

PORLOCK PARISH COUNCIL FINANCIAL RESERVES POLICY



1. INTRODUCTION

Porlock Parish Council is required to maintain adequate Financial Reserves to meet the needs of the Council. The purpose of this policy is to set out how the Council will determine and review the level of Reserves.

The Local Government Finance Act 1992 Sections 32 & 43 requires local authorities to have regard to the level of reserves needed for meeting 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 Finance Officer (the Clerk) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

2. WHAT ARE RESERVES?

1. Reserves are not held to fund ongoing expenditure as this is unsustainable and at some point, the reserves would be exhausted.
2. Where reserves are used to meet short term funding gaps, they must be replenished in the following year.
3. Reserves that have been used to meet a specific liability (or project) do not need to be replenished, having served the purpose for which they were originally established.

3. TYPES OF RESERVES

1. Reserves are categorised as either GENERAL (held to cushion the impact of uneven cash flows or unexpected events) or EARMARKED (held for a specific purpose).

4. GENERAL RESERVES

1. General Reserves do not have any restrictions as to their use. They can be used to smooth the impact of uneven cashflows or significant pressures, offset the budget requirement if necessary or, can be held in case of unexpected events or emergencies which would not require an ongoing revenue commitment.
2. The level of General Reserves is a matter of judgment and this policy does not prescribe an overall level. The current advice on reserves from the General Practitioners Guide is that the amount held should, where possible, be a sum about equal to Council's annual expenditure and no less than 50% of this figure.
3. The primary means of building General Reserves is 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.
4. The Council should build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Assessment, which is reviewed annually.
5. In extreme circumstances when General Reserves are exhausted due to major unforeseen spending pressures within a particular financial year, the Council should draw down from its Earmarked Reserves to provide short-term resources.

6. Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance, sufficient to pay three month's salaries to staff, in General Reserves at all times.

5. EARMARKED RESERVES

1. Earmarked Reserves funds are held for five main reasons and are intended to be restricted to these agreed usages:
 1. **Renewals** – to enable the Council to plan and finance an effective programme of 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.
 2. **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.
 3. **Investment reserves** – in some instances, surpluses are retained for future investment.
 4. **Insurance reserve** – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
 5. **Short term** - Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
2. Earmarked Reserves are established on a 'needs' basis, in line with anticipated requirements. Any decision to set up an Earmarked Reserve must be given by the Council.
3. Expenditure from Earmarked Reserves can only be authorised by the Council.
4. Where Earmarked Reserves are used to meet short term funding gaps, they must be replenished in the following year. Earmarked Reserves that have been used to meet a specific liability do not need to be replenished, having served the purpose for which they were originally established.
5. All Earmarked Reserves are recorded on a schedule held by the Responsible Finance Officer, which lists the various Earmarked Reserves and the purpose for which they are held.
6. 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 Earmarked Reserves for the Council.

4. GOVERNANCE CONCERNING THE BALANCES AND RESERVES

1. The Council will review the Financial Reserves Policy as part of the review of Financial Regulations and reporting to the Council as part of the budget setting process.
2. The Council will review the levels of its Financial Reserves in accordance with the Council's Financial Regulations and its financial reporting.
3. The council will receive a report on the status of its Earmarked Reserves at least once a quarter as part of the quarterly budget review.
4. The Finance & HR Committee will carry out a review of current and future Earmarked reserves as part of the annual budget setting process and as identified by the Responsible Financial Officer and make recommendations to Council as part of the annual budgeting process.

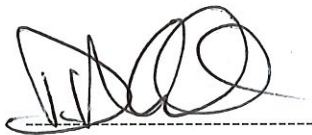
5. The Council will be required to resolve when making recommendations for each Earmarked Reserve:
 - a) The reason/purpose for the reserve
 - b) How and when the reserve can be used
 - c) The expected duration for which the reserve is expected to be needed
 - d) Full Council or Committee responsibility
 - e) How the reserve should be built up (if applicable)
 - f) Maximum fund balance
6. The Council will be required to resolve when an Earmarked Reserve is to be closed
7. Any unspent funds will be returned to General Reserves.
8. General Reserves balance will be held by the Council to cushion the impact of uneven cash flows and the impact of unexpected, unforeseen, emergency and uninsured situation.

5. REVISION OF POLICY

1. The Finance & HR Committee shall review this policy annually and recommend any changes to full Council.

Adopted by Council on:

Dated: 26th March 2025



Duncan McCanlis
Chair



Johnathan Jones
Clerk & Responsible Financial Officer

