Reserves Policy for Great Canfield Parish Council

Introduction

Great Canfield Parish Council is required to maintain adequate financial reserves to meet the needs of its organisation and to ensure financial security. This policy sets out how the council will determine and review the level of its reserves.

The Joint Panel on Accountability & Governance Practitioners Guide (JPAG – March 2024 edition) advises:

Point 5.31 – '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.'

Point 5.32 – '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.'

Point 5.204 – 'As authorities have no legal powers to hold revenue reserves other than those for reasonable working capital needs, or for specifically earmarked purposes, whenever an authority's year-end general reserve is significantly higher than the annual precept or rates and special levies, an explanation should be provided to the auditor.'

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. There is no specific minimum level of reserves which an authority should hold, however, the advice from the External Auditors is that the level of reserves should not exceed 200% of the precept without explanation. 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.

Types of Reserves

Great Canfield Parish Council reserves may be categorised as General, Earmarked or Ringfenced.

General Reserves

General reserves are funds which have accumulated from precept and do not have any restrictions on their use. They cushion the impact of uneven cash flows, offset budget requirements if necessary or can be held in case of unexpected events or emergencies. Setting the level of the general reserves is agreed as part of the annual budget process.

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

Point 5.34 - 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.

Point 5.34 - The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months.

Given the size of the parish council, the general reserve will be not less than 12 months, and not more than 24 months of the parish precept.

Earmarked Reserves (EMRs)

EMRs must be held for genuine and intended purposes of expenditure which the council considers likely to be required in the future and greater than that which can be funded from a single year's budget. EMRs shall be established on a 'needs' basis and should be subject to annual review and justification. They should be separately identified to prevent query from internal and external auditors.

In 2015 the parish council entered into an easement to provide access to Canfield Nursery, in return the developer paid the parish council a fee of £49,958. The parish council agreed that this money would be earmarked for two purposes, for projects that would directly benefit residents of Great Canfield, and to provide professional fees necessary to protect the rural nature of Great Canfield parish against unwanted development.

Ringfenced Reserves

Held for one purpose only and cannot be transferred, for example grants allocated for a specific project only, which may not be used for any other purpose.

Great Canfield Parish Council has entered into a lease on the village hall which is owned by Great Canfield Parochial Church Council. At the point the lease was entered into it was agreed by the parish council that all costs associated with running the village hall would not come from precept and would be covered by rental income and events organised by the parish council via the management committee.

Management and Control of Reserves

Movements in Reserves shall be reported to the Parish Council as part of the quarterly financial reporting.

The use of Reserves shall be approved by the Parish Council.

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.

Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an overprovision of funds, the excess may, by resolution of the Parish Council, be transferred to General Reserves or other Earmarked Reserves.

The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review (January of each year) and agreed by the Parish Council. This will form part of the recommendations for the Annual Budget and Precept request by the Parish Council. Specific Reserves shall be reviewed on an individual basis.

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