



ORLETON PARISH COUNCIL

RESERVES POLICY

ADOPTED: 21st September 2023

REVIEWED: 9th May 2024

NEXT REVIEW: By end of January 2025 as part of budget setting process

1. Introduction

Local authorities need to plan to hold a certain amount of funds in reserves for a variety of reasons. Often these will be earmarked for specific purposes to help the council save up each year towards the cost of capital projects, replacing equipment, in case of contested elections, etc. However, it is also good practice for a Council to hold General Revenue Reserves for reasonable working capital, although the level of a Council's Reserves should be considered carefully.

Orleton 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 Council will determine and review the level of reserves.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2023 edition) advises:

"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."

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. The JPAG Practitioners Guide 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 (NRE¹).

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 (...)."

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.

¹ As per NALC's guidance (Audit & Accounts Advisor, Derek Kemp), smaller authority Net Revenue Expenditure (subject to any planned surplus or deficit) is effectively Precept less any Loan Repayment and/or amounts included in the Precept for Capital Projects and transfers to Earmarked Reserves.

Orleton Parish Council is a small Council with a small Precept and it should be aiming to maintain General Reserves at between 9 to 12 months Net Revenue Expenditure.

2. Types of Reserves

These may be categorised as either General or Earmarked.

2.1 General Reserves Fund

General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, inflation, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies. Setting the level of General Reserves is agreed with the Annual Budget and will be determined based on anticipated surplus at the end of financial year and, when deemed appropriate, allocation in the annual budget.

The primary means of building General Reserves will be through surplus funds from the previous year's budget and, where appropriate, reallocation of funds (underspend on a completed project) and allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves, which have been spent in the previous year and planned allocation to EMRs Funds. If in extreme circumstances the General Fund Reserve was exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council would be able to draw down from its Earmarked Reserves to provide short term finance.

2.2 Earmarked Reserves 'EMR's

Earmarked Reserves must be held for genuine and intended purposes and their level should be subject to annual review and justification. They should be separately identified to prevent any queries from internal and external auditors.

EMRs are held for several reasons and shall only be used for the purpose for which they were created:

- 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 considering 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 can be used as a mechanism to carry forward those resources.
- Other Earmarked Reserves – these may be set up from time to time to meet known or predicted liabilities.

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 Fund Reserve or to one or more Earmarked Reserves.

EMRs will be established on a “needs” basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed.

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

3. Management and Control of Reserves

3.1 Movements in Earmarked Reserves and the General Fund Reserve shall be reported to the Parish Council as part of the budget monitoring process. The use of Reserves shall be approved by the Council.

3.2 The level of the General Fund Reserve shall be reviewed on an annual basis during the annual budgetary review and agreed by the Council. The minimum level of General Fund Reserve shall be recommended to the Council by the Parish Clerk (who is the Responsible Financial Officer). This will form part of the recommendations for the Annual Budget and Precept request by the Parish Council.

Where this reserve is depleted, the Council will consider the appropriate period of time over which to replace it to a recommended level.

Orleton Parish Council currently holds around 3 months General Fund Reserve (at the end of FY 2022/23 - £11,902.93). The aim will be to hold a General Reserve Fund of not less than 50% of the net revenue expenditure. It is recommended working towards a minimum level of General Fund Reserve of 9 - 12 months of the Net Revenue Expenditure. This process is expected to take several years.

3.3 Earmarked Reserves shall be reviewed on an individual basis. Approval for the creation, amendment, cessation, or continuation of Earmarked Reserves will be considered and ratified by the Council. Reserves must not be held for on-going expenditure as this would be unsustainable.

Orleton Parish Council Earmarked Reserves will be held in separate Instant Access Saving Accounts with the Council's current banking provider.

4 Orleton Parish Council Reserves Procedure

4.1 Orleton Parish Council and the Responsible Financial Officer will work together to prepare and agree well-thought out, adequate, accurate, and detailed Budgets and Precept proposals which take into account, amongst other things:

- General running costs (including increases in National Pay Award for staff and inflation)
- Current and future activities (including the possibility of devolved services)
- Councillor and staff training and development
- Capital projects
- Replacing and repairing equipment and assets
- Contingencies

4.2 Reserves Funds

The following Reserves Funds were established in 2024/25 Budget and will be maintained in the following financial years, subject to regular reviews as part of the annual budget setting process:

4.2.1 The General Revenue Reserve Fund. – Comprising surplus funds the from previous year precept.

4.2.2 The Election Fund. – To be built up between election years at 25% (£500) of the anticipated cost of a contested election per annum.

4.2.3 The IT Equipment Fund. – To be established at initial sum of £250 and built up at £100 a year, up to the total of £1000, to allow for office equipment (laptop, printer, etc.) replacement when necessary (it is anticipated that replacement will be required every 5 years on average).

4.2.4 The Traffic Calming Fund. – To be built up at a rate of £500 a year in anticipation of the required replacement of SID devices in 3 years.

4.2.5 Street Furniture & Equipment Fund – To be built up at a rate of £200 a year to allow for a long-term rota of acquisition & replacement – street furniture, waste bins, noticeboards, etc

4.2.6 Repairs Fund – To be build up at a rate of £250-£500 a year to allow for repair and refurbishment funds for Council assets (War Memorial, Telephone Box, etc.)

4.2.7 The Website Fund – To be built up at a rate of £100 a year to allow for a renewed website in the future.

4.2.8 Hardware Fund – To be build up at a rate of £200 a year to allow for acquisition, repair and replacement of PC's hardware equipment, in particular power tools and equipment to be used by the footpath and land drainage volunteers.

Orleton Parish Council