



West Monkton Parish Council

Reserves Policy

Adopted 12th December 2023

Reviewed 14th May 2024

1. Introduction

West Monkton Parish Council is required to maintain adequate Financial Reserves to meet the needs of the organisation, 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 Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2023 edition) advises:

“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.”

The guide also states that *“each authority should 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”*.

2. Types of Reserves

West Monkton Parish Council holds reserves categorised as either General or Earmarked (Specific).

3. General Reserves

General Reserves are funds which do not have any restriction 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 Reserve is agreed with the Annual Budget.

The JPAG (March 2023 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 and twelve months of net revenue expenditure. 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.”

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.

4. Earmarked Reserves:

Earmarked Reserves are generally amounts built up over a period of time which are earmarked for genuine and intended purposes and their level should be subject to annual review and justification. They should be separately identified to prevent query from Internal and External Auditors.

The JPAG (March 2023 edition) advises:

“There is, in practice, no upper or lower limit to Earmarked Reserves 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”.

Earmarked reserves 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 – some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources. Such use will be specifically authorised by the Council as part of the normal year end procedures.
- Developers Contributions (Community Infrastructure Levy and S106 contributions) – proceeds from developers which can only be used for specific purposes.
- Other Earmarked Reserves – these may be set up from time to time to meet known or predicted liabilities.

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.

Any decision to set up an Earmarked Reserve must be approved by the Parish Council.

5. Management and Control of Reserves

Movements in Earmarked Reserves and General Reserves shall be reported to 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 shall be recommended to the Parish Council by the Responsible Financial Officer. This will form part of the recommendations for the Annual Budget and Precept request by the Parish Council.

The current level of General Reserves to be held by the Council is set a equal to between six and twelve months of predicted expenditure.

Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertake as part of the Annual Budgetary Review. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be given by the Parish Council.