

Headbourne Worthy Parish Council

Reserves Policy

agreed November 2024

Introduction

The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Council's maintenance and adequacy of reserves and balances will be considered annually when the Precept is being set.

The Council will hold reserves for these main purposes:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves;
2. A contingency to cushion the impact of unexpected events or emergencies – this also forms parts of general reserves;
3. Community Infrastructure Levy. These are statutory funds paid via WCC to the Council by Housing or other Developers. These reserves need to be spent within 5 years of receipt. CIL monies can only be spent on infrastructure.
4. Funds set aside for specific Council projects (often referred to as earmarked reserves), to meet known or predicted requirements; these reserves are accounted for separately but remain legally part of the general fund. A decision to reallocate these reserves can only be taken at a Full Council meeting (see HWPC Financial regulations 4.10)
5. Commuted Sums. These are payments received by HWPC from CALA Homes, the developer of Kings Barton, as contributions to the maintenance of the open spaces in Kings Barton which have been legally transferred to HWPC. The amount paid to HWPC has been agreed by WCC at Cabinet level.

General Reserves

The general fund balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.

Financial Risk Management

In order to assess the adequacy of the general fund when setting the annual budget, the RFO will take account of the strategic, operational and financial risks facing the council. The requirement of the level of the general fund balance for the forthcoming year will be based upon a risk assessment of the council's main areas of income and expenditure and take into account any provisions and contingencies that may be required.

The main items to be considered are:

- Pay inflation is greater than budgeted. The cost of living increase is above the level allowed for in the estimates.
- Contractual inflation is greater than budgeted
- Professional and other services costs increase above estimate.

CIL

CIL monies can be spent on the provision, improvement, replacement, operation or maintenance of infrastructure, or anything else that is concerned with addressing demands that is placed on an area. This gives Councils the freedom and power to spend the money on a wide range of things, in consultation with the community. Headbourne Worthy Parish Council has agreed an Infrastructure WG to prioritise the infrastructure requirements in the Parish. The recommendations of the WG are agreed by the Headbourne Worthy Committee and the Full Council. It should be noted that HWPC receives no CIL from the CALA Homes development in Kings Barton.

Earmarked Reserves

Earmarked Reserves represent the amounts that the Council agrees to set aside for a specific project or contingency. The Council will have agreed that these matters require capital to be built up in order to spread the cost of a foreseeable expense, eg: the replacement of playground equipment or because the Council wants to ensure that funding is available in the event of an emergency eg: flooding. The Council may build up these reserves over a period of time until the reserve has reached a level that the Council agrees is suitable. Any contribution to these reserves will be noted as separate items in the budget and any expenditure from the reserves will be accounted for separately.

Commuted Sums

Commuted sums are paid by the developer to cushion the maintenance overhead that a new open space will be for a community. The amount is agreed with CALA by WCC as part of the original planning process and in subsequent agreements. The contribution these commuted sums make to the maintenance of each piece of open space is agreed by the Kings Barton Committee. However, the Committee and Council may agree not to spend the money on maintenance but to invest the sums to provide future income. These sums can be large so the Council will need to ensure that the funds are kept as secure as possible. Any investment of these sums will be agreed by the Full Council.

Investment of Reserves

Where general reserves, CIL and commuted sums are deemed surplus to expenditure and specific reserves, the Investment Working Group, on behalf of the Council, will consider prudent short term and long term investments with the aim of achieving a better return on these funds. In this event the Council will have regard to the Guidance on Local Government Investments (3rd Edition) issued under section 15(1)(a) of the Local Government Act 2003. The Council will consider appointing an external investment manager

Review of the adequacy of balances and reserves

In accessing the adequacy of reserves the strategic, operational and financial risks facing HWPC will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation.

For the review of reserves placed in short term and long term investments, please refer to the Investment Strategy policy document.