

PEBworth PARISH COUNCIL

GENERAL RESERVES POLICY

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1. Introduction

Pebworth Parish Council is required to maintain adequate financial reserves to meet the needs of the Council. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

Section 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.

The Joint Panel on Accountability and Governance Practitioners Guide (March 2021 edition) (JPAG) 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.”*

2. Types of Reserves

These may be categorised as either General or Specific.

• **General Reserves**

General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, offset budget requirement, 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.

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). The smaller the authority the closer the figure should be to 12 months.”

The primary means of building General Reserves will be through a reallocation of funds (underspend 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.

• **Earmarked Reserves ‘EMRs’**

EMRs must be held for genuine and intended purposes and their level should be subjected to annual review and justification. They should be clearly 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 intended for.

- **Renewal** - to enable the planning and financing of an effective program of equipment replacement such as street lighting maintenance/upgrade or maintenance of Council assets. The funds required are built up incrementally over several years when considering 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 Contribution**- proceeds from developers (such as s106 & CIL) which can only be used as a mechanism to carry forward those resources.
- **Other EMRs** – these may be set up from time to time to meet known or predicted liabilities.

Where the purpose of an EMR 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 “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 Parish Council. If the EMRs are used to meet short term funding gaps they must be replenished in the following financial year.

3. Management and Control of Reserves

Movement in EMRs and General Reserves shall be reported to the Parish Council as part of the quarterly Budget to Actual Report and at monthly meetings if required. The use of Reserves shall be approved by the Parish Council.

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 will be recommended to the Parish Council by the RFO. This will form part of the recommendations for the Annual Budget and Precept request by the Parish Council.

EMRs shall be reviewed on an individual basis. The review will also be undertaken as part of the annual budgeting process. Recommendations on creation, amendment, cessation or continuance of specific EMRs will be given by the RFO to the Council by way of a report forming part of the recommendations for the Annual Budget and Precept request. Approval for the recommendations on creation, amendment, cessation or continuance of specific EMRs will be given by the Parish Council.

4. Related Policies and Procedures

This General Reserves Policy shall form part of the Financial Regulations of Pebworth Parish Council and, as such, will be reviewed annually and may only be or varied by resolution of the Council.

Signed :
Chairman

Date :