



## **Reserves Policy**

**Adopted on January 29<sup>th</sup>, 2025**

### **1. Introduction**

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

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 specified minimum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

Appendix 1 includes some of the guidance from The Joint Panel on Accountability and Governance (JPAG), the body responsible for issuing proper practices about the governance and accounts of smaller authorities.

### **2. Types of Reserves**

Reserves can be categorised as general or earmarked.

Earmarked reserves can be held for several reasons:

- Renewals – to enable services to plan and finance an effective programme of vehicle, equipment and infrastructure replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of underspend - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

General Reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

### **3. Earmarked Reserves**

Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.

Any decision to set up a reserve must be made by the Council.

Expenditure from reserves can only be authorised by the Council.

Reserves should not be held to fund on-going expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

All Earmarked Reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various Earmarked Reserves and the purpose for which they are held.

Reviewing the Council’s Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

### **4. General Reserves**

The general reserve is not ringfenced (earmarked) for any specific expenditure. Its purpose is to smooth the impact of uneven cashflow or cover unexpected/emergency expenditure. It is not intended to fund on-going expenditure.

The general reserve will be replenished as part of the budget process in any year where it has been utilised for unexpected/emergency expenditure.

The Council will hold a general reserve of at least 25% of its net revenue expenditure (NRE). This is the difference between its budgeted income and expenditure less any budgeted capital expenditure, expenditure from earmarked reserves and budgeted transfers to reserves.

### **5. Levels of financial reserves**

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 for the next financial year.

#### **Note**

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## **Appendix 1: Extract from The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide (March 2024)**

### General reserves:

5.29. The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.

5.30. 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 and twelve months of net revenue expenditure.

5.31. The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.

5.32. In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income.

5.33. Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.

### Earmarked and other reserves:

5.34. None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.

5.35. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.