

West Farleigh Parish Council

Reserves Policy

Introduction

West Farleigh Parish Council is committed to maintaining adequate financial reserves to meet its operational needs and to address unforeseen expenditures. This policy outlines the framework for establishing, utilising, and reviewing these reserves, ensuring compliance with relevant legislation and promoting sound financial management.

Legal Framework

In accordance with Sections 32 and 43 of the Local Government Finance Act 1992, local authorities are required to consider the level of reserves necessary for meeting estimated future expenditures when calculating the budget requirement. While no specific minimum reserve level is mandated, it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council on appropriate reserve levels and to implement procedures for their establishment and use.

Types of Reserves

West Farleigh Parish Council maintains two primary categories of reserves:

General Reserves

Funds that are not earmarked for specific purposes and are available to cushion the impact of unexpected events or emergencies. These reserves help manage cash flow variations and can offset budgetary shortfalls if necessary.

The level of general reserves is a matter of judgement and this policy does not attempt to prescribe a blanket level. The primary means of building general reserves will be through 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.

Setting the level of general reserves is one of several related decisions in the formulation of the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Financial Risk Assessments.

If in extreme circumstances General Reserves were exhausted due to a 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 in the Council's finances, the Council must keep a minimum balance sufficient to pay 9 month's salaries to staff in the General Reserves.

Earmarked Reserves

Funds set aside for specific, identified purposes. These reserves are allocated for particular projects or known liabilities and are only to be used for the designated purpose. Examples include:

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- Renewals: To finance an effective program of equipment replacement and planned property maintenance, smoothing out expenditure without causing budgetary fluctuations.
- Carry Forward of Underspend: To allocate funds for projects committed to but not completed within the budget year, allowing the carry forward of these resources.
- Developers Contributions: Funds received from developers, designated for specific projects or improvements as stipulated in agreements.
- Insurance Reserves: To enable the Council to meet the excesses of claims not covered by the insurance
- Other Earmarked Reserves: Established as needed to meet known or anticipated liabilities, subject to Council approval.

Any decision to set up a reserve must be made by Full Council. All reserves will be reviewed annually, either during the budget setting process, to ensure their adequacy and relevance, or when assessing the Council's funds at the year end.

Expenditure from reserves can only be authorised by Full Council. Earmarked reserves are to be utilised solely for their intended purpose. If the original purpose becomes obsolete, or is fulfilled with surplus funds remaining, the Parish Council may reallocate the remaining funds to other reserves or budget heading as appropriate.

Reserves should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

Monitoring and Reporting

All earmarked reserves are recorded on a schedule held by the Responsible Finance Officer which lists the various Earmarked Reserves and the purpose for which they are being 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. This ensures transparency and allows for informed decision-making regarding the Council's financial position.

Level of Reserves

General Reserves:

The target level for General Reserves will be reviewed and set annually, as part of the budget setting process, considering the Council's operational requirements and risk assessments. While there is no statutory minimum, the current agreed level of general reserves is one times the annual precept (one full year's expenditure).

Earmarked Reserves

The levels of Earmarked Reserves will be determined based on the specific needs and commitments of the Council. Each reserve will be assessed individually to ensure that the amount allocated is adequate for its intended purpose without tying up excessive funds that could be utilised elsewhere.

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