LOGGERHEADS PARISH COUNCIL
RESERVES POLICY

Approved by Council: October 2022
Date of Review: May 2026

1. Purpose

1.1 Loggerheads Parish Council (LPC) is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

1.2 Section 31A 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. However, there is no specified 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 procedures for their establishment and use.

1.3 Reviewing the Council's finances is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

2. Types of Reserves

Reserves can be categorised as general or ear-marked. Earmarked Reserves can be held for several reasons and are intended to be restricted for that agreed use. General Reserves are funds that 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.

2.1 Earmarked Reserves

Earmarked reserves will be established on a "needs" basis, in line with anticipated requirements. Any decision to set up a reserve must be made by the Council. Expenditure from reserves can only be authorised by the Council.

Earmarked reserves can be held for several reasons:

- Renewals – to enable the council to plan and finance an effective programme of equipment replacement and planned property 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 on an identified project which cannot be spent in the budget year. Reserves are used as a mechanism to carry forward these resources.

- Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
- Other ring fenced reserves may be set up from time to time to meet known or predicted liabilities.

Earmarked Reserves will not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they will be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

3.2 General Reserves

The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe an overall level. However, the current level of General Reserves to be held by the council is targeted to be at least 3 months and no more than 12 months of the annual critical expenditure figure (between £11250 and £43500). The primary means of building general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

If in extreme circumstances general reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its earmarked reserves to provide short term resources.

The Council is increasingly responsible for land (including play equipment and trees) and employment of staff. Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance, sufficient to pay three month's salaries to staff, in General Reserves at all times.

4. Opportunity Cost of Holding Reserves

4.1 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. This investment income is fed into the budget strategy.

4.2 However, there is an "opportunity cost" of holding funds in reserves, in that these funds cannot then be spent on anything else. As an example, if these funds were used to repay debt the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds. However, using reserves to pay off debt in this way would leave the Council with no funds to manage unexpected risks nor provide a mechanism to fund the planned expenditure for which the reserves were earmarked.

4.3 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.