Somercotes Parish Council

Financial Reserves Policy

Introduction

Somercotes Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the 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. However, 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 procedures for their establishment and use.

Types of Reserves

Reserves can be categorised as general or earmarked.

- General Reserves are funds which do not have any restrictions as to their use. These reserves 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.

- Earmarked reserves represent amounts that are generally built up over a time period which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects.

Reserves should not be held to fund on-going 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.

The Responsible Financial Officer will maintain a detailed schedule of all reserves which will form part of the monthly financial summaries.

General Reserves

1. 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. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

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. It is intended to maintain the General Reserve at a level sufficient to up to four months precept income.

4. If the General Reserve is exhausted due to extreme circumstances, the Council may make an emergency borrowing from Earmarked Reserves, which will be replaced in the next annual budget.

5. Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay one month's salaries to staff in General Reserves at all times.

6. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.

Earmarked Reserves

1. Earmarked reserves can be held for several reasons:

   - Renewals – to enable services to plan and finance an effective programme of vehicle, equipment and infrastructure replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
   - Carry forward of underspend - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
   - Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
   - Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

2. Earmarked reserves will be established on a "needs" basis, in line with anticipated requirements. Any decision to set up a reserve must be made by the Council. When establishing an Earmarked reserve the Council will set out
   a) The purpose of the reserve
   b) How and when the reserve can be used.
   c) Procedures for the management and control of the reserve including a process and timescale review of the reserve to ensure continuing relevance and adequacy.

3. All Earmarked reserves are recorded within the budget and the purpose for which they are held.

4. Expenditure from Earmarked reserves can only be authorised by the Council.

Opportunity cost of holding reserves

In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy.

Given the opportunity costs of holding reserves, it is recommended that reserves continue to be reviewed each year as part of the budget process to establish suitability and opportunity.

Current level of financial reserves

The level of financial reserves held by the council as agreed by the Parish Council during the discussions held regarding the setting of the budget for the next financial year are as follows:

Year	Precept	4 month equivalent
2026/2027	£230,000	£76,660