

## West Hill Parish Council

### Financial Reserves Policy

ADOPTED at WHPC Meeting 7th May 2024 24/159 (d)

#### 1. Purpose of a Financial Reserves Policy

West Hill Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation but has no legal powers to hold reserves other than those for reasonable working capital needs or for specifically earmarked purposes. The purpose of this policy is to set out how the Parish Council will determine and review the level of such reserves, and how they will be used. Local government legislation requires parishes to have regard to the level of reserves needed for meeting estimated future expenditure, when calculating their budget. However, there is no specified minimum or maximum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer (Clerk) to advise the Parish Council about the level of reserves, and to ensure that there are key protocols for their establishment and use.

Reserves can be used for long-term planned or exceptional (unbudgeted or higher than expected) expenditure on the following conditions:

- The expenditure must not be recurring
- Income in reserves from the sale of fixed assets ('capital receipts') such as the sale of land, can only be used for capital projects, such as the acquisition and enhancement of land, building, vehicles, plant and equipment.

Budget allocations can be moved from one budget line to another during the course of a financial year, with approval from the Parish Council, as long as the total expenditure for the financial year is not exceeded.

#### 2. Types of reserve

Reserves can be categorised as earmarked (held for a specific purpose), general (held to cushion the impact of uneven cash flows or unexpected events), or ringfenced (held for one purpose only and cannot be transferred).

##### 2.1 Earmarked reserves

Earmarked reserves are a means of building up funds over several years to deliver a defined project, predicted liabilities or for known significant expenditure. They are not to be used for emergency operations. Earmarked reserves must be reviewed and/or established by the Council at the annual budget setting meeting. Any changes to the proposed use of reserves must be agreed by Council. The RFO will note earmarked reserves movements at the end of the financial year.

Earmarked reserves are held for specific projects or purposes, or to meet known or predicted liabilities, for example:

- Renewals – to enable the Parish Council to plan and finance an effective programme of equipment replacement. 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 expenditure is budgeted for projects, but is not spent in that financial year. Reserves are used as a mechanism to carry forward these resources.

## **2.2 General reserves**

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. The Parish Council considers a prudent level of general reserves to be the equivalent of 6 months' annual expenditure.

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, the Council must keep a minimum balance in its general reserves sufficient to pay three months' salary to staff. Agreement from full Council is required to move funds from the general reserves.

## **2.3 Ringfenced reserves**

Ringfenced reserves are grants allocated for a specific project only, this money must not be used for any other purpose.

## **3. Review of reserves**

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.

Previously ADOPTED at WHPC Meeting 23<sup>rd</sup> May 2023 23/185

## WHPC Allocation of Financial Reserves at 31<sup>st</sup> March 2024

ADOPTED at WHPC Meeting 7<sup>th</sup> May 2024 24/159

**Purpose of this paper:** To recommend the allocation of reserves at the end of 2023-24 financial year.

### Background

The Council was formed on 1 April 2017. It therefore had no reserves at this time and has been slowly building up its reserves since then. The Finance Working Group presents its recommendations for the allocation of balances at the end of the financial year on 31 March 2024.

### Reserves at Year End

The Finance Working Group considered the financial position of the Council at the end of the financial year. Subject to agreement of the accounts by the Council, the balance at the end of the year will be **£133,605.29**.

The reserve is now more than twice the Council's Precept, £56,875. The Council mindful that it is required to maintain adequate financial reserves to meet the needs of the organisation but has no legal powers to hold reserves other than those for reasonable working capital needs or for specifically earmarked purposes.

### Recommended Allocation of Reserves

It is proposed to transfer the balance, after providing for the general reserve, to reserves as follows:

Recommendation		Change from 31.3.23
<b>General Reserve:</b>	£28,000	+£4,000 The budget for 2023/24 provides for non-discretionary operating expenses of approx. £54,000. Of this, £29,000 is for staffing costs. The Working Group considers it prudent for the Council to maintain a minimum general reserve equivalent to 50% of the non-discretionary expenses for the year. Therefore, the Working Group recommends that the General Reserve should be set at <b>£28,000</b> .
<b>Earmarked Reserves</b>		
1. External Audit Fees (2022-23)	£2,500	New - awaiting conclusion of challenge to 2022-23 Annual Return
2. Solicitors Fees	£1,420	New - Ref WHPC Decision 24/033. Final invoice paid Apr-24
3. Village Hall Path Commissioning	£13,000	+£6,635 Construction expected 2024. S106/CIL monies will also be used if appropriate.
4. Replacement playpark equipment	£10,000	+£10,000 Begin to build replacement fund: s106 + CIL monies also available
5. Strategic projects (incl VH path, VAS)	£0	-£33,000 Strategic Plans to be developed
6. Open spaces (playing field)	£12,000	No change
7. CIL Monies	£27,808	Allocated by EDDC
8. Bus Shelter Roof Replacement	£15,000	+£15,000 Roof in poor condition
9. Local/Neighbourhood Plan consultancy	£5,000	No change
10. Provision for election expenses	£5,517	+£1,237

11. Contingency (10% of total reserves)	£13,360	
<b>Total Reserves at 31-Mar-2023</b>	<b>£133,605</b>	

Notes:

1. Village Hall Path project: This is an ongoing project. At 31<sup>st</sup> March 2023 the commissioning phase is underway and construction is expected during 2024. Awaiting WHPC decision.

Finance Working Group 25th Apr 2024