



# Winsham Parish Council Reserves Policy

## Purpose

Winsham Parish Council is required to maintain adequate Financial Reserves to meet foreseeable needs and commitments, and also to have money available in the event of an emergency. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2020 edition) advises: "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."

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.

## Types of Reserves

These may be categorised as either General or Earmarked

### General Reserve

The use of this is not restricted. It can be used to smooth the impact of uneven cash flows, offset the budget requirement, or can be used to cope with unexpected events or emergencies. JPAG (March 2020 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 (3) and twelve (12) months Net Revenue Expenditure (NRE). The smaller the authority, the closer the figure should be to 12 months NRE.

If the balance is drawn down, replenishment will be provided for as soon as possible. If the General Reserve is exhausted due to extreme circumstances, the Council may make emergency borrowings from Earmarked Reserves, which will be replaced at a future date.

The primary means of building General Reserves will be through a reallocation of funds (underspend on a completed project) and allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves which have been spent in the previous year. If in extreme circumstances General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council would be able to draw down from its EMRs to provide short term resources.

## Earmarked Reserves ‘EMRs’

EMRs 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. The funds required are built up incrementally over several years when taking into account asset conditions and asset life. They are a mechanism to smooth expenditure without the need to vary budgets. EMRs are held for several reasons and shall only be used for the purpose for which they were created:

These are to be set up to meet known or predicted liabilities, for example

- Replacing buildings, street furniture, and equipment
- Routine repair of heavy maintenance items
- Carrying forward underspend on an uncompleted project (expenditure committed to a project but not spent in the budget year)
- Proceeds from developers (CIL) which can only be used for specified purposes
- Risks not covered by insurance

Where the purpose of an Earmarked Reserve 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 Earmarked Reserves. EMRs will be established on a “needs” basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed.

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

1. Expenditure from reserves can only be authorised by the Council.
2. The level of both General and Earmarked Reserves will be reviewed by the Council as part of the annual budgeting process.
3. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be given by the Parish Council
4. The Responsible Financial Officer will maintain a detailed schedule of all reserves which will form part of the accounts package.

Reviewed and adopted by Winsham Parish Council on: 6th December 2023 – Minute No. 0319

Signed: ..... Chairman