



HOLME VALLEY PARISH COUNCIL

Reserves Policy

Version Control

Originally adopted 4 July 2016
Re-adopted 12 September 2016
Re-adopted 14 May 2018
Re-adopted 14 June 2021
Re-adopted 15 May 2023
Re-adopted 13 May 2024



HOLME VALLEY PARISH COUNCIL

RESERVES POLICY

1. Introduction

- 1.1 Holme Valley Parish Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the Council. Sections 32 and 43 of the Local Government Finance Act 1992 require that precepting authorities in England have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive. However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.
- 1.2 The determination of the Council's reserves should be consistent with meeting the Council's overall strategic objectives, i.e.
- Improving the quality of amenities in the Valley.
 - Promoting the Valley and encouraging inward investment and visitors.
 - Strengthening the quality of its community.
 - Optimising the Council's administrative costs, assets and income from assets.
- 1.4 The Council's policy on the establishment, maintenance and adequacy of reserves and balances must therefore be considered annually.

2. Types of Reserves

- 2.1 The Council will hold reserves for three main purposes:
- Current Year Fund - a general working reserve to fund the ongoing work of the Parish Council identified in its annual budget – this includes all the income received in the year offset against all payments made.
 - Contingency Fund – a general reserve that would help cushion the impact of unexpected events, uneven cash flows, and avoid unnecessary temporary borrowing
 - Earmarked Reserves – funds which are ringfenced to endow future projects.
- 2.2 The Practitioners' Guide issued by the Joint Panel on Accountability and Governance (JPAG) identifies the general reserve of an authority as comprising "its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances", that is the Current Year Fund plus the Contingency Fund.
- 2.3 The General Reserves balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Financial Officer (RFO) when setting the budget for the forthcoming year.



HOLME VALLEY PARISH COUNCIL

- 2.4 Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.
- 2.5 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.
- 2.6 Even at times when extreme pressure is put on the Council’s finances, the Council must keep a minimum balance sufficient to pay three months’ salaries to staff in general reserves at all times.

3. Financial Risk Management

In order to assess the adequacy of general reserves when setting the annual budget, the RFO will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the Council’s main areas of income and expenditure and take into account any provisions and contingencies that may be required.

The main items to be considered are:

| Budget Assumptions | Financial standing and management |
|--|--|
| The treatment of inflation and interest rates | The overall financial standing of the Council (level of borrowing, debt outstanding, collection rates etc). |
| Estimates of the level and timing of capital receipts | The Council’s track record in budget and financial management including the robustness of the medium term plans. |
| The treatment of demand led pressures. | The Council’s capacity to manage in-year budget pressures. |
| The treatment of planned efficiency savings/productivity gains. | The strength of the financial information and reporting arrangements. |
| The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments. The availability of other funds to deal with major contingencies and the adequacy of provisions. | The Council’s virement and end of year procedures in relation to budget under/over-spends. The adequacy of the insurance arrangements to cover major unforeseen risks. |



HOLME VALLEY PARISH COUNCIL

4. Earmarked Reserves

4.1 Earmarked reserves represent amounts that are generally built up over a period of time which are ringfenced for specific items of expenditure to meet known or anticipated liabilities or projects. The 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year, the Council, when establishing an earmarked reserve, will set out:

- The reason/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the management and control of the reserve; a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4.2 Earmarked reserves will be established on a 'needs' basis, in line with anticipated requirements.

4.3 Any decision to set up a reserve must be given by the Council.

4.4 Expenditure from reserves can only be authorised by the Council.

4.5 Earmarked 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 this they were originally established.

4.6 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.

4.7 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. Current level of financial reserves

5.1 The level of financial reserves held by the Council will be agreed by the Finance & Management Committee during the discussions held regarding the setting of the budget for the next financial year, and may be adjusted over the course of the year.



HOLME VALLEY PARISH COUNCIL

- 5.2 The Practitioners' Guide recommends that the appropriate minimum level of a smaller authority's general reserve, as defined, is that this should be maintained at between three and twelve months of net revenue expenditure. It further advises that the smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve. The income and expenditure of Holme Valley Parish Council is over £200,000/a, and so the Parish Council should hold 3 months equivalent general reserve, - or, say, 25% of the annual budget.
- 5.3 There is, in practice, no upper or lower limit to earmarked reserves save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.
- 5.4 Holme Valley Parish Council have begun to offer rolling grants, where community organisations may be offered multi-year awards for an agreed period, - up to the length of a Council term. The Parish Council was advised by our local NALC representatives that a record of these rolling grants and the nature and terms of the arrangements should be maintained.