Council will maintain a general reserve amount of at least six months net revenue expenditure.

The level of reserves will be reviewed each year as part of the budget setting process to confirm that they are still required and that the level is still appropriate.