

THE BOURTONS PARISH COUNCIL

Financial Reserves Policy

Introduction

Parish Councils are required to maintain prudent and adequate financial reserves to meet the needs of the community they represent.

Purpose

Sections 32 and 43 of the Local Government Finance Act 1992 require all local authorities to have regard to the level of reserves needed when forecasting future expenditure for the purpose of budget development.

Types of reserves

There are two principle types of reserves :

- General reserves
- Earmarked reserves

General reserves

This category is held principally to protect the Council from unforecastable events that can arise. An example would be the inability of an overseeing authority [District, County or Unitary] to be unable or unwilling to pay all or part of the precept; or perhaps the sudden failure of a structure that was not fully covered by insurance. There is a general, and unofficial, guide that the level of general reserves should not exceed the value of the annual precept.

General reserve funds can also be used to carry forward unspent budget in one year to the next where the specific project has had an adverse timing impact due to circumstances beyond local control.

General reserves have no restrictions as to their use, but all use of such funds should be fully pre-authorized by the Council.

Earmarked reserves

These are reserves that are held against specific issues and can be for any matter that the Council deems may require expenditure beyond that included in the annual budget. Examples could be the

- repair of a specific item of equipment
- creation of a fund to replace a piece of equipment
- an insurance reserve to provide insulation against events where the claim paid out value does not fully meet the costs

All earmarked reserves should be identified on a centrally maintained register, and this will be a requirement of the annual audit process.

The principal of earmarked reserves is that they should only be spent on the specific item(s) covered by the reserve description. The exception would be where, for some highly unusual circumstance, general reserves were close to exhaustion and in order to remain capable of continuing operation, the full Council resolved to allow specific earmarked reserves to be spent on a different area of expenditure that originally intended.

Opportunity cost of holding reserves

While it can be convenient for the Council to be able to hold reserves, both general and earmarked, it should be recognised that there is an opportunity cost. Generally reserves are held in easy access accounts attracting low levels of interest, and where funds accumulated for long term projects are kept in such accounts there can be a loss of potential interest.

Specific reserves

Details of the specific reserves held by this Council are included in the documents created to support the annual internal and external audits. These are reviewed at least annually in preparation for audit and any decisions to add or reduce audit values will be discussed at a Council meeting probably as part of the budget development.

Policy created in 2021, updated July 2023.