

MUCH HADHAM PARISH COUNCIL RESERVES POLICY

Index

1	Introduction	2
2	Types of Reserves	2
3	Management and Control of Reserves	3

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1 Introduction

1.1 Much Hadham Parish Council is required to maintain adequate Financial Reserves to meet the needs of its operations and to ensure financial security. The purpose of this policy is to set out how the Parish Council will determine and review the level of reserves.

1.2 The Annual Governance Statement prepared as part of the Annual Governance and Accountability Return includes the assertion:

We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2022 edition) Section One — Proper Practices Annual Governance Statement advises that:

To warrant a positive response to this assertion, the following processes need to be in place and effective:

(inter alia).....1.13 Reserves - The authority needs 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.

2 Types of Reserves

2.1 Reserves can be classified as General, Earmarked or Ringfenced.

General Reserves

2.2 The General Reserve of an authority comprises its cash flow and contingency funds to cover cash flows and offset budget requirements. The reserve will also cover unexpected inflation, unforeseen events, emergencies and unusual circumstances. General Reserves are funds which do not have any restrictions on their use.

2.3 JPAG (March 2022 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 (3) and twelve (12) months Net Revenue Expenditure (NRE).”

“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.”

Earmarked Reserves

2.4 Earmarked Reserves must be held for genuine and intended purposes and their level should be subject to annual review and justification. There are no upper or lower limits. They should be separately identified to prevent query from internal and external auditors.

- 2.5 Earmarked Reserves are held for several reasons and shall only be used for the purpose for which they were created:
- i. Renewals – 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.
 - ii. Carry forward of underspend on an uncompleted project – expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward those resources.
 - iii. Developers' Contributions – proceeds from developers which can only be used for specified purposes.
 - iv. Other Earmarked Reserves – these may be set up from time to time to meet known or predicted liabilities.
- 2.6 Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, on the approval of the Parish Council, be transferred to other budget headings within the revenue budget, to General Reserves or to one or more other Earmarked Reserves.
- 2.7 Earmarked Reserves will be established on a “needs” basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed.
- 2.8 Any decision to set up an Earmarked Reserve must be approved by the Parish Council. If the Earmarked Reserves are used to meet short term funding gaps, they must be replenished in the following financial year. However, Earmarked Reserves which have been used to meet a specific liability would not need to be replenished, after having served the purpose for which they were originally set up.

Ringfenced Reserves

- 2.9 Ringfenced Reserves are held for one purpose only and cannot be transferred or used for any other purpose.

3 Management and Control of Reserves

- 3.1 *“As with any financial entity, it is essential that authorities have sufficient reserves (General and Earmarked) to finance both its 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.”*
[JPAG March 2022 paras 5.30 – 5.31]
- 3.2 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 to advise the Parish Council about the level of reserves and to ensure that there are procedures for their establishment and use.

- 3.3 Much Hadham Parish Council has the following Reserves:
- i. General Reserve – in budget reports, this balance is clearly labelled as “leaving available for Parish Council”
 - ii. Earmarked Reserves: examples include:
 - a) Section 106 receipts for sport or recreation – proceeds from developers which can only be used for the specified purposes;
 - b) Open spaces – set up to cover known or predicted liabilities in relation to open spaces in the parish, primarily in relation to tree maintenance.
 - iii. Burial Authority – this is a Ringfenced Reserve as the balance is used to maintain the Burial Grounds in perpetuity. If there are insufficient funds in this Reserve, maintenance of the Burial Grounds becomes a draw on the precept.
- 3.4 The level of General Reserves shall be reviewed and approved by the Parish Council on an annual basis when approving the Annual Budget with the Forward Financial Plan. The minimum level of General Reserves shall be recommended to the Parish Council by the Responsible Financial Officer.
- 3.5 Earmarked Reserves shall be reviewed on an individual basis as part of the budget setting process (January) and when the final annual budget monitoring statement is considered (April). Approval for the creation, continuation, amendment, or cessation of Earmarked Reserves will be given by the Parish Council.
- 3.6 Ringfenced Reserves continue in perpetuity but any deficit in Ringfenced Reserves become a draw on the precept.
- 3.7 Movements in General Reserves shall be reported to the Parish Council as part of the monthly financial statement. Use of these reserves is approved by the Parish Council through the approval of payments at each meeting.
- 3.8 Balances for Earmarked Reserves shall be reported to the Parish Council as part of the monthly financial statement. Movements in Earmarked Reserves will be reported for the reviews referred to in 3.5 above. Use of Earmarked Reserves shall be approved by the Parish Council.
- 3.9 Movements in Ringfenced Reserves shall be reported to the Parish Council as part of the monthly financial statement. Use of these reserves is approved by the Parish Council through the approval of payments at each meeting.