

# Ditchingham Parish Council

## Financial Reserves and Balances Policy

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### Version Control

Version	Date	By	Reason
Draft 01	17/11/2015	Full Council	Adopted
Draft 0.2b	16/11/2015	Full Council	Revisions. Agreed by F&R Committee

# Ditchingham Parish Council

## Financial Reserves and Balances Policy

### Objective

DPC 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 general fund reserves; given the pre-existing recognition of the requirement to hold specific (earmarked) reserves.

### Policy

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 key protocols for their establishment and use. The determination of the Council's reserves will be consistent with meeting the Council's overall aspirations: i.e.

- Maintaining and improving the quality of the Parish's amenities
- Strengthening the quality of its community
- Highway matters, particularly B1332
- Optimising the Council's administrative costs, assets and income from its assets

The Governance & Accountability for Local Councils Practitioners Guide 2010 stipulates: 2.26 ... *reasonable working capital needs or for specifically earmarked purposes, whenever council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor. Earmarked reserves, which are set aside for special projects, should be realistic and approved by the council. It is generally accepted that general (i.e. un-earmarked) revenue reserves usually lie within the range of \*three to twelve months of gross expenditure. However, the amount of general reserve should be risk assessed and approved by the Council.*

[\* In 2015-16 this would be between £8,775 and £35,100. I.e. the amount to be held in reserves excluding funds earmarked for specific purposes (Play Area and Lychgate)]

### Types of reserves

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

- **Specific Reserves.** As the name suggests these represent amounts which are "earmarked" for specific items of expenditure to meet known or predicted liabilities or projects. Specific Reserves are often used to "smooth" the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year. "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. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets. [*i.e. the Play Area reserve and Lychgate reserve*].
  - **Carry forward** of under spend some expenditure budgeted for projects in a given financial year cannot be spent in that year. Reserves are used as a mechanism to carry forward these resources [*possibly relevant to DPC*]
  - **Trading accounts** in some instances surpluses may be retained for future investment [*currently not relevant to DPC*]
  - **Insurance reserve** to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance [*possibly relevant to DPC*]
  - **Other earmarked reserves** may be set up from time to time to meet known or predicted liabilities [*possibly relevant to DPC*]

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- **General Revenue Balances.** This is often referred to as ‘the working balance’ and these funds may be spent or earmarked at the discretion of members, subject to approval by Council. Typically general revenue balances comprises of three elements:
  - Funds that are not earmarked for specific purposes but rather set aside to deal with unexpected events or emergencies. This “minimum working balance” needs to be regularly reviewed using a risk based assessment;
  - Funds that are held in anticipation of uneven cash flow, (for example the precept income received 6 monthly in advance and VAT reclaimed quarterly retrospectively); with the balance usually;
  - Being surpluses as a result of activities being postponed or cancelled.

## Legislative and Regulatory Framework

CIPFA published guidance in 2003 in support of these matters and it is a requirement of the guidance, backed by legislation through the provisions contained in the local government Act 2003 that the Council’s Responsible Finance Officer reports to members on the robustness and plans to utilise the Council’s reserves and balances. The statement to all members should include;

- The estimated opening and closing General Revenue Balances for the year;
- The estimated addition to and withdrawal from Balances

The RFO is also required to provide a statement on the adequacy of the General Revenue Fund, reserves and provisions in relation to the forthcoming financial year and also over the medium term. In reporting generally on the reserves and balances, the RFO is also required to report on the Specific Reserves of the Council, outlining the purpose for which each is held, establishing an appropriate level of reserve and highlighting any proposed changes during the forthcoming year.

## Principles to Assess the Adequacy of Balances and Reserves

In order to assess the adequacy of unallocated General Reserves when setting the budget, the RFO should take account of the strategic, operational and financial risks facing the Council. The financial risks should be assessed in the context of the Council’s overall approach to risk management. The RFO needs to ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.

Setting the level of General Reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Council’s financial management arrangements. In addition to the cash flow requirements of the Council the following factors should be considered:

<b>Budget assumptions</b>	<b>Financial standing and management</b>
The treatment of inflation and interest rates	Overall financial standing of the Council (level of borrowing, debt outstanding, collection rates etc)
Estimates of the level and timing of capital receipts	Track record in budget and financial management including the robustness of the medium term plans
The treatment of demand led pressures	Capacity to manage in-year budget pressures
The availability of other funds to deal with major contingencies and the adequacy of provisions.	Virement and end of year procedures in relation to budget under/overspends including adequacy of insurance arrangements to cover unforeseen risks.

A considerable degree of professional judgment is required. The RFO should provide advice set in the context of the Council’s medium term financial plan and should not focus exclusively on short-term considerations.

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Balancing the annual budget by drawing on General Reserves may be viewed as a legitimate short-term option. However, where reserves are to be deployed to finance recurrent expenditure this should be made explicit. Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan.

## Governance concerning the Balances and Reserves.

The policy on Balances and Reserves will be reviewed annually as part of the review of Financial Regulations (Section 18) and reported to the Council as part of the budget setting process. This will include a statement from the RFO on the adequacy of the General Reserve fund and 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 Council's Financial Regulations and make recommendations for the creation of additional Specific Reserves as part of the Annual budgeting process. The Council will be required to identify the following when making recommendations for each reserve:

- The reason for/purpose of the reserve
- How and when the reserve can be used
- Procedures for the reserve's management and control
- A process and timescales for review of the reserve to ensure continuing relevance and adequacy

General Reserve balances will be held by the Parish to cushion the impact of uneven cash flows and the impact of unexpected, unforeseen, emergency and uninsured situation. Decisions on the level of reserve to be held will be made as part of the Annual Budgeting process and following the completion of appropriate risk assessments by the RFO.

## Reserves held by DPC

Existing and proposed reserves (at levels consistent with the **15-16 Proposed Precept Paper** and this **Reserves Paper**, are set out in the table below.

	DPC Reserves	Total	General	Specific	Play Area	Lychgate
	B. Fwd 12-13	4,305	1,305	3,000	3,000	0
	Additions 13-14	10,887	9,387	1,500	1,500	0
	Expended 13-14	-4,358	0	-4,358	-4,358	0
	B. Fwd 13-14	10,834	10,692	142	142	0
	Additions 14-15	2,546	46	2,500	2,500	0
	Expended 14-15	0	0	0	0	0
Forecast	B. Fwd 14-15	13,380	10,738	2,642	2,642	0
Proposed	Additions 15-16	6,780	2,280	4,500	2,500	2,000
Proposed	Expended 15-16	0	0	0	0	0
Proposed	C. Fwd 15-16	20,160	13,018	7,142	5,142	2,000

## General

**2.1 Complaints:** Complaints made under this policy should be referred to the Clerk as identified under the Council's Complaints Policy.

**2.2 Adoption & Revision:** This policy was originally adopted [17/11/2015] and was last reviewed [16/11/2015]. This policy will be next reviewed before [16/11/2016].