Horringer Cum Ickworth Parish Council

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RESERVES POLICY 2024 - 2025

1. Purpose

1.1 Horringer Cum Ickworth Parish Council (HCI) 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 reserves.

1.2 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.

1.3 Proper Practices (March 2022 – to be applied to the Annual Governance and Accountability Returns covering the period 1 April 2022 to 31 March 2023) - requires all authorities to have regard to the need to put in place a General Reserve Policy and have reviewed the level and purpose of all Earmarked Reserves.

1.4 Furthermore, it is stated that whilst authorities should have sufficient Reserves (General and Earmarked) to finance both its day-to-day operations and future plans, it is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.

2. Types of reserves

2.1 Reserves can be categorised as general, earmarked or restricted (CIL)

3. General Reserves

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

3.2 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.

3.3 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, as expressed in its financial risk assessment.

3.4 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.

3.5 Even at times when extreme pressure is put on the council's finances the council must keep a minimum balance sufficient to pay one month's worth of contractual obligations to staff and contractors in general reserves at all times.

3.6 Council should also be aware of the guidance as given in Proper Practices (March 2022 which states that "The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserve is that this should be maintained at between three (3) and twelve (12) months Net Revenue Expenditure (NRE). The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent General Reserve. In all of this it is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget so as to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.

4. Earmarked Reserves

4.1 Earmarked reserves can be used to cover items such as:

- Renewals – to enable services to plan and finance an effective programme of vehicle and equipment replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of underspend - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.

- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities and may include an insurance reserve to enable the Council to meet the excesses of claims not covered by insurance.
- Earmarked reserves will be established on a "needs" basis, in line with anticipated requirements.
- Any decision to set up a reserve must be given by the Council.
- Expenditure from reserves can only be authorised by the Council.

4.2 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 a specific liability would not need to be replenished, having served the purpose for which they were originally established.

4.3 All earmarked reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

4.4 Reviewing the Council's Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

5. Restricted Reserves (CIL)

5.1 Neighbourhood CIL is passed to parish or town councils by WSDC where development is taking place. The amount will be 15% or 25% depending on whether the community has an adopted Neighbourhood Development Plan (NDP).

5.2 The CIL Regulations 2010 as amended state that the parish council must spend the CIL income they received from the District on either:

- The provision, improvement, replacement, operation or maintenance of infrastructure;

or

- Anything else that is concerned with addressing the demands that development places on an area.

5.3 Providing CIL is spent in accordance with the above, CIL monies may be used to provide seed or match funding with other income streams and / or may be spent collaboratively with other parish councils, community interest companies or other providers to make the most efficient use of funding to benefit the community.

5.4 The Parish Council has a five-year period in which to spend CIL monies from the date received, thus funds may be accumulated to provide for major projects.

5.5 These sums must be held in a designated reserve (restricted reserve) to support the expenditure on facilities and services to ensure that there is the capacity to sustain such growth. Over time this will lead to a reduction in the total reserve available and all associated revenue costs will need to be brought into the revenue budgets funded by the Precept.

6. Policy In Practice

6.1 The Council will hold Reserves for these three main purposes: -

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves.
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves.
- A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.
- A means of using funds to address the demands that development has placed on the area from the (CIL) Restricted Reserves.

7. Procedure

7.1 Any decision to set up a reserve must be made by the Council.

7.2. Expenditure from reserves can only be authorized by the Council.

7.3. The reserves will be reviewed by the Council as part of the annual budgeting process.

7.4. The Responsible Financial Officer will maintain a detailed schedule of all reserves which will form part of the accounts package.

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Signed Chair [redacted] Date 21/10/2024.

Signed Administrator [redacted] Date 21/10/24

Review Due October 2025