

RANGEWORTHY PARISH COUNCIL

# GENERAL RESERVES POLICY

Adopted: 6<sup>th</sup> February 2024 Minute Ref: 8.6-02/24

Review Date: January 2025

Amendments: *Para 5.3: "The current level of General Reserves to be held by the Parish Council is set at equal to nine months of predicted expenditure." replaced with: "The current level of General Reserves to be held by the Parish Council is set to be between six and nine months of predicted expenditure. A figure towards the top end of this range will be the preferred amount"* Minute Ref: 8.6-02/24


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# General Reserves Policy

## 1. Purpose

- 1.1 Rangeworthy 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 Parish Council will determine and review the level of reserves.
- 1.2 The Joint Panel on Accountability & Governance Practitioners Guide (JPAG) (March 2020 edition) advised –
- 1.3 *“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”.*
- 1.4 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 to advise the Parish Council about the level of reserves and to ensure that there are procedures for their establishment and use.

## 2. Types of Reserves

- 2.1 These may be categorized as either “General” or “Earmarked”.

## 3. General Reserves

- 3.1 General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, off-set budget requirements if necessary, or can be held in case of unexpected events or emergencies. Setting the level of General Reserves is agreed with the Annual Budget.
- 3.2 JPAG (March 2020 edition) advises –
- 3.3 *“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-months and twelve-months Net Revenue Expenditure (NRE)”.*
- 3.4 *“The smaller authority, the closer the figure should be to twelve months NRE, the larger the authority the nearer to three-months. In practice, any authority with an NRE in excess of £200,000 should plan on three-months equivalent”.*
- 3.5 The primary means of building General Reserves will be through a re-allocation of funds (underspends on a completed project) and allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves which have been spent in the previous year. If in extreme circumstances General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council would be able to draw down from its EMRs to provide short-term resources.

## 4. Earmarked Reserves – ‘EMR’s

- 4.1 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.

- 4.2 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 programme 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 (eg, CIL and S.106).
  - Other Earmarked Reserves – they may be set up from time to time to meet known or predicted liabilities.
- 4.3 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.
- 4.4 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.
- 4.5 Any decision to set up an EMR must be approved by 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.

## **5. Management & Control of Reserves**

- 5.1 Movements in Earmarked Reserves and General Reserves shall be reported to the Parish Council as part of the monthly Budget to Actual Report. The use of Reserves shall be approved by the Parish Council.
- 5.2 The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review and agreed by the Parish Council. 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.
- 5.3 The current level of General Reserves to be held by the Parish Council is set to be between six and nine months of predicted expenditure. A figure towards the top end of this range will be the preferred amount.
- 5.4 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 by the Parish Council

## **6. Policy Adoption**

- 6.1 This General Reserves Policy was adopted at a meeting of Rangeworthy Parish Council held on Tuesday 6<sup>th</sup> February 2024 (minute reference 8.6-02/24).
- 6.2 This Policy will be reviewed at least annually (in January) each year in conjunction with the setting of Rangeworthy Parish Council’s Annual Budget and completion of the Section 41 Notification of Precept on Billing Authority Form (Local Government Finance Act 1992).