



Financial Reserve Policy

1. Introduction

Pucklechurch Parish Council herein known as the Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. The Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regards to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

The Council's policy on the establishments, maintenance and adequacy of reserves and balances will be considered during the annual review of the Councils Financial Strategy and preparation of the annual budget.

The Council will hold reserves for these three main purposes:

- A working balance to help cushion the impact of uneven cash flows – this forms part of general reserves;
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund



2. General Fund Balance

The General Fund Balance, commonly termed the “working balance”, is a balance on the Council’s revenue account which is not held for any specific purpose other than to cushion the Council’s finances against any unexpected short term problems in the Council’s cash flow.

3. Policy

The General Fund Balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer when setting the budget for the forthcoming year. 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.

4. Financial Risk Management

In order to assess the adequacy of the general fund when setting the annual budget, the Responsible Finance Officer will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the Council’s main areas of income and expenditure and take into account any provisions and contingencies that may be required. The financial risk assessment will be based upon the main financial risks identified in the Councils Risk Register.

5. General Fund Reserves

General Fund reserves are funds which do not have any restriction as to their use. These reserves can be used to smooth the impact or uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. 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.



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If in extreme circumstances general reserves were exhausted due to 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 on the Council's finances, the Council must keep a minimum balance in the general reserves; this calculation is to be set by the Council annually when agreeing the risk assessment review.

General Fund 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 the specific objective of the reserve would not need to be replenished, having served the purpose for which they were originally established,

The Main Items to be considered are:

Financial Risk	Analysis of Risk
Pay inflation is greater than budgeted	The cost of living increase is above the level allowed for in the estimates
Contractual inflation is greater than budgeted	A general assumption is made when estimating the percentage increase on rates & utilities. This may increase above budgeted inflation. Professional and other service costs increase above estimate
Council Assets required funding	Repairs and renewals of Village and Council assets that may require unexpected expenditure.
Undertake unexpected administrative duties	The costs incurred regarding administration duties to address opportunities, challenging or deflect future threats to the village, its people and its environment.
Employment obligations	Make provision for redundancy obligations and any exceptional future costs of investigations and disciplinary hearings.



5. Earmarked Reserves

Earmarked reserves represent amounts that are generally built up over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. The 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year. The Council, when establishing an earmarked reserve, will set out:

- The reason/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the management and control of the reserve;
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.
- Earmarked reserves can only be set up by the Council
- Expenditure from reserves can only be authorised by the Council.

The Following are examples of the types of earmarked reserves that may be held by the Council, Lists of current earmarked reserves can be obtained from the Clerk of the Council:

Reserve	Use	Policy for Use
Election Reserve	To fund elections, by elections and referendums	For the expenditure towards the Four yearly Council election.
Play Equipment-General Areas	To build up funds to replace play equipment	That the purchase of equipment, as agreed by Council, be met from this reserve.
Insurance & Contingency Reserve	To hold funds to cover costs that the Council is not covered for under its Insurance	That any revenue expenditure to be met from the reserve is agreed by Council.
Carry Forward Underspend	Funds regarding services that the council has committed to regarding projects but cannot spend in the budgeted year	This allows agreed budgeted projects to carry forward funds as needed.
Other earmarked Reserves	Can be set up from time to time to meet known or predicted liabilities or long term projects	For identified long term projects or predicted liabilities



6. Review of the Adequacy of Balances and Reserves

In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation, agreed and authorised by the Council.

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