

Aldbury Parish Council

Reserves Policy

Introduction

Aldbury Parish Council (APC) is required by statute 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.

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. Reserves must be set with reference to the JPAG (Governance and Accountability for Smaller Authorities in England, Practitioners Guide).

It is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

Types of Reserves

Reserves can be categorised as earmarked also known as the sinking fund or general.

Earmarked Reserves/Sinking Fund

These reserves are generally represented as amounts that are built up over a period of time which are then 'earmarked' for specific items of expenditure to meet known or anticipated liabilities.

Earmarked Reserves can be held for several reasons:

- Renewals – to enable services to plan and finance an effective programme of equipment and infrastructure replacement and asset maintenance (i.e pond and stocks, play equipment, street light replacement, footpaths). These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Other Earmarked Reserves may be set up from time to time to meet known or predicted liabilities (i.e elections).

General Reserves

The generally accepted recommendation is that the minimum level of General Reserve should be set at between three (3) and twelve (12) months Net Revenue expenditure (NRE). The smaller the authority the closer the level should be to 12 months NRE. These are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

Procedure for the Administration of Reserves

1. Earmarked Reserves/Sinking Fund

Earmarked Reserves will be established on a "needs" basis, in line with anticipated requirements. Any decision to set up a reserve must be made by the Council. There is no statutory upper limit save

that they must be held for genuine and intended purposes. Expenditure from reserves can only be authorised by the Council. Reserves should not be held to fund on-going expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, Earmarked Reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established. All Earmarked Reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various Earmarked Reserves and the purpose for which they are held. Reviewing the Council's Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves. Upon annual reviews sums can be moved between earmarked reserve headings, by council resolution, should the need arise or should prioritise change.

2. General Reserves

The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. This means building of General Reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year. General Reserves will be set with reference to the JPAG (Governance and Accountability for Smaller Authorities in England, Practitioners Guide).

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.

Should in extreme circumstances General Reserves be 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. Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay one month's salaries to staff in General Reserves at all times.

Current level of financial reserves

The level of financial reserves held by the council was agreed by the Parish Council during the discussions held regarding the setting of the budget for the next financial year. These levels were reviewed by the RFO at year end and brought back to council for approval.

Adopted 06.02.2023

To be reviewed February 2024