



INTRODUCTION

Hughenden 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 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.

POLICY STATEMENT

Any decision to set up a Reserve must be made by the Parish Council or the Finance Committee. The Council will hold reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- A contingency to cushion the impact of unexpected events or emergencies
- A means of building up funds, to meet known or predicted requirements There is no specified minimum level of Reserves that an authority should hold, and it is the responsibility of the Clerk/Responsible Finance Officer to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use.

Reserves should not be used to fund ongoing expenditure.

Recommendations on creation, amendment, cessation or continuance of Specific Reserves will be given by the RFO to the Council or Finance Committee by way of a report forming part of the recommendations for the Annual Budget and Precept Request.

KEY PRINCIPLES

Reserves may be categorised as Specific or General.

Specific Reserves can be held for several reasons and shall be used only for the purpose for which they are created.

- Replacement and Maintenance – to enable services to plan and finance an effective programme of equipment replacement and planned property maintenance. Since a modest change in the budget in any one year may have a disproportionate effect on the precept, these reserves are a mechanism to smooth expenditure so that a sensible replacement



Hughenden Parish Council Financial Reserves Policy

For approval by Full Council 14th July 2022

programme can be achieved without the need to vary budgets dramatically from year to year.

- Special projects and activities such as development of the Garden of Rest, Children's Play Equipment, Road safety and traffic calming projects, Street lighting equipment, Bus shelters, seats, dog waste bins and notice boards.
- Carry forward of underspend - expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward this resource.
- Developers Contributions – proceeds from developers that can only be used for specified purposes.
- Other Specific Reserves may be set up from time to time to meet known or predicted liabilities. Where the purpose of a Specific Reserve becomes obsolete, or where there is an over-provision of funds, the excess may on the approval of the Council be transferred to other budget headings within the revenue budget or to General Reserves or to one or more other Specific Reserves.

General Reserves are funds that do not have restrictions on their use. The level of General Reserve is a matter of judgment and so this policy does not attempt to prescribe an overall level.

The primary means of building general reserves will be through an allocation from the annual budget. Setting the level of general reserves is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces.

These reserves can be used to smooth the impact of uneven cashflows or can be held in case of unexpected events or emergencies. The level of the General Reserve for the forthcoming year will be based upon a risk assessment of the council's main areas of income and expenditure and consider any provisions and contingencies that may be required. Items to be considered will include:

- Salary inflation greater than budgeted level
- Contractual inflation greater than budgeted
- Income levels below budgeted level
- Unexpected essential repairs or maintenance work
- The use of General Reserves must be authorised by the Council. Where the reserve amount has arisen because of excess funds through cancelled or obsolete activities the Council may elect to use these funds for another purpose for which no other budget is available.

Identifying all planned and committed expenditure items should form part of the year end accounting and budgeting procedure and thereby indicate an appropriate level of Reserves.

If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council is able to draw down from its Specific Reserves to provide short-term resources.



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REPORTING

All Specific Reserves are to be recorded on a central schedule held by the Responsible Financial Officer which lists the various Specific Reserves and the purpose for which they are held.

Reserves and General Reserves shall be reported to the Council on a monthly basis as part of the normal accounting reports, and on an annual basis as part of the annual accounting report.

ANNUAL REVIEW

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.