

Wellow Parish Council

BATHAVON SOUTH WARD, BATH & NORTH-EAST SOMERSET

www.wellowparish.info

RESERVES POLICY 2021

1. Introduction

Wellow Parish Council is required, under statute, to maintain adequate financial reserves to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that local authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. WPC is to set the yearly precept based on 60% of planned expenditure.

As councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes, whenever a council's year-end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered annually.

2. Types of reserves

2.1. A contingency to cushion the impact of unexpected events or emergencies.

2.2. Carry forward of underspend – some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as mechanism to carry forward these resources.

2.3. A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities; earmarked reserves are accounted for separately but remain legally part of the general fund.

2. General Fund balance

The general fund balance, commonly termed the 'working balance', is a balance on the council's account which is not held for any specific purpose other than to cushion the council's finances against any unexpected short-term problems in the council's cash flow.

The general fund balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year.

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.

3. Earmarked reserves

Earmarked reserves represent amounts that are generally built up over a period of time which are earmarked 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:

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

Review of the adequacy of balances and reserves

In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of earmarked reserves will be required as part of the annual budget preparation.