

# Bitteswell with Bittesby Parish Council

## Reserve Policy

Adopted 23 January 2023 | Reviewed May 2024

### 1. Introduction

Bitteswell with Bittesby 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.

Section 50 of 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.

In the publication – Joint Panel on Accountability and Governance for Local Councils – A Practitioners Guide (England) 2021, section 5.31 refers: 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.

There is no specified minimum level of reserves that an authority should hold but it is a generally accepted recommendation that the appropriate minimum level of General Reserves held should be maintained at between 3 and 12 months Net Revenue Expenditure (NRE). The smaller the authority, the closer the figure should be to 12 months. The level held should be reviewed and agreed by the Parish Council at least annually.

The Council will hold reserves for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of the general reserves.
- A contingency to cushion the impact of unexpected events or emergencies – this also forms parts of General Reserves.

- A means of building up funds, often referred to as Earmarked Reserves, to meet known or predicted requirements; Earmarked Reserves are accounted for separately.

## **2. General Reserves**

The General Reserves fund does not have any restrictions as to its use. These reserves can be used to smooth the impact of uneven cash flows and is also held in case of unexpected events or emergencies.

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. 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 Parish Council would be able to draw down from its Earmarked Reserves to provide short term resources.

## **3. Earmarked Reserves**

Earmarked Reserves must be held 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.

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 programme 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.

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.

Earmarked Reserves 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 Earmarked Reserve must be approved by Parish Council. If the Earmarked Reserves are used to meet short term funding gaps, they should be replenished in the following financial year. However, Earmarked Reserves which have been used to meet a specific liability would not need to be replenished, after having served the purpose for which they were originally set up

#### **4. Management and Control of Reserves**

Movements in Earmarked Reserves and General Reserves shall be reported to the Parish Council at meetings if required. The use of Reserves shall be approved by 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.