

SOUTHWATER PARISH COUNCIL

GENERAL RESERVES POLICY 2021/22



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1. Introduction

1.1. Southwater Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of general reserves is to provide working capital and to minimise the possible financial impacts to the authority from:

- Emergencies
- Unforeseen events
- Inflationary pressures
- In-year emerging issues

This includes:

- Providing a buffer against financial risks
- Providing protection against risk
- Ensuring contingencies are in place.

1.2. The purpose of this policy is to set out how the Council will determine and review the level of its General Reserve. The General Reserve is where all the revenue income and expenditure of the Council is accounted for. It does not include specific funds which have been earmarked for long term projects.

1.3. Sections 31A, 32, 42A 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. The amount that councils need or choose to hold in their reserves varies according to local circumstance.

1.4. The Council's current Internal Auditor, Mulberry & Co, has advised '*General guidance recommends the council's general reserve should be circa 50% of precept, or 3-6 months net revenue expenditure (NRE), as adjusted for local conditions.*'

1.5. The assessment of the adequacy of the Council's balances and reserves is based on the guidance note on LAAP BULLETIN 99 Local Authority Reserves and Balances July 2014, which whilst there is not a statutory requirement, is considered to set out current best practice with regard to balances and reserves. The guidance states that no case has yet been made to set a statutory minimum level of reserves and that each local authority should take advice from its Responsible Financial Officer and base its judgement on local circumstances.

2. Types of Reserves

Southwater Parish Council maintains two types of reserves:

a) General Reserve

General reserves or general fund working balances are funds which do not have any restrictions as to their use. These reserves operate as a working balance to help manage the impact of uneven cash flows. They can also be used to smooth the impact of significant pressures, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies. In general, a robust level of reserve should be maintained and should take account of operational and financial issues facing the Council.

b) Earmarked Reserves

Earmarked Reserves (also sometimes referred to as “Ringfenced” Reserves and coded EMR in Southwater Parish Council’s accounting software) provide a means of accumulating funds, for use in a later financial year to meet known, planned or predicted spending requirements and projects which have been identified specifically.

3. Adequacy of Reserves

- 3.1 The assessment of the adequacy of the Council’s balances and reserves is based on the guidance note on Local Authority Reserves and Balances, which, whilst there is not a statutory requirement, is considered to set out current best practice with regard to balances and reserves. The guidance states that no case has yet been made to set a statutory minimum level of reserves and that each local authority should take advice from its Responsible Financial Officer and base its judgement on local circumstances.
- 3.2 A well-run authority with a prudent approach to setting its budget will consider its level of general reserves each year. These general reserves will need to be supported by earmarked reserves for specific needs, contingencies, and commitments. In assessing the level of the Town Council’s general reserves, account needs to be taken of the risks facing the Council in terms of any significant unforeseen expenditure requirements.
- 3.3 The Council acknowledges that there is a balance to be struck between holding excessive reserves raised from public monies and retaining a prudent level of funds. It will therefore take advice from its Responsible Financial Officer (RFO) on the adequacy and appropriateness of its reserves, primarily when setting its revenue budget.
- 3.4 There is no prescribed level of general fund reserves but between 25% to 50% of the annual precept ensures adequate provision in the event of any unforeseen occurrence which would affect cash flow. The Council shall not hold more than 50% of its precept in General Reserves.

4. Financial Responsibility

- 4.1 Under Southwater Parish Council Standing Orders the Council is responsible for the overall management and control of the Council's finances.
- 4.2 The role of the Council is to review the level of its balances and reserves and make the Decision to consider the level of general reserve recovery to be budgeted for or general reserve to be applied to the precept for each year.

5. Role of Responsible Financial Officer

- 5.1 It is the responsibility of the Responsible Financial Officer to advise the Council about the level of general reserve that it should hold and ensure that it has clear protocols for its establishment and use.
- 5.2 There are four significant safeguards in place against the Council over committing itself financially:
 - The balanced budget requirement
 - Responsible Officer's S114 powers
 - The External Auditor's responsibility to review and report on financial standing
 - The reports from the Council's appointed Internal Auditor
- 5.3 Southwater Parish Council, on the advice of its Responsible Financial Officer, is required to make its own judgments on the level of reserves, considering all relevant local circumstances.
- 5.4 The Responsible Financial Officer has a fiduciary duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

6. Risk Assessment

- 6.1 Identifying the risks allows the Council to take account of the circumstances around current structural change due to service provision and economic circumstance.
- 6.2 Risks can be identified as follows:
 - Risks from potential one-off events
 - Risks which will have general financial consequences

7. Insurance Cover

- 7.1 The greatest risk facing Southwater Parish Council is not being able to deliver the activity or services expected of it. The Council protects against many of the underlying risks through insurance cover.
- 7.2 The Council has developed a Risk Management Schedule which incorporates an assessment of the types and level of risk, control measures in place and any recommendations.
- 7.3 The Council has a valid insurance policy in place which includes Public Liability Cover of £15 million, Employers Liability Cover of £10 million and a Fidelity Guarantee of £1 million. These meet the statutory requirements under The Compulsory Insurance Act 1969 and S114 of the Local Government Act 1972.

8. Assessment of Potential Risks

- 8.1 In all types of undertaking there is the potential for events and consequences that may either be opportunities for benefits or threats to success. Risk management identifies what can go wrong and how to take proportionate steps to avoid this or successfully manage the consequences. The failure to manage risks effectively can be expensive in terms of litigation and reputation, and the ability to achieve desired targets, and, eventually, on the local community's Council Tax bills.
- 8.2 To assess the adequacy of the Council's general reserves, it is necessary to place an estimated financial value on the key strategic, operational, and financial risks facing the Council and set aside a reasonable provision. The value of the risks to Southwater Parish Council have been estimated by:
- considering the probability of each risk.
 - considering the range, nature, complexity, and scale of the risk.
 - evaluating the financial consequences of each risk by taking into consideration budgeted figures for income and expenditure.
 - setting aside amounts where applicable to cover contingencies.
 - having regard to the provisions made by Parish and Town Councils of a similar size and operation.

Risk	Effects/Action	Value of Risk
Loss of Staff including long term sickness	Significant disruption to operation Council could not function effectively Additional advertising costs to attract staff Salaries for Locum Staff	£80,000
Loss of Income	Substantial disruption of income streams Income from fees/charges affected by economic conditions locally and nationally. Loss of Tenants. Time and cost to replace.	£50,000
Major loss of service through fire/flood structural damage	Severe weather – staffing, materials costs, emergency plan requirements Premises not operational Insurance claims / Claims management	£30,000
Major loss of Operation due to unexpected event through pandemic or other	Disruption to operation Council could not function effectively Equipment required to solve disruption and external resource requirements.	£10,000
ICT Security / Data Corruption	Loss of Service / Off Site electronic document storage, firewalls, backup, and robust Security Policies.	£10,000
Unanticipated Legal Costs	Legal costs that cannot be recovered. Costs relating to service provision. Costs relating to the General Data Protection Regulations (GDPR). Employment Tribunal. Challenges made by residents.	£40,000
OVERALL RISK QUANTIFIED:		£220,000
Precept 2020/21:		£693,102
Representative Percentage of Precept 2020/21:		32%

9. Conclusion

- 9.1 Reviewing the Council's Risk Management Schedule and Financial Risk is part of the budgeting procedure. It helps to identify planned and unplanned expenditure items and thereby indicates an appropriate level of reserves.
- 9.2 In addition to allowing the 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.
- 9.3 The Council will ensure it holds **a minimum of £220,000 in General Reserves** and will plan for a budget to ensure this balance is met as soon as practically possible without incurring sharp increases to the local community's Council Tax bills and not at the detriment to facilities improvements and projects within Southwater.
- 9.4 The RFO will assess reserves monthly and review the contents of this policy annually.