

TERRINGTON PARISH COUNCIL

Financial Reserves Policy (November 2021)

1 Introduction

- 1.1 The Council is required to maintain adequate financial reserves to meet foreseeable needs and commitments. The purpose of this policy is to set out how the Council will determine the level of reserves it holds and how it will fund, maintain, use and review its reserves.
- 1.2 Reserves may be either General or Earmarked:
 - 1.2.1 General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows as a result of an unexpected fall in income or the need for emergency spending.
 - 1.2.2 Earmarked reserves can be established on the basis of anticipated requirements, such as financing an effective programme of equipment replacement (eg the defibrillator) and planned property maintenance (eg of the burial ground perimeter). These reserves are a mechanism to smooth expenditure so that a sensible replacement and long-term maintenance programme can be achieved without the need to vary budgets.

2. Level of reserves

- 2.1 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.”*
- 2.2 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, and it is the responsibility of the Responsible Financial Officer to advise the Parish Council about the level of reserves and to ensure that there are procedures for their establishment and use.

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 and twelve 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. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent.”*
- 2.3 Setting the level of General Reserves is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

3. Operation of reserves

- 3.1 Reserves should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the Reserves would be exhausted.
- 3.2 The primary means of building Reserves and of replenishing Reserves that have been consumed in the previous year will be through an allocation from the annual budget. Funds may also be moved between Reserves and re-allocated from any underspend on completed projects.
- 3.3 The level of General Reserves and Earmarked Reserves held by the council must be agreed by the Council during the discussions held regarding the setting of the Annual Budget and Precept for the next financial year. The minimum level of General Reserves will be recommended to the Council by the Responsible Financial Officer.
- 3.4 Expenditure from Reserves can only be authorised by the Council and Earmarked Reserves can only be used for the purpose for which they were created.
- 3.5 Movement of funds between General Reserves and Earmarked Reserves and to other budget headings can only be authorised by the Council.
- 3.6 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 transfer funds from its Earmarked Reserves to provide short-term resources. The annual review of the Council's Reserves must consider whether Reserve funds that have been used to meet short term funding gaps need to be replenished in the following year.
- 3.7 Earmarked Reserves that have served the purpose for which they were originally established should be wound up and any excess funds transferred by the Council to other budget headings within the revenue budget, to General Reserves or to one or more other Earmarked Reserves.
- 3.8 The Responsible Financial Officer will maintain, as part of the Accounts Records, a detailed schedule of all reserves, including the purpose for which they are held.
- 3.9 Reserves will be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate. The level of General Reserves should be set and Earmarked Reserves may be continued, amended, or wound up as judged necessary. The review shall also consider where the funds are to be deposited.