Reserves Policy

## Background

The Joint Panel on Accountability and Governance (JPAG)[[1]](#footnote-1) is responsible for issuing proper practices about the governance and accounts of smaller authorities. JPAG advises[[2]](#footnote-2) that “it is essential that authorities have sufficient reserves (general and earmarked) to finance both their day-to-day operations and future plans.”

### General Reserves

The General Reserve is a fund which does not have any restrictions on its use. It is available to fund temporary cash flow mismatches, risk of loss and uncertainty of income, risk of increase in and uncertainty of outgo, contingency to fund unexpected projects or adverse events, etc. If part of the General Reserve is used, the shortfall should be recovered during the following financial year.

The General Reserve also:

* demonstrates the Parish Council’s fiscal prudence in establishing a strong and stable reserve,
* provides a measure of solvency for the Parish Council’s finances, and
* gives assurance to potential lenders that the Parish Council is financially stable and has sufficient liquidity to repay capital plus interest should a Public Works Loan be required in future.

JPAG’s Practitioners Guide has this to say about the appropriate level of General Reserves:

5.34. 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.

5.35. 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.

5.36. 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.

### Earmarked Reserves

Earmarked Reserves provide a means to:

* set aside funds for projects that extend beyond one year,
* build a contingency against a specific situation or for use in a later financial year,
* amortise funds over a period to cover expenditure such as four-year elections, longer-term repairs/renewals so that funds do not have to be allocated to a single year precept.

These Reserves will increase through decisions of the Parish Council and decrease as they are spent on their specific intended purposes.

## Policy

### General Reserves policy

As part of the budget setting process, the Finance Committee should consider the risks to the budget and/or future cash flows (not covered by Earmarked Reserves) and, for each item, establish the need for financial reserves to cover:

* working capital if expenditure is needed ahead of income being received,
* working capital to protect the continuity of the Parish Council’s core services,
* minimising the risk in the event of a fall in income levels,
* funding for new initiatives or opportunities that arise during the year,
* funding in the event of unplanned adverse events such as losing key staff, theft, fire, flood, essential building repairs, pandemic response,
* shortfall funding for unexpected increases in expenditure caused by budget overruns and unanticipated inflation.

If part of the General Reserve is used, the shortfall should be recovered during the following financial year from:

1. an increase to the Precept,
2. an increase in Income,
3. reductions/virement from existing budgets

or a combination of any of the above.

### Earmarked reserves policy

Earmarked Reserves are established on a “needs” basis in line with anticipated requirements, approved by the Parish Council and reviewed annually as part of the budget setting process.

There is no upper or lower limit to earmarked reserves, save what is affordable to the Parish Council.

Earmarked reserves 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.

Once an Earmarked Reserve has been established by the Parish Council, it is the responsibility of the Responsible Financial Officer (“RFO”, currently our Clerk) to ensure that funds are spent in line with its purpose.

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.

## Review

The Policy should be reviewed when setting the budget

1. <https://www.nalc.gov.uk/support/finance-advice/joint-panel-on-accountability-and-governance.html> [↑](#footnote-ref-1)
2. Paragraph 5.31 of JPAG’s Practitioners Guide 2024. See <https://www.nalc.gov.uk/resource/practitioners-guide-2024.html> [↑](#footnote-ref-2)