

RICKINGHALL PARISH COUNCIL FINANCIAL RESERVES POLICY

Rickingham Parish Council is required to maintain adequate financial reserves to meet its needs. The purpose of this policy is to set out how the Council will determine the level and use of its 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. However, there is no specified 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 guidelines for their set-up and use.

Types of reserves

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

Earmarked Reserves: As the name suggests these represent amounts which are "earmarked" for specific items of expenditure to meet known or predicted obligations or projects. Earmarked Reserves are typically held for five main reasons:

- **Renewals** – to plan and finance an effective programme of equipment replacement and planned property repair/maintenance; and grounds maintenance. This allows councils to spread out expenditure over time so that the programme can be achieved without the need to vary budgets drastically each year.
- **Carry forward of underspend** – to hold for ongoing projects when allocated funds can't be spent in the previous year.
- **Trading accounts** – to retain funds for future investment.
- **Insurance reserve** – to meet the excesses not covered by insurance.
- **Other earmarked reserves** – to meet known or predicted obligations.

General Reserves: General Reserves are funds which don't have any restrictions on their use. They 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.

Guidelines for setting reserves

The policy on Reserves will be reviewed annually as part of the review of Financial Regulations and reported to the Parish Council as part of the annual budget setting process. This will include a statement from the RFO on the adequacy of the Earmarked Reserves and General Reserves for the forthcoming financial year.

Earmarked Reserves: While setting the annual budget, the Council should review the levels of Earmarked Reserves. Budget setting is also an opportunity to create additional reserves – though they can be set up or reviewed at other times of year if necessary - and the Council should consider the following when making recommendations:

- The reason for/purpose of the reserve
- How and when the reserve can be used
- How long reserves should be maintained

General Reserves: The level of General Reserves is a matter of judgement. The Council must build and maintain enough of a General Reserve balance to cover the key risks it faces, as expressed in its Financial Risk Assessment. The main way to build general reserves is by allocating funds in the annual budget in addition to what might be needed to replace reserves that have been used in the previous year.

As previously stated, there is no specified level of reserves that a council should hold although internal auditors often advise councils to reserve around 50% of operating costs.

The Good Councillors Guide to Finance and Transparency, published by the Department for Communities and Local Government says:

"A council should typically hold between 3- and 12-months' expenditure as a general reserve. If the general reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community.

Local councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year-end general reserve should not be significantly higher than the annual precept."

The Joint Panel on Accountability and Governance document *Governance & Accountability For Smaller Authorities* says:

"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).

Net Revenue Expenditure (subject to any planned surplus or deficit) is effectively Precept less any Loan Repayment and/or amounts included in Precept for Capital Projects and transfers to Earmarked Reserves.

The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent General Reserve.

In all of this it is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities."

Rickingham Parish Council's NRE falls within the commonly used bracket of £25,000 to £200,000 (anything under £200,000 is considered to be a "smaller authority" for audit purposes and smaller authorities with NRE under £25,000 are exempt from external audit). The Council is on the lower end of that scale and applying the guidelines above, the Council should build and maintain General Reserve levels of 6-9 months of NRE.

Guideline for using reserves

This is meant to be a general fund so guidelines should not be too restrictive. However, some general principles might be appropriate.

If in extreme circumstances General Reserves were drained due to major unforeseen spending within a 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 should always keep enough of a General Reserves balance to pay one month's basic operating costs.

It is suggested that any decision about the Council's reserves should meet the following objectives:

- Improving the quality of the Parish's amenities.
- Promoting the Parish and encouraging inward investment and visitors.
- Strengthening the quality of its community.
- Making the best use of the Council's funds and assets.

Next steps

It was determined in 2019-20 that the Parish Council should aim to achieve General Reserves of £13,500 and this was achieved in the budget set for 2021-22. The current budget is £28,750 and 6 months NRE would be approximately £14,000. That figure would be considered sufficient to maintain uneven cash flow or address an unusual or emergency requirement and it is therefore recommended to raise the General Reserves by £500 to that amount.