COTFORD ST LUKE PARISH COUNCIL

The Community Centre, Bethell Mead, Cotford St Luke, Taunton TA4 1HZ www.cotford-st-luke.org.uk

Reserves Policy

Cotford St Luke 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 parish 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.

The parish council will hold reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows
- A contingency for unexpected events or emergencies
- A means of building up funds for specific projects and expenditure

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 parish council about the level of reserves and to ensure that there are procedures for their establishment and use.

Scope

Reserves may be categorised as *Specific* or *General*.

Specific reserves can be held for several reasons and shall be used only for the purpose for which they are created.

- Renewals – to enable services to plan and finance an effective programme of equipment replacement and planned property maintenance. Since a modest change in the budget in any one year may have a disproportionate effect on the precept, these reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets dramatically from year to year.
- Carry forward of underspend - expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward this resource.
- Developer’s contributions – proceeds from developers that can only be used for specified purposes (e.g. S106).
- Other *Specific* reserves may be ear marked for named projects (e.g. safety crossing)

Where the purpose of a *Specific* reserve becomes obsolete, or where there is an over-provision of funds, the excess may on the approval of the parish council be transferred to other budget headings within the revenue budget or to *General* reserves or to one or more other *Specific* reserves.

General reserves are funds that do not have restrictions as to their use. *General* reserves can be used to smooth the impact of uneven cashflows or can be held in case of unexpected events or emergencies.

The level of the *General* reserve for the forthcoming year will be based upon a risk assessment of the council's main areas of income and expenditure and consider any provisions and contingencies that mat be required. Items to be considered will include:

- Salary inflation greater than budgeted level
- Contractual inflation greater than budgeted
- Income levels below budgeted level
- Unexpected essential repairs or maintenance work

The use of *General* reserves must be authorised by the parish council. Where the reserve amount has arisen because of excess funds through cancelled or obsolete activities the parish council may elect to use these funds for another purpose for which no other budget is available.

Procedure

Specific reserves

Specific reserves will be established on a 'needs' basis, in line with anticipated requirements. Any decision to set up a reserve will be made by the parish council. Expenditure from reserves is governed by the parish council's Financial Regulations.

Identifying all planned and committed expenditure items should form part of the year end accounting and budgeting procedure and thereby indicate an appropriate level of reserves.

Specific reserves may be created for projects and activities such as:

- Equipment maintenance and replacement
- Road safety and traffic calming projects
- Dog waste bins and notice boards
- Plus, such other items that shall from time to time be considered necessary.

Specific reserves are to be recorded on a central schedule held by the Responsible Financial Officer which lists the various reserves and the purpose for which they are held.

General reserves

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG (March 2020 edition) advises:

"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 (3) and twelve (12) months Net Revenue Expenditure (NRE).

The Somerset Association of Local Councils (SALC) recommend the value of the general reserve at between 50% to 75% to the value of the precept.

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.

If, in extreme circumstances, General reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council is able to draw down from its Specific reserves to provide short-term resources.

Management and control of Reserves

Movements of *Specific* and *General* reserves shall be reported to the parish council on a quarterly basis as part of the normal accounting reports, and on an annual basis as part of the annual accounting report. The use of reserves shall be approved by the parish council, having regard to this policy and the Financial Regulations.

Approved:

Review period: Annually