# **Yardley Gobion Parish Council**

## Reserves Policy.

###  Purpose

Yardley Gobion 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 Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure. The Joint Panel on Accountability and Governance ‘Practitioners’ Guide (March 2022) advises this should be considered as part of the budgeting process. However, there is no specified minimum level of reserves that an authority should hold, 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.

### Types of reserves

Reserves can be categorised as earmarked or general.

### Earmarked reserves

Earmarked reserves can be held for several reasons:

* Renewals – to plan and finance an effective programme of new facilities and services, replacement and planned property and land maintenance. These reserves are a mechanism to smooth expenditure so that a sensible programme can be achieved without the need to vary budgets.
* Carry forward of underspend – where some expenditure to projects cannot be spent in the budget year. Reserves are used as a mechanism to carry forward these resources.
* Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
* Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.

Any decision to set up a reserve must be given by the Council.

Expenditure from reserves can only be authorised by the Council.

Reserves should not be held to fund ongoing 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 in the following years budget. 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.

All earmarked reserves are recorded on a central schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

### General Reserves

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 addressed in the Joint Panel on Accountability and Governance ‘Practitioners’ Guide (March 2022), which advises that the generally accepted recommendation with regard to the appropriate minimum level of a smaller authority’s general reserves is that it should be maintained at between three and twelve months net revenue expenditure (NRE). NRE is effectively precept less any loan repayments and/or amounts included in the precept for capital projects and transfers to earmarked reserves. The smaller the authority the closer the figure should be to twelve months.

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.

### Current level of financial reserves

The level of financial reserves held by the Council will be agreed by the Council during the discussions held regarding the setting of the budget for the next financial year and year end accounting procedures.

The minimum level of general reserves to be held by the Council is £10,000.