

Bearley Parish Council

Financial Reserves Policy

There are two essential documents determining the governance and accountability of Local Councils in England, namely;

1. **“Governance and Accountability for Local Councils - A Practitioners' Guide (England) March 2014”** prepared by Joint Practitioners' Advisory Group (JPAG) including all stakeholders e.g., association of council clerks and government
2. **“Governance and Accountability for Smaller Authorities in England Section 5: Supporting information and practical examples March 2017”**

Both of these Guides is issued by the Joint Practitioners' Advisory Group (JPAG), and jointly published by the Society of Local Council Clerks, the National Association of Local Councils and the Association of Drainage Authorities. JPAG is responsible for issuing proper practices in relation to the accounts of smaller authorities. Its membership consists of sector representatives from the Society of Local Council Clerks, the National Association of Local Councils and the Association of Drainage Authorities, together with stakeholder partners representing the Department of Communities and Local Government, the Department of Environment, Food and Rural Affairs, the Chartered Institute of Public Finance and Accountancy, the National Audit Office, and a representative of the external audit firms appointed to smaller authorities.

In relation to financial risk management and setting the right level of reserves the following paragraphs of **“Governance and Accountability for Local Councils - A Practitioners' Guide (England) March 2014”** are relevant.

- 2.25 As councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for 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.
- 2.26 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.
- 2.29 It is rare for a local council to hold its reserves other than in the form of easily accessible bank deposit or other short-term savings accounts. These short term investments are often used to maximise income from cash balances during the financial year.
- 2.33 For annual accounting purposes, all investments by local councils, other than in interest bearing savings accounts, should be identified as long-term investments and recorded as expenditure. Any investment with a maturity longer than 12 months is by definition a long-term investment and thus capital expenditure. When forward planning, councils should have regard to the fact that, in general, the acquisition of long-term investment assets reduces available balances and reserves.

In addition, Annex 1 to Appendix 17 of this document states that the audit has to “Confirm that body has budgeted for adequate but not excessive reserves”.

Furthermore in relation to financial risk management and setting the right level of reserves the following paragraphs of “**Governance and Accountability for Smaller Authorities in England Section 5: Supporting information and practical examples March 2017**” are relevant.

5.9. The key stages in the budgeting process are:

- decide the form and level of detail of the budget;
- review the current year budget and spending;
- determine the cost of spending plans;
- assess levels of income;
- bring together spending and income plans;
- provide for contingencies and consider the need for reserves;
- approve the budget;
- confirm the precept or rates and special levies; and
- review progress against the budget regularly throughout the year.

5.28. It is unusual for an authority to hold its reserves other than in the form of easily accessible bank deposits or other short-term investments (see paragraph 2.21 in Section 2 of the Guide for a definition). Occasionally, circumstances require authorities to consider making other types of investments, for example when saving for a future capital project or while deciding how to apply the proceeds of an asset sale or a donation.

5.116. Authorities should ensure that a separate bank account operates to receive income for each trust to which it is a managing trustee. If, exceptionally, the authority’s bank account is used to receive monies intended for the trust or to pay for any expenditure on behalf of a trust (prior to recovery from the trust account), then these transactions, including any VAT, must be included in the annual return of the authority as being its own expenditure and income during the year and to the extent that they are yet to be recovered or paid over reconciled as debtor and creditor amounts. However, to simplify accounting and ensure separation, a separate bank account should be established for any trust as soon as possible and funds should never or only exceptionally mixed. The reserves of the authority should not include those belonging to any trust.

5.166. As authorities have no legal powers to hold revenue reserves other than those for reasonable working capital needs, or for specifically earmarked purposes, whenever an authority’s year-end general reserve is significantly higher than the annual precept or rates and special levies, an explanation should be provided to the auditor.

Taking the paragraphs 2.25, Annex 1 to Appendix 17 and 5.166 in the respective documents into account it is reasonable to interpret that “adequate but not excessive reserves” means that reserves do not significantly exceed the annual precept.

Reserve Provisions for Bearley

The reserve provisions of Bearley Parish Council are based upon analysis of risks and estimated provisions that may be required towards mitigating the effect of each risk. The following table illustrates an assessment of the current risks.

Risk	Estimated Reserve Provision
Acquisition of land and/or facilities for burials – based upon provision of one acre (63 x 63 metres) of land or equivalent	£10,000.00
Loss of rental income to Bearley Village Hall Trust from the Sport and Social Club	£8,000.00
Support to Bearley Village Hall Trust towards major repairs involving the fabric of the Village Hall and the Sport and Social Club	£10,000.00
Potential liability to improve drainage of sportsfield	£5,000.00
Replacement of streetlights	£3,500.00
Bus shelters (2)	£5,000.00
IT problems and/or equipment replacement	£1,000.00
Additional maintenance for green areas and Bearley Park and replacement of equipment	£1,000.00
Planning Issues requiring expert help	£1,000.00
Neighbourhood Plan	£3,000.00
Elections	£1,000.00
Unexpected Events and Emergencies e.g., flooding, wind damage	£1,000.00
Additional donations to Village Institutions	£1,000.00

Clearly not all the risks for which reserve provisions are made are likely to occur all at the same budget period. However, the likelihood of any of the two of the above risks occurring in the same budget period can be considered reasonable. This may mean that combination of any two of the larger risks represents a significant drain on reserves. Therefore at the very least a policy that ensures reserves that do not significantly exceed the annual precept is deemed prudent.

A method of analysis illustrated in the table below was devised to arrive at “average contingency spend per year” taking into account the estimated frequency for each risk provision. This would provide some guidance towards the amount of reserves that should be retained over and above the annual precept.

Risk	Estimated Reserve Provision	Frequency (years)	Estimated Reserve per year
Acquisition of land and/or facilities for burials – based upon provision of one acre (63 x 63 metres) of land or equivalent	£10,000.00	50	£200
Loss of rental income to Bearley Village Hall Trust from the Sport and Social Club	£8,000.00	10	£800
Support to Bearley Village Hall Trust towards major repairs involving the fabric of the Village Hall and the Sport and Social Club	£10,000.00	5	£2000
Potential liability to improve drainage of sportsfield	£5,000.00	20	£250
Replacement of streetlights	£3,500.00	10	£350
Bus shelters (2)	£5,000.00	25	£200
IT problems and/or equipment replacement	£1,000.00	4	£250

Additional maintenance for green areas and Bearley Park and replacement of equipment	£1,000.00	2	£500
Planning Issues requiring expert help	£1,000.00	5	£200
Neighbourhood Plan	£3,000.00	20	£150
Elections	£1,000.00	5	£200
Unexpected Events and Emergencies e.g., flooding, wind damage	£1,000.00	5	£200
Additional donations to Village Institutions	£1,000.00	2	£500
Estimated average total contingency spend per year			£5600

As the likelihood of any of the two of the above risks occurring in the same budget period can be considered reasonable the above assessment indicates a reserve of up to £5,600.00 above the annual precept would be considered reasonable that is the coincidental occurrence of two major and one minor risk.

The above risks should be annually revised and reassessed.