

Council meeting:	18 th January 2024	Agenda item:	24/011.e
Agenda item:	Reserve Policy v0.1		

Background

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. However, there is no specific minimum level of reserves which an authority should hold, and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Parish Council about the level of reserves and to ensure that there are procedures for their establishment and use.

There are two types of reserves:

- A General Reserve with no restriction as to its use.
- An Earmarked Reserve with some restriction on its use which may be set either by the Council or a third party.

The Joint Panel on Accountability and Governance (JPAG) recommends¹ that the Parish Council should put in place a General Reserve Policy and review the level and purpose of all Earmarked Reserves annually as part of the budget assessment process.

General Reserve

With regard to the General Reserve, JPAG states:

The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances. 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 expenditure². The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months.

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. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income.

¹ <https://www.nalc.gov.uk/library/our-work/jpag/3859-practitioners-guide-2023/file>

² No definition of Net Revenue Expenditure is given in the 2023 Practitioners Guide. In previous versions it was defined as precept less transfers to earmarked reserves but this doesn't relate to NWPEPC's position where it is in receipt of grant funding from Dacorum. In this paper it is taken to mean the expenditure necessary to support the services regularly provided by the Council.

Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.

The Parish Council has annual operational expenditure excluding VAT of c. £53,000. Broadly speaking this is funded:

- 50% by precept which is very low risk
- 30% by grants from Dacorum which at the time precept is set are low risk
- 20% by interest and payments received for the use of council assets which are a higher risk

Given the JPAG guidance and the Council's size and income risk profile, General Reserves should be held at 9 – 12m of operational expenditure or £40,000 - £53,000, but the RFO may recommend that a lower level is acceptable if there are high levels of Earmarked Reserves which might be utilised in an emergency (although these would need to be replaced subsequently).

Earmarked Reserves

There are three types of Earmarked Reserves:

- Carry forward of underspend to a new financial year
- Renewals – a mechanism to smooth expenditure predicted to occur less frequently than annually to minimise the need to vary budgets. These Reserves increase over time until required funded either by revenue or budget under-spend.
- Conditional – reserves with conditions set by third parties.

Earmarked Reserves will be established as needed and reviewed annually when the budget is agreed.

Any decision to set up an Earmarked Reserve must be approved by the Council. If Earmarked Reserves are used to meet short term funding gaps, they must be replenished in the following financial year.

Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, with the approval of the Council, be transferred to other budget headings within the revenue budget, to General Reserves or to one or more other Earmarked Reserves.