

LINDSEY PARISH COUNCIL

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Paper prepared by: Clerk to the Parish Council for Parish Council Meeting: of 10th March 2021

Agenda Item 10vi - To review and adopt a Reserve Policy

Background:

- a) 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.
- b) Proper Practices (March 2020 – to be applied to Annual Governance and Accountability Returns covering the period 1 April 2020 to 31 March 2021) - requires all authorities 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.
- c) Whilst authorities should 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.

Types of reserves:

Reserves can be categorised as general or earmarked.

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

The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building general reserves will be through an 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.

Council is at all times to be mindful of Council should also be aware of the guidance as given in Proper Practices (March 2020 – to be applied to Annual Governance and Accountability Returns covering the period 1 April 2020 to 31 March 2021) which states that “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). 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 (3 to 12 months) 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 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 so as 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.

Reserves should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted.

Earmarked reserves can be used to cover items such as:

- Renewals
- Carry forward of underspends
- Predicted liabilities
- In response to a specific project

Policy In Practice

The Council will hold Reserves for these three main purposes: -

- 1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves.**
- 2. A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves.**
- 3. A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.**

The minutes of the meeting in November 20, at which the budget for 2021 – 2022 was set, reflects the following: “Reserves – it was noted that guidance states that the level of reserves should be maintained between 3-12 months of budget expenditure. It was agreed that any anticipated underspend should be added into the Reserve fund. There was an anticipation that at the end of the year the reserve fund would stand at around 32% of annual budget. Council was reminded of the previous discussion over the reasoning behind reserves and the agreement to build up the reserves on a gradual basis.”

Procedure

- 1. Any decision to set up a reserve must be made by the Council.**
- 2. Expenditure from reserves can only be authorized by the Council.**
- 3. The reserves will be reviewed by the Council as part of the annual budgeting process.**
- 4. The Responsible Financial Officer will maintain a detailed schedule of all reserves which will form part of the accounts package.**

Recommendation: Council reviews and adopts the Reserve Policy as written confirming that it is fit for purpose and that it agrees to adhere to it as written: