

Nedging with Naughton Parish Council

General Reserves Policy

1. Introduction:

Nedging with Naughton 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 2020 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.

2. Types of Reserves

Reserves can be categorised as general or earmarked.

3. General Reserves

The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level.

General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, offset 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. JPAG (March 2020 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 NRE, the larger the authority the nearer to 3 months.

4. 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 will be established on a "needs" basis, in line with anticipated requirements. Any decision to set up a reserve must be given by full Council. Expenditure from reserves can only be authorised by the Council. Reserves should not be held to fund ongoing expenditure, which would be unsustainable. 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.

EMR's 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.

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

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.

5. Current Levels of Financial Reserves

The level of financial reserves held by Nedging with Naughton Parish Council will be agreed by full Council. The level of general reserves to be held by the Council should be approximately 100% of the annual precepted figure.