



## **CROWTHORNE PARISH COUNCIL FINANCIAL RESERVES POLICY**

### **Policy Statement**

Crowthorne Parish Council is required to maintain adequate Financial Reserves to meet the needs of the Parish Council. 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.

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

There is no specified minimum level of Reserves that an authority should hold, and it is the responsibility of the Clerk/Responsible Finance Officer with advice from the Finance Officer and the Councils appointed Finance Champion to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use.

### **Scope**

Types of reserve - Reserves may be categorised as Specific (Earmarked) or General.

**Specific Reserves** can be held for the reasons stated below and will normally only be used for the purpose for which they are created.

- Renewals – to enable services 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 from year to year.
- Carry forward of underspend - expenditure committed to a project but not spent in the budget year.
- Other Specific Reserves may be set up from time to time to meet known or predicted liabilities.
- CIL - Developers Contributions – proceeds from developers that can only be used for specified purposes.
- Where the purpose of a 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. This applies to all specific reserves except for CIL.

**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.

The level of the General Reserve for the forthcoming year will be based upon a risk assessment of the Council's Income and Expenditure during the Budget process where a risk analysis considers each element and make provisions and contingencies that may be required. Items to be considered will include:

- Salary inflation greater than budgeted level
- Contractual inflation greater than budgeted
- Income levels below budgeted level
- Unexpected essential repairs, maintenance work or other previously unplanned/unanticipated expenditure

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

## **Procedure**

### **Specific (Earmarked) Reserves.**

Specific 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 Parish Council and will normally be recommended at the time of approving the Annual Budget.

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

All Specific Reserves and their purpose are to be recorded on a central schedule held by the Finance Officer and overseen by the Clerk/ RFO/ council and reported as part of the Year End Annual Accounts.

### **General Reserves**

The level of General Reserve is a matter of judgment. 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.

The level of **General Reserve** shall be reviewed on an annual basis during the setting of the budget and implemented at the year end. The minimum level of General Reserve shall be recommended to the Council which will form part of the recommendations for the Annual Budget and Precept Request to the Council.

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.

The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide March 2021 recommends that the council must keep a minimum balance of General Reserves sufficient to pay at least 3 months Net Revenue Expenditure (NRE). NRE is Precept less any Loan Repayment and/or amounts included in Precept for Capital Projects and transfers to Earmarked Reserves.

The Council adopts, as a General Reserve policy, to maintain its General Reserve at the level appropriate to its size and situation and to plan its Budget to ensure that the adopted level is maintained. Taking into account income received in addition to precept, the Council adopts a requirement of four months (approx. 35%) of forecast net expenditure - calculated as income (not including precept or CIL) less forecast net expenditure (excluding CIL spend)

If, in extreme circumstances, General Reserves were exhausted due to major unforeseen loss of income or spending pressures within a particular financial year, the Council can draw down from its Specific Reserves to provide short-term resources. However, these funds must be returned to the specific reserve/s, if still required, in the following year (as part of the annual budget process).

### **Management and control of reserves**

The intention to use specific reserves or general reserves shall be reported to the Council on a monthly basis. The use of Reserves shall be approved by the Council having regard to this policy and Crowthorne Parish Council's Financial Regulations.

### **Related Policies and Procedures**

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

### **Appendix**

Using Budget 2022/3 to illustrate

JPAG recommendation

Net Revenue Expenditure = Precept less any loan repayment less transfers to reserves

$£262,196 - £17,132 = £245,064$

3 months =  $£245,064 / 12 \times 3 = £61,266$

### CPC Policy

Forecast net expenditure = Total income excluding precept and CIL income –  
Total expenditure excluding CIL spend

$£(355,253 - 262,196 - 9,490) - £(599,654 - 254,070) = £83,567 - £345,584 = £262,017$

4 months, approx. 35% = £91,706