



OLD CLEEVE PARISH COUNCIL RESERVES POLICY

This Reserves Policy was adopted by the council at its meeting held on 19 August 2024 and will be reviewed annually.

Introduction

1. Old Cleeve Parish Council is required to maintain adequate financial reserves to meet its needs. The purpose of this policy is to set out how the Council will determine and review the level of reserves.
2. The budget sets the legal limit of spending pre-authorized by Old Cleeve Parish Council, as required by the Local Government Act 1972. When calculating the budget requirement, the Parish Council must have regard to the level of reserves needed to meet estimated future expenditure.
3. The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2024 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.* There is no specified minimum level of reserves that the Council should hold, and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves in the annual budget setting process.

Types of Reserve

4. Reserves are categorised as either 'General' or 'Earmarked'.
 - a. **General Reserves** are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flow, provide contingency to cover unexpected inflation, unforeseen events, and unusual circumstances.

JPAG (March 2024 edition) advises: *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 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.*

The level of General Reserves is agreed as part of the annual budget setting process. If, in extreme circumstances, General Reserves have been exhausted due to major unforeseen spending pressures within a particular financial year, the Council could draw down from Earmarked Reserves (excluding Earmarked Reserves where the source of funds is a Grant, Loan, or Developer Contribution).

- b. **Earmarked Reserves** must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification at least annually. They should be separately identified and enumerated.

Examples of Earmarked Reserves: -

- **Developer Contributions** (S106/CIL): which may only be used for specified purposes
- **Capital Spend Projects:** funds which are steadily built-up over several years for future projects (avoiding the need to significantly vary annual budgets)
- **Carry forward of** budgeted project funds into the next financial year when a project has been delayed or not yet completed.

When the purpose of an Earmarked Reserve becomes obsolete, or where there is an overprovision of funds, the excess may, on 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.

Management of General Reserves

5. The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level.
6. The Finance Committee will consider the status of General Reserves at its meetings and recommend any changes to the Council. Any decision to use General Reserves will be subject to approval by the Council.
7. The status of General Reserves will be reported to the Council as part of the monthly bank reconciliation process and as part of the half yearly budget review process.

Management of Earmarked Reserves

8. All Earmarked Reserves are recorded on a register held by the Responsible Financial Officer which lists the various Earmarked Reserves and the purpose for which they are held.
9. The Finance Committee will consider the status of Earmarked Reserves at its meetings and recommend any changes to the Council. Any decision to set up an earmarked reserve or to transfer of excess Earmarked Reserves must be made by the Council.
10. The status of Earmarked Reserves will be reported to the Council as part of the monthly bank reconciliation process and as part of the annual budget review process.