

Llysfaen Community Council Financial Reserves Policy 2018-19

Purpose

Llysfaen Community Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of the policy is to set out how the Council will determine and review the level of fund 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 budget requirements. However, there is no minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council about the level of reserves and to ensure that there are key protocols for their establishment and use.

The Governance and Accountability for Local Council Practitioners Guide 2014 States:

“ 2.25 ... as councils have no legal powers to hold revenue reserves other than those for reasonable working capital or for a 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. Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the council. However, the amount of general reserve should annually be risk assessed and approved by the Council.”

Types of reserves:

Reserves can be categorised as general or earmarked.

Specific reserves – are amounts held that are ‘earmarked’ for specific items of expenditure to meet known or predicted liabilities or projects. Specific reserves are often used to “smooth” the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year. They are typically held for five main reasons:

Renewals – to plan and finance an effective programme of equipment replacement and planned property repair/maintenance; and grounds

maintenance. 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 budgeted for projects in a given financial year cannot be spent in that year. Reserves are used as a mechanism to carry forward these resources.

Trading accounts – in some instances, surpluses may be retained for future investment.

Insurance Reserves – to meet the estimate of future claims to enable the council to meet the excesses not covered by insurance.

Other earmarked reserves – may be set-up from time to time to meet known of predicted liabilities.

General reserve balances – this is the working balance of the council. The first is a sum of money that is not earmarked but is set aside to deal with unexpected events or emergencies. This minimum amount should be risk assessed. The second is money held in anticipation of uneven cash flow, for example the precept income being received 4 monthly. Lastly, there are surpluses held as a result of activities being postponed or cancelled. These reserves can be spent or earmarked at the discretion of members, subject to council approval.

Regulatory and Legislative Framework

The chartered institute of Public Finance and Accountancy published guidance in 2003 in support of these matters and it is a requirement of the guidance, backed by legislation through the provisions contained in the Local Government Act 2003, that councils RFO reports to members on the robustness and plans to utilise the Council's reserves and balances. The statement to all members should include:

- a) The estimated opening and closing of General Reserve Balances for the year;
- b) The estimated addition to and withdrawal from balances.

The RFO is also required to provide a statement on the adequacy of the General Reserve Fund, reserves and provisions in relation to the forthcoming financial year and also over the medium term. In reporting generally on the reserves and balances, the RFO is also required to report on the Specific Reserves of the Parish Council, outlining the purpose of which each is held, establishing an appropriate use of reserve and highlighting any proposed changes during the forthcoming year.

Principles to Assess the Adequacy of Balances and reserves.

In order to assess the adequacy of unallocated General reserves when setting the budget, the RFO should take into account the risks facing the council. The financial risks should be assessed in the context of the councils overall approach to risk assessment. The RFO needs to ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.

Setting the level of General Reserves is just one of the several related decisions in the formulation of the medium term financial strategy and the budget for the year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Councils financial management arrangements.

Governance of the Balances and reserves

The policy shall be reviewed annually as part of the review of financial regulations and reported to the Council as part of the budget setting process. To include a statement from the RFO on the adequacy of the general reserve fund and specific reserves in respect of the forthcoming financial year.

The Council will have the opportunity to review the levels of specific reserves in accordance with the Councils Financial regulations and make recommendations for the creation of additional specific reserves as part of the annual budgeting process.

The council will be required to identify the following when making recommendations for each reserve:

- a) Reason and purpose of the reserve
- b) How and when the reserves can be used.
- c) Procedures for the reserves management and control
- d) A process and timescales for review of the reserve to ensure continuing relevance and adequacy.

General reserve balances will be held by the council to cushion the impact of unexpected events. Decisions on the level of general reserves will be made as part of the annual budgeting process, and follow completion of appropriate risk assessments by the RFO.

Reserves currently held by Llysfaen Community Council:

Reason for reserve	Reserve Value
Contingency – held in case of a bi-election and any potential excess resulting from any insurance claim against the council.	£3000
General Funds – working balance of the Council maintained to cover cashflow as Precept is received 4 monthly	£2000
Cemetery reserve, which includes Donations given to the cemetery, held for the future maintenance, including the purchase of materials and equipment required to complete interments and for the general maintenance of the grounds	£34000

Brenda Davies - Clerk to Llysfaen Community Council.

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