

West & Middle Chinnock Parish Council

Reserves Policy

Introduction

West & Middle Chinnock Parish Council ('The Council') 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 for meeting 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 (RFO) 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 general or earmarked.

Earmarked Reserves

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 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.
- 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.

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. (*West & Middle Chinnock is a smaller authority*).

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.

Protocol for the Administration of Reserves

Earmarked Reserves

- 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 priorities change.

General Reserves

- 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 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.

- 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.

Ring fenced reserves

Ring fenced reserves are grants allocated for a specific project only; this money must not be used for any other purpose.

Income in reserves from the sale of fixed assets ('capital receipts') such as the sale of land, can only be used for capital projects, such as the acquisition and enhancement of land, building, vehicles, plant and equipment.

Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

This policy was adopted on 5th May 2021