KINGSTON ST MARY PARISH COUNCIL

FINANCIAL RESERVES POLICY

INTRODUCTION

Kingston St Mary Parish Council is required to maintain adequate Financial Reserves to meet the needs of its operations and to ensure financial security. 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. 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.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG[1]) (March 2023 edition) advises that:

> "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".

The National Association of Local Councils' (NALC) 'Good Councillor's Guide to Finance and Transparency' also advises that:

> "Local councils need to hold an amount in reserves to meet unexpected expenditure, otherwise they could run out of money before the end of the financial year.
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> A council should typically hold between 3 and 12 months expenditure as a general reserve. If the general reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community.
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> Local councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year-end general reserve should not be significantly higher than the annual precept.
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> The council may have Earmarked Reserves for specific projects, where money is allocated for a specific purpose but may not be spent in that financial year. This may include reserves to purchase or renovate a building, develop a sports facility or community centre. The level of, and continued justification for, Earmarked Reserves should be reviewed by council on a regular basis, and not less than annually.
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> Many councils also hold an Election Reserve, as all reasonable costs of holding local council elections can be fully recharged by the district or unitary council to the local council. In the case of contested elections for a council with several wards then these costs can be relatively high.
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> If the amount of reserves at the year-end are above a certain level in relation to the annual precept then the council must advise the external auditor of why this level of reserves is required".

[1] The Joint Panel on Accountability and Governance (JPAG) is responsible for issuing proper practices about the governance and accounts of smaller authorities. Its membership consists of sector representatives from the National Association of Local Councils, the Society of Local Council Clerks and the Association of Drainage Authorities.

GENERAL RESERVES

General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, offset budget requirements if necessary or can be held in case of unexpected events or emergencies. Setting the level of General Reserves is agreed with the Annual Budget.

JPAG's March 2023 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.

The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to twelve months expenditure, the larger the authority, the nearer to three months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards three months equivalent general reserve".

EARMARKED RESERVES

Earmarked Reserves (EMR) must be held for genuine and intended purposes and their level should be subject to annual review and justification. They should be separately identified to prevent query from internal and external auditors.

Any decision to set up an EMR must be approved by Parish Council, established on a needs basis, in line with anticipated requirements, and reviewed annually, when the budget is agreed.

EMRs can be built up over a period of time for a specific item of expenditure to met known or anticipated liabilities or future projects. Where the purpose of an EMR becomes obsolete, or where there is an over-provision of funds, the excess may, on the approval of the Parish Council, be transferred to other budget headings within the revenue budget, to General Reserves or to one or more other EMRs.

If an EMR is used to meet a short term funding gap, it must be replenished in the following financial year. However, EMRs which have been used to meet a specific liability would not need to be replenished, after having served the purpose for which they were originally set up.

MANAGEMENT and CONTROL of RESERVES

Movements in General and Earmarked Reserves shall be reported to the Parish Council, as part of the quarterly monitoring of spending against budget.

The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review and agreed by the Parish Council. The current level of General Reserves to be held by the Parish Council is set, in accordance with JPAG's and NALC's advice for smaller authorities, at equal to twelve months of predicted expenditure,

Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the annual budget review, when the creation, amendment, cessation or continuation of Earmarked Reserves will be approved by the Parish Council.

This Policy will be reviewed annually at the Annual Parish Council meeting in May each year.