**FRISTON PARISH COUNCIL**

 **RESERVES POLICY**

Annual Approval:
Minute Item:

## **Introduction**

Friston 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 Parish Council faces a variety of risks that it needs to be in a position to face should ever an emergency arise, as well as to ensure adequate cashflow at all times.

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, legislation does not specify the minimum level of reserves that an authority should hold, meaning it is the responsibility of the Responsible Financial Officer to follow current best practice and advise the Council, whilst ensuring there are procedures to follow.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2023 edition) advises: ‘*As with any financial entity, it is essential that authorities have sufficient Reserves (General and Earmarked) to finance both their day-to-day operations and future plans.  Smaller authorities have no specific right to accumulate funds via the precept.  All reserves should be reviewed and justified regularly (i.e. at least annually).  It is good practice to transparently publish both the level and rationale of all reserves.’*

Reserves fall into two categories – general or earmarked.

## **General Reserves**

These are funds which do not have any restrictions to their use.  These reserves can be used to smooth the impact of uneven cash flow, offset budget requirements if necessary or can be held in case of unexpected events or emergencies.

JPAG advises that: ‘*The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority’s General Reserves is that this should be maintained at between three- and twelve-months Net Revenue Expenditure (NRE).  The smaller the authority the closer the figure may be to 12 months. In all of this, it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained.’*

The primary means of building General Reserves will be through a reallocation of funds (underspend on projects) and 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.

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.

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.

## **Earmarked Reserves**

In addition to a General Reserve, the Parish Council may and does set up specific earmarked reserves of reasonable amounts for designated purposes that may cross financial years.

Typically, they are held for the following reasons:

* Renewals, e.g. equipment, planned property maintenance
* To carry forward an underspend where expenditure has been committed to a particular project that cannot be spent in year
* To enable the Council to meet the excess of claims not covered by insurance
* To indicate commitment to a capital project
* To meet known or predicted liabilities

Earmarked Reserves will be established on a ‘needs’ basis, in line with anticipated requirements, and must be held for a genuine and intended purpose.  Any decision to set up a reserve must be made by the Council.  Expenditure from reserves can only be authorised by the Council.

Earmarked Reserves should be separately identified and enumerated, and should be subject to annual review and justification.

## **Legal Considerations**

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. There is no specific minimum level of reserves that an authority should hold.

## **Monitoring and Review**

The Parish Council will review its Reserves Policy Statement each year.

The Parish Council will use the Reserves Policy as the monitor when it sets its annual budget.