

# Acton Burnell, Frodesley, Pitchford, Ruckley & Langley Parish Council

## Financial Reserves Policy

### 1. Introduction

Acton Burnell, Frodesley, Pitchford, Ruckley & Langley Parish Council is required to maintain adequate Financial Reserves to meet the needs of its operations and to ensure financial security.

The purpose of this policy is to set out how the Council will determine and review the level of reserves.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2021 edition) advises:

*“As with any financial entity, it is essential that authorities have sufficient Reserves (General and Earmarked) to finance both its day to day operations and future plans. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.”*

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 the budget requirement. However, there is no specific minimum level of reserves which an authority should hold, and it is the responsibility of the Responsible Financial Officer (Clerk) to advise the Parish Council about the level of reserves and to ensure that there are procedures for their establishment and use.

The Council’s maintenance and adequacy of reserves and balances will be reviewed annually.

### 2. Types of Reserves

Reserves may be categorised as either General or Earmarked reserves.

The Council will hold reserves for four main purposes:

#### *General Reserves*

- i. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- ii. A contingency to cushion the impact of unexpected events or emergencies;

#### *Earmarked Reserves*

- iii. A means of building up funds to meet known or predicted requirements; these earmarked reserves are accounted for separately but remain legally part of the general fund and may be reallocated to general reserves if necessary;
- iv. Restricted funds, including developers’ contributions – proceeds from sources other than the annual precept, such as CIL funding and the Lightsource Community Benefit Fund, which can only be used for specified purposes and must be retained until such time as they may be used for those purposes.

#### *a) General Reserves*

General Reserves are funds which do not have any restrictions on their use. Setting the level of General Reserves will be agreed within the Annual Budget.

JPAG (March 2021 edition) advises:

*“The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority’s General Reserve is that this should be maintained at between three (3) and twelve (12) months Net Revenue Expenditure (NRE). NRE (subject to any planned surplus or deficit) is effectively Precept less any Loan Repayment and/or amounts included in Precept for Capital Projects and transfers to Earmarked Reserves.”*

*“The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent General Reserve.”*

The Parish Council is currently classed as a small authority and aims to hold general reserves of around 12 months’ NRE.

Should the Council need to build its General Reserves, the primary means will be through allocation from the annual budget and an increased precept. If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council may draw down from its unrestricted EMRs to provide short term resources.

Excessive general reserves will be reduced by reasonable over-spending on budgeted items, to be agreed in advance by the Parish Council; earmarking reserves for specific future projects/liabilities; and, if necessary, a reduction in the precept request identified when the annual budget is reviewed.

#### *b) Earmarked Reserves ‘EMR’s*

EMRs must be held for genuine and intended purposes and their level should be subject to annual review and justification. They should be separately identified to prevent query from internal and external auditors. EMRs are held for several reasons and shall only be used for the purpose for which they were created:

- Renewals – to enable the planning and financing of an effective program of equipment replacement and property maintenance/refurbishment. The funds required are built up incrementally over several years when taking into account asset conditions and asset life. They are a mechanism to smooth expenditure without the need to vary budgets.
- Carry forward of underspend on an uncompleted project – expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward those resources.
- Developers Contributions – proceeds from developers which can only be used for specified purposes.
- Other Earmarked Reserves – these may be set up from time to time to meet known or predicted liabilities.

Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, on the approval of the Parish Council, be transferred to other budget headings within the revenue budget, to General Reserves or to one or more other Earmarked Reserves.

EMRs will be established on a “needs” basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed.

Any decision to set up an EMR must be approved by the Parish Council. If the EMRs are used to meet short term funding gaps, they must be replenished in the following financial year. However, EMRs

which have been used to meet a specific liability would not need to be replenished, after having served the purpose for which they were originally set up.

### 3. Management and Control of Reserves

Movements in Earmarked Reserves and General Reserves shall be reported to the Parish Council as part of the budget report at Parish Council meetings, if required. The use of Reserves shall be approved by the Parish Council. The level of financial reserves held by the Council will be agreed by the Parish Council during the discussions held regarding the setting of the budget in January for the next financial year, and as far as practicable be retained consistently from year to year. The minimum level of General Reserves shall be recommended to the Parish Council by the Responsible Financial Officer. This will form part of the recommendations for the Annual Budget and Precept request by the Parish Council. Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the Annual Budgetary Review. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be given resolved by the Parish Council.

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