

BURTON OVERY PARISH COUNCIL

RESERVES & BALANCES POLICY

POLICY STATEMENT REFERENCE NUMBER	ADOPTED DATE	REVIEW DATE
16	JULY 2023	MAY 2027

RESERVES AND BALANCES POLICY

Introduction

Burton Overy Parish Council is required to maintain adequate financial reserves to meet its ongoing operational needs. The purpose of this policy is to set out how the Council will determine and review the level of financial reserves it maintains from year to year.

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 its budget requirement. 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 key protocols for the establishment of reserves and their use. The level of the Council's reserves (whether they be general or earmarked for specific purposes) should be consistent with meeting the Council's objectives set out in its annual budget or Business Plan.

The purpose of this policy is to outline the process by which the Council manages its finances including the determination of its reserves in the short, medium and long term. The Council recognises that decisions regarding spending priorities, contingencies, long term projects, the level of the annual precept and reserves are all interconnected and cannot be viewed in isolation.

This policy should be read in conjunction with the Council's adopted Financial Regulations and the Council's Standing Orders.

Types of Reserves

Reserves can be categorised as either general (held to cushion the impact of uneven cash flows or unexpected events) or earmarked (held for a specific purpose).

- i. General reserves are often referred to as the "working balance". Typically, this is a sum of money which is not earmarked for specific purposes but rather set aside to deal with unexpected events or emergencies during the course of any financial year.
- ii. Specific Reserves represent amounts which are "earmarked" for specific items of expenditure to meet known or predicted liabilities or projects that may occur at some time in the future. For example, a Renewals Reserve could be used to plan and finance an effective programme of equipment replacement, property repair or maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to significantly vary budgets from year to year.

Context and decision-making processes

Robust financial management is a continuous process and the annual cycle may best be described as follows: -

Budget Setting Process

1. The Clerk will review the current financial forecast and, taking into account the future plans of the Council, will prepare a first draft of the budget for the forthcoming financial year (including implied precept figure) for the December meeting of the Council.

2. The Council will review the report and consider all future short-, medium- and long-term spending plans before deciding on the level of budget required and an appropriate level of precept.
3. The Clerk will prepare a revised budget report for the January meeting of the Full Council at which the budget and the annual precept will be determined and approved.

On-going Financial Monitoring

4. Monthly expenditure and income reports will be prepared for each Parish Council meeting.
5. Quarterly Financial Management reports will be prepared which indicate payments and receipts as they compare with budget expectations. Bank reconciliations will also be provided quarterly to balance income and expenditure against cash in hand. The report will allow a forecast to be produced which incorporates the latest information available to the Council that has an effect on its anticipated income / spending for the year ahead.
6. Year-end accounts will be prepared in conjunction with the Annual Return prepared for the external auditor.

The Council Decision-Making Process

7. The principal financial decisions of the Council are taken at the December meeting at which the outline budget will be set for the forthcoming year and the draft precept agreed. Once this decision has been taken there is only limited scope to vary expenditure in the short term.
8. Throughout the year the Council can make decisions that affect short-, medium- and long-term spending plans. These decisions will feed into the review of the financial management process and future years' budget preparations.

Governance concerning Balances and Reserves

In reporting generally on the Council's reserves and balances, the Responsible Financial Officer is required to report on the Specific Reserves of the Parish Council, outlining the purpose for which each is held, establishing an appropriate level of reserve and highlighting any proposed changes during the forthcoming year.

During the annual budget preparation, the Council will be asked to consider and take a view on the appropriate level of General Reserves to be maintained during the forthcoming year. This will take into account levels of uncertainty in the business of the Council together with any other potential factors which may impinge on the functioning of the Council. This uncertainty is mitigated in the following manner: -

- Regular monitoring and forecasting to allow the identification of deviations from the approved budget;
- The provision of an annual contingency (General Reserve) to allow for medium level expenditure on the repair and replacement of assets that cannot be predicted with certainty (for example grounds maintenance machinery or dealing with acts of vandalism);
- An adequate level of General Reserves allows expenditure to exceed that planned in the short and medium term when the Council determines this as appropriate.

The policy on Balances and Reserves will be kept under review as part of the review of Financial Regulations and considered by the Parish Council as part of its budget setting process. This will include a statement from the Responsible Financial Officer on the adequacy of Specific Reserves in respect of the forthcoming financial year and the Council's medium term financial plan.

The Council will have the opportunity to review the levels of Specific Reserve held in accordance with the Parish Council's Financial Regulations and make recommendations for the creation of additional Specific Reserves as part of the Annual budgeting process.

Reserves Policy

1. 'Total Reserves' consist of 'General Reserves' and 'Specific, earmarked Reserves'.
2. The Council will be required to identify the following when making decisions in relation to each specific, earmarked reserve:
 - the reason for/purpose of the reserve;
 - how and when the reserve may be used;
 - procedures for the reserve's management and control;
 - a process and timescales for review of the reserves to ensure continuing relevance and adequacy.
3. The target level of General Reserves will be within the range of 80% - 120% of the precept for the year. The Council will ensure its medium-term budget plans are consistent with this target when approving its budget and precept for the year.
4. Specific Reserves are to be created for items in the following purposes:
 - A long-term build-up of funds to replace / renew assets (e.g., street lighting or benches on the highway verge) at an unspecified time; or
 - Items that require specific expenditure at a determinable time later than that covered by the annual budget.
5. The creation of a Specific Reserve should be reserved for clearly identifiable expenditure items which need the approval of the full Council.

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