

General Reserves Policy

1. Introduction

- 1.1 Honeybourne 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.
- 1.2 The Smaller Authorities' Proper Practices Panel (SAPPP), formerly known as the Joint Panel on Accountability and Governance (JPAG), advises that, as with any financial entity, it is essential that authorities have sufficient reserves (general and earmarked) to finance both their day-to-day operations and future plans.
- 1.3 Smaller authorities have no specific right to accumulate funds via precept. All reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.
- 1.4 As a local precepting authority, the Council is required by Sections 41 and 50 of the Local Government Finance Act 1992 to calculate its budget requirement and issue its precept accordingly, having regard to the level of reserves needed for meeting estimated future expenditure.

2. Types of Reserves

- 2.1 Reserves may be categorised as either General or Earmarked.

General Reserves

General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, offset the budget requirement if necessary, or can be held in case of unexpected events or emergencies. The level of General Reserves is agreed with the Annual Budget.

SAPPP advises that the generally accepted recommendation for the appropriate minimum level of a Smaller Authority's General Reserve is that it should be maintained at between three and twelve months' Net Revenue Expenditure (NRE). The smaller the authority, the closer the figure should be to twelve months' NRE.

The primary means of building General Reserves will be through reallocation of funds (such as an 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 Council would be able to draw down from its Earmarked Reserves to provide short-term resources.

Earmarked Reserves (EMRs)

EMRs must be held for genuine and intended purposes, and their level should be subject 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:

- **Renewal** — to enable the planning and financing of an effective programme of equipment replacement, such as street lighting maintenance/upgrade or maintenance of Council assets. The funds required are built up incrementally over several years, taking into account asset condition and asset life, as 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, carried forward as a reserve.
- Developers' contributions — proceeds from developers (such as Section 106 and CIL contributions), which can only be used as a mechanism to carry forward those resources for their intended purpose.
- 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 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 a 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 Council. If EMRs are used to meet short-term funding gaps, they must be replenished in the following financial year.

3. Management and Control of Reserves

- 3.1 Movement in EMRs and General Reserves shall be reported to the 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 Council.
- 3.2 The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review and agreed by the Council. The minimum level of General Reserves will be recommended to the Council by the Responsible Financial Officer (RFO). This will form part of the recommendations for the Annual Budget and Precept request.
- 3.3 EMRs shall be reviewed on an individual basis as part of the annual budgeting process. Recommendations on the 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 creation, amendment, cessation or continuance of specific EMRs will be given by the Council.

4. Related Policies and Procedures

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