



Stanway

Parish Council

Responsible Financial Officer: David Lines

Victory Hall, Villa Road,

Stanway, Essex CO3 0RH

P: 01206 542221

E: rfo@stanwaypc.org.uk

RESERVES POLICY – 2021/2022

Introduction

In the last few years, the Parish Council has moved to a rolling three-year Budget process, albeit with continued emphasis on the upcoming financial year. It is also looking to revamp its overall strategy and governance which, in turn, will have a significant impact on current and new policies, including this one.

In fact, it is important that the Council's long-term Corporate Strategy is supported by what is known as a Medium-Term Financial Strategy, of which the Reserves Policy will play an important part. For example, without earmarking money for future projects, it will be very difficult to get them done in a timely and efficient manner – if at all.

The Legal Position

The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

There is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

However, the Practitioners' Guide to Proper Practices (March 2019) advises that each authority adopts a Reserves Policy and goes on to give guidance that the minimum level of the General Reserve should be maintained between 3 to 12 months **Net Revenue Expenditure (NRE)**, which is the precept less loan repayments and transfers to earmarked reserves. The larger the organisation, the lower the ratio should be.

Types of Reserve

General Fund Reserve

This represents the non-ring-fenced balance of Council funds. The main purpose of the General Fund is to help manage the impact of uneven cash flows and to provide a contingency to cushion the impact of emerging or unforeseen events.

In general, a robust level of reserve should be maintained and take account of operational and financial issues facing the Council. The level of general funds is always a matter of judgment, but this policy prescribes a **target level of 25% of NRE**, with a tolerated range of 20 - 30%. However, the Council must maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment, and these may change from year to year.

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Specific or Earmarked Reserves

As the name suggests, these represent amounts which are “earmarked” for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked Reserves are often used to “smooth” the effects of certain expenditure commitments over time, thereby reducing the impact of significant expenditure in any one year.

Earmarked reserves are typically held for five main reasons:

- Projects – to plan and finance a project in the future.
- Renewals – to plan and finance an effective programme of equipment replacement and planned property repair. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary the budget from year to year.
- Carry forward of underspend - some expenditure budgeted for projects in a given financial year may not be spent fully (or at all) in that year. Reserves are used as a mechanism to carry forward these resources.
- Trading accounts – In some instances, surpluses may be retained for future investment.
- Insurance reserve – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.

Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

Current Status

As at January 28th 2021, the *forecast* reserves (General and Earmarked) stood thus:

<u>RESERVES</u>	31st March 2020		<u>FORECAST</u>
			31/03/2021
General (unallocated)	46,328		69,200
Office (Furniture/IT/PA System)	2,750		1450
Specialist fees (Legal, etc)	0		0
Car Park	5,000		10000
Workshop / store	10,000		0
Planning	1,500		1500
MPGA	10,000		0
Village Hall contingency	10,000		15000
Footpath Reserve	0		0
Trees & Open Spaces	1,500		4000
Notice Boards	1,000		0
Street Lights	15,000		40000
Staffing Reserve	2,500		7500
Community Safety	4,000		6000
Elections	500		2000
Burial Grounds	3,500		7500
Outdoor Gym	3,500		0
Bus Shelters	1,500		3000
New Community Centre	0		0
Play Equipment Contingency	5,000		1000
TOTAL	118,529	(re Scribe/Ann.Report)	223,471
BANK	123,578	(per creditors and debtors)	168,150
GENERAL RESERVES	RECOMMENDED AT 25%		
	ACTUAL		0.26
	0.27		

Recommendation

These estimates will be affected by any last-minute or unexpected payments, delayed expenditure, etc. Also, as a result of this review, a rebasing of the level of General Reserves may affect the funds available for Earmarked Reserves in the coming financial year.

It is **RECOMMENDED** that the Parish Council approves this Reserves Policy, noting that it is a 'living' document, the financial components of which will change over time as the Parish Council's financial situation, its policy objectives and/or other future demands dictate.