



# GREAT GLEN PARISH COUNCIL

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## FINANCIAL RESERVES POLICY

### PURPOSE

Great Glen Parish Council is required to maintain adequate financial reserves to meet the needs of the Parish Council. The purpose of this policy is to set out how the Parish Council will determine and review the level of reserves.

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. However, there is no specified minimum level of reserves that an authority should hold, and it is the responsibility of the Parish Manager/Responsible Finance Officer to advise the Parish Council upon the level of reserves and to ensure that there are procedures for their establishment and use.

### TYPES OF RESERVES

Reserves may be categorised as general or earmarked. Earmarked Reserves can be held for several reasons and are intended to be restricted for that agreed use. General Reserves are funds that 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.

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 Parish Council. Expenditure from Earmarked Reserves can only be authorised by the Parish Council.

Reserves will 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 or project would not need to be replenished, having served the purpose for which they were originally established.

The level of General Reserves is a matter of judgment and so this policy does not attempt to prescribe an overall level. However, the current level of General Reserves to be held by the Parish Council is targeted to be a minimum of 50% of the annual precept figure.

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. The Parish Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Assessment & Management Schedule, which is reviewed annually.

If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Parish 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 Parish Council's finances, a minimum balance must be kept in General Reserves at all times, sufficient to pay three month's salaries to staff.

## **OPPORTUNITY COSTS OF HOLDING RESERVES**

In addition to allowing the Parish Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy. However, there is an “opportunity cost” of holding funds in reserves, in that these funds cannot then be spent on anything else. Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required, and that the level is still appropriate.

## **POLICY IN PRACTICE**

The Parish Council will hold reserves for these three main purposes:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves
2. A contingency to cushion the impact of unexpected events or emergencies, this also forms part of the General Reserves
3. A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.