FINANCIAL RESERVES POLICY

1. POLICY STATEMENT

1.1. Colsterworth and District Council (CAD) is required to maintain adequate Financial Reserves to meet the needs of the Parish Council.

1.2. The purpose of this policy is to set out how the Council will determine and review the level of Reserves.

1.3. 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.

1.4. The Council will hold reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- A contingency to cushion the impact of unexpected events or emergencies
- A means of building up funds, to meet known or predicted requirements

1.5. 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.

2. TYPES OF RESERVES

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

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

2.1.1. Renewals – to enable CAD 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.

2.1.2. 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.

2.1.3. Developers Contributions – proceeds from developers that can only be used for specified purposes

2.1.4. Other Specific Reserves may be set up from time to time to meet known or predicted liabilities.

2.1.5. 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 Council, be transferred to other budget headings within the revenue budget or to General Reserves or to one or more other Specific Reserves.

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

2.2.1. 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 may be required. Items to be considered can include:

- Salary inflation greater than budgeted level
- Contractual inflation greater than budgeted

- Income levels below budgeted level
- Unexpected essential repairs or maintenance work

2.2.2. The use of General Reserves must be authorised by the Council.

2.2.3. Where the reserve amount has arisen because of excess funds through cancelled or obsolete activities the Council may elect to use these funds for another purpose for which no other budget is available.

3. PROCEDURE

3.1. Specific Reserves

3.1.1. Specific Reserves will be established on a 'needs' basis, in line with anticipated requirements.

3.1.2. Any decision to set up a Reserve must be made by the Parish Council or the Finance & Administration Committee (F&A).

3.1.3. Expenditure from Reserves can be authorised in the same way as expenditure from budgets, as per Standing Orders.

3.1.4. 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.

3.1.5. Specific Reserves may be created for projects and activities such as:

- War Memorial restoration and maintenance
- Nature Trail
- Children's Play Equipment maintenance and replacement
- Road safety and traffic calming projects
- Neighbourhood/Community Plan
- Heritage/Newton Project
- Street lighting equipment replacement
- Replacement of bus shelters, seats, dog waste bins and notice boards
- Grant Applications (e.g., Church railings, Remembrance Day)
- Development of amenities and facilities with community groups/organisations
- Plus, such other items that shall from time to time be considered necessary

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

3.1.7. Reserves should not be used to fund ongoing expenditure.

3.1.8. To the extent that Reserves are used to meet short term funding gaps, they should be replenished in the following year. However, Specific Reserves that have been used to meet a liability (or project) would not need to be replenished, having served the purpose for which they were originally established.

3.2. General Reserve

3.2.1. The level of General Reserve is a matter of judgment and so this policy does not attempt to prescribe an overall level.

3.2.2. 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.

3.3.3. Setting the level of general reserves is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget.

3.3.4. The Council must build and maintain sufficient working balances to cover the key risks it faces Even at times when extreme pressure is put on the council's finances the council must keep a minimum balance of General Reserves sufficient to pay 100% of 1 year of total annual Administration Expenses, including staff salaries, at all times.

3.3.5. **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**.

4. MANAGEMENT AND CONTROL OF RESERVES

4.1. Movements in Specific Reserves and General Reserves shall be reported to the Council on a monthly basis as part of the normal accounting reports, and on an annual basis as part of the annual accounting report.

4.2. The use of Reserves shall be approved by the Council having regard to this policy and CAD's Financial Regulations

4.3. Given the opportunity 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.

4.4. The level of **General Reserve** shall be reviewed on an annual basis during the annual budgetary review.

4.5. The minimum level of General Reserve shall be recommended to the Council by the RFO. This will form part of the recommendations for the Annual Budget and Precept Request to the Council.

4.6. **Specific Reserves** shall be reviewed on an individual basis. This review will also be undertaken as part of the annual budgeting process.

4.7. Recommendations on creation, amendment, cessation or continuance of Specific Reserves will be given by the RFO to the Council by way of a report forming part of the recommendations for the Annual Budget and Precept Request.

4.8. Approval for the creation, amendment, cessation or continuance of Specific Reserves will be given by the Council.

5. RELATED POLICIES AND PROCEDURES

5.1. This Financial Reserves Policy shall form a part of the Constitution and Financial Regulations of CAD and, as such, will be reviewed annually and may only be amended or varied by resolution of the Council.

5.2. Other related policies include:

- CAD Scheme of Delegation
- CAD Grant Allocation/Application
- CAD Risk Management Policy

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