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GENERAL AND EARMARKED RESERVES POLICY

1. INTRODUCTION

1.1 West Itchenor Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation.

1.2 Para 1.13 of the Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide (2024) states that authorities need to have regard to the need to put in place a General Reserve Policy and have reviewed the level and purpose of all Earmarked Reserves.

1.3 Para 5.30 of the JPAG Practitioners' Guide (2024) states that it is essential that authorities have sufficient Reserves (General and Earmarked) to finance both their 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.

1.4 Para 5.33 of the JPAG Practitioners' Guide (2024) states that the generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's [1] General Reserve is that this should be maintained at between three (3) and twelve (12) months of 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 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. In practice, any authority with an NRE in excess of £200,000 should plan on three months equivalent General Reserve. In all of this it is important that each authority adopt, as a General Reserve Policy, the level appropriate to their size and situation and plan their budget to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.

1.5 Para 5.37of the JPAG Practitioners' Guide (2024) refers to Earmarked and Other Reserves and states that none of the above in any way affects the level of Earmarked and/or Capital Receipts Reserves (EMR/CRRs) that an authority may or should hold. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually) and should be separately identified and enumerated. Significant levels of EMRs may give rise to enquiries from Internal and/or External Auditors.

2. PURPOSE

The purpose of this policy is to set out how the Parish Council will determine and review the level of General Reserves and Earmarked Reserves.

3. TYPES OF RESERVES

Reserves can be categorised as 'general' (held to cushion the impact of uneven cash flows or unexpected events) or 'earmarked' (held for a specific purpose).

Earmarked or 'specific' Reserves can be held for several reasons. Specific 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.

3.1 Earmarked Reserves

Typically held for four main reasons:

1. **Renewals/Accruals**. Used to plan and finance an effective programme of equipment replacement, planned property repair and maintenance or grounds maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.

2. **Carry Forward of Under-spend**. Some expenditure budgeted for projects in a given financial year cannot be spent in that year. Reserves are used as a mechanism to carry forward these resources.

3. **Insurance Reserve**. To enable the Council to meet the excesses not covered by insurance.

4. **Other Earmarked Reserves**. May be set up from time to time to meet known or predicted liabilities.

3.2 General Reserves.

Often referred to as the 'working balance' and is money which is not earmarked for specific purposes but rather a sum of money held in anticipation of uneven cash flow or set aside to deal with unexpected events or emergencies. Reserves of this nature can be spent or earmarked at the discretion of members, subject to approval by the Parish Council.

The level of General Reserves is a matter of professional judgement. The primary means of building a General Reserve will be through reallocation of funds e.g. where an expenditure item comes under budget.

4. CREATION AND DISPOSAL OF RESERVES

4.1 Earmarked Reserves will be established on a 'needs' basis in line with anticipated requirements.

4.2 Any decision to set up or extinguish redundant reserves must be reviewed by the Finance and Policy Committee and recommended to Full Council for formal approval. The Town Council will be required to identify the reason/purpose of the reserve and identify how and when the reserve will be used when making recommendations for each earmarked reserve.

4.3 Reserves should not be held to fund ongoing expenditure.

5. ADEQUACY OF BALANCES AND RESERVES

5.1 A considerable degree of professional judgement is required in making any financial assessment and the Responsible Financial Officer can only be expected to provide advice with the help and possible guidance from the members and other advisory sources.

6. GOVERNANCE

6.1 General and Earmarked Reserves will be reviewed annually by the Parish Council.

6.2 General Reserves should be viewed as a short-term resolution for unexpected costs, they should not be used to finance recurrent expenditure or to finance foreseeable or anticipated projects.

7. CURRENT RESERVES

7.1 The level of General Reserves is to be not less than sufficient to pay three month's salaries to staff and associated expenses and no more than six months operating costs, i.e. half the annual precept and in any year.

7.2 At the start of each Financial Year there should be three to six months reserves, in case there is a delay receiving the precept from the principal authority.

8. REVIEW

This policy will be reviewed by the Parish Council annually or when there are changes to legislation, whichever is the sooner.