



RESERVES POLICY

Introduction

Ashurst Wood Village Council (the Council) is required to maintain adequate financial reserves to meet the needs of the Council. The Council's Financial Regulation 3.5 states:

The Finance and Administration Committee shall review the Council's reserves each year as part of the annual budgetary process, and shall make recommendations to the Council as to the appropriate level of reserves for the following year taking into account the Council's running costs, regular commitments, planned future projects and financial risks as well as proper practice guidance.

Section 49A of the Local Government Finance Act 1992 requires local precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The legislation does not specify minimum or maximum levels of reserves and it is the responsibility of the Responsible Financial Officer to advise the 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 (JPAG) Practitioners' Guide (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.

The purpose of this policy is to set out how the Council will determine and review the level of reserves.

Types of Reserves

The Council maintains two types of Reserves: General and Earmarked.

General Reserves

This is the balance of Council funds which does not have any restrictions as to its use. The main purpose of General Reserves is to cushion the impact of uneven cash flows, or late payment of precept, and provide a contingency in the case of unexpected events or emergencies.

The JPAG Guide advises 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 and twelve months of net revenue expenditure.

The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.

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 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 Council would be able to draw down from its Earmarked Reserves to provide short term emergency resources, which would then be replenished in the next annual budget.

The Council will aim to maintain its General Reserves at a minimum of 50% of the annual Precept. The level should not exceed the annual Precept without reasonable justification.

Earmarked Reserves

This provides a means of accumulating funds for use in a later financial year to meet known or planned expenditure.

Earmarked Reserves will increase through decisions of the Council and will decrease as they are spent on their specific and intended purposes.

Examples of Earmarked reserves that the Council will consider include (but are not limited to):

- Election Reserve
- Allotments Reserve – to provide allotments when land available
- Legal / Insurance Reserve - for legal advice or representation, and to cover uninsured risks and claim excesses
- Locum Clerk Reserve - to cover staff sickness or resignation
- Maintenance Reserve - to enable the planning and financing of an effective program of equipment replacement and property maintenance/refurbishment. 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.
- Carry forward of underspend on an uncompleted project - expenditure committed to a project, but not spent in the budget year. Reserves are used as a mechanism to carry forward these resources.

Earmarked Reserves will be established on a “needs” basis, in line with anticipated requirements. Any decision to set up a reserve must be made by the Council, which will state the reason for the reserve and the estimated timescale for the expenditure.

Expenditure from reserves can only be authorised by the Council. To the extent that reserves are used to meet short term funding gaps, they must be replenished in 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.

Management and Control of Reserves

The appropriate level of financial reserves, both General and Earmarked, will be agreed by the Council during the discussions held regarding the setting of the budget for the next financial year, and following advice from the Responsible Financial Officer and recommendations from the Finance, Administration and Human Resources Committee, taking into account this policy, the Council's Financial Regulations and the Financial Risk Assessment.

The Responsible Financial Officer will prepare a schedule recording the agreed reserves.

ADOPTED: MAY 2023