

Reserves Policy

Ludgvan Parish Council

Introduction

Ludgvan 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.

The Local Government Finance Act 1992 requires 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 specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Finance Officer to follow current best practice and advise the Council, while ensuring there are procedures to follow.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2021 edition) advise: *'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'*.

Reserves fall into two categories – general or earmarked.

Earmarked Reserves

These funds are held for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked Reserves can be used to 'smooth' the effects of certain expenditure commitments over a period of time, thereby reducing the impact of significant expenditure in any one year.

Earmarked reserves can be held for several reasons:

- Renewals – to enable services to plan and finance an effective programme of vehicle, equipment and infrastructure replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved 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.
- Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

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. Expenditure from reserves can only be authorised by the Council.

Reserves should not be held to fund ongoing 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 Finance 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. Earmarked Reserves should be separately identified and enumerated, and should be subject to annual review and justification.

General Reserves

General Reserves 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.

JPAG (March 2021 edition) advised that *'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 (3) and twelve (12) months Net Revenue Expenditure (NRE). NRE (subject to any planned surplus or deficit) is effectively Precept\Levy less any Loan Repayment and/or amounts included in Precept\Levy for Capital Projects and transfers to Earmarked Reserves. The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months.'*

The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building general reserved will be through an allocation from the annual budget. This will be in addition o any amounts needed to replenish reserves that have been consumed in the previous year.

Settling 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.

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. 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 will be agreed by the Council during the discussions held regarding the setting of the budget for the next financial year.

The current minimum level of General Reserves to be held by the Council is three months of budgeted expenditure.

This policy will be reviewed on an annual basis to ensure these levels remain appropriate as changes in activity levels / range of services provided may lead to changes in the requisite minimum of General Reserves.

Policy adopted by Council 11 May 2022