

MADRON PARISH COUNCIL

Chairman: Councillor Mrs Clare Roberts

Reserves Policy

Madron 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 it holds. This policy will be reviewed annually.

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 2022 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:

- are funds which do not have any restrictions to their use. These reserves can be used to offset budget requirement or unexpected events.
- JPAG (March 2022 edition) 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.' NRE is effectively Precept less any Loan Repayments and/or amounts included in Precept for Capital Projects and transfers to Earmarked Reserves.
- 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, 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.

Earmarked Reserves:

Are for specific items or projects that the council has identified that it would like to achieve. It can also be used to alleviate the pressure of certain expenditure over a period of time rather than just one year.

Typically, they are held for the following reasons:

- Equipment renewal or repair.

- Carry forward of funds to another year as expenditure is over a longer period of time.
- Commitment to capital projects.
- 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.

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 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.

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

Level of Reserves: Will be discussed and agreed by the council at Budget setting and at year end.

The council will ensure it holds reserves of a minimum of three months of expected expenditure.

Adopted 11.05.2023.

Review: May 2024