

Honingham Parish Council

Reserves Policy

Adopted: 9th December 2020

To be reviewed annually. Date of next review: December 2021

Introduction

The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organization.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered annually in the autumn alongside consideration of the draft budget and precept for the following financial year. Figures set for the following year as part of this Reserves Policy will be based on these estimates.

Governance and Accountability for Smaller Authorities in England (published by the Joint Panel on Accountability & Governance) recommends that Councils should hold between 3-12 months Net Revenue Expenditure (NRE) as a general reserve (see Appendix 2).

The Council has identified that it will hold 10-12 months equivalent of their NRE as a general reserve. This may be held in either the current account or a deposit account as deemed appropriate by the RFO to ensure effective financial management.

The Council will, where necessary, hold reserves for these main purposes:

- **General Reserves:**
 - A **working balance** to help cushion the impact of uneven cash flows, such as the time lag between the start of the new financial year and the receipt of the first precept payment (precept typically paid in two halves at the end of April and September) and the upfront payment of VAT prior to reclaiming (VAT typically reclaimed once a year in Q4 due to amount accrued)
 - A **contingency balance** to cushion the impact of unexpected events or emergencies
- **Earmarked reserves:**
 - A means of building up funds, to meet known or predicted requirements (e.g. computer purchase, by-election costs)
 - Money held for specific purposes (e.g. Community Infrastructure Levy or grants)
 - Money pledged but payments unmade
- **Capital reserves:**
 - Money for capital projects (the purchase of buildings or land)

All reserves will be recorded as part of the end of year audit and annual accounts and will detail the movement of reserves during the financial year. The RFO will provide regular updates to the Council where significant changes in reserves occur throughout the year such as receipt of CIL or confirming expenditure of earmarked

reserves. In addition to this, reserves will also be documented on the monthly bank reconciliations.

The Council's specific requirements are detailed in appendix 1. Previous year's data is available in appendix 3.

Appendix 1

General Reserves are broken down into the following categories. These categories are guidelines only and subject to a resolution by the Council can be used as required to ensure the appropriate and timely implementation of Council actions:

Working Balance

The Council has considered the need for a working balance for 2021/22:

	Use	Budget
Cash Flow	To enable the payment of invoices prior to the receipt of the precept payment (based on typical expenditure during 1 st half financial year)	£3000
VAT payments	The payment of VAT prior to reclaim	£1000
Total		£4,000

Contingency

The Council has considered the need for a contingency for 2021/22:

	Use	Budget
Parish Council Assets	To cover unexpected maintenance costs (e.g. damage to play equipment)	£2000
Unexpected costs	To cover the cost of unexpected events such as travellers or other community needs	£2000
Total		£4000

Total General Reserves are the equivalent of 10-12 months of the precept.

For 2021-22 the estimated range for general reserves is £7339 - £8807.

Earmarked Reserves

Refer to the monthly bank reconciliations and end of year accounts for further details on earmarked reserves.

Appendix 2

Extract from Governance and Accountability for Smaller Authorities in England (published by the Joint Panel on Accountability & Governance), p45 2019-20 version.

Reserves

5.31. 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. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.

5.32. General Reserve

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 (N R E)**.

Net Revenue Expenditure (subject to any planned surplus or deficit) is effectively Precept\Levy less any Loan Repayment and/or amounts included in Precept\Levy for Capital Projects and transfers to Earmarked Reserves.

The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months N R E, the larger the authority the nearer to 3 months. In practice, any authority with an N R E in excess of £200,000 should plan on 3 months equivalent General Reserve.

In all of this it is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget so as to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.

5.33. Earmarked and Other Reserves

None of the above in any way affects the level of Earmarked and/or Capital Receipts Reserves (EMR/CRRs) that a authority may or should hold. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually), and should be separately identified and enumerated.

Significant levels of EMRs in particular may give rise to enquiries from Internal and/or External Auditors.

Appendix 3

Reserves data from previous financial years;

Amount @ 1 April	2018/19	2019/20	2020/21	2021/22 (estimated)
Precept	£ 7,000.00	£ 8,500.00	£ 8,730.00	£ 8,807.00
General Reserves	£ 3,946.40	£ 5,664.22	£ 7,209.61	£ 7,800.00
% of annual precept	56%	67%	83%	89%
Months equivalent	6-7 months	8 months	10 months	10-11 months

Earmarked Reserves (beginning of financial year)

Transparency Grant	£ 855.38	£ 712.20	£ 112.58	£ 17.78
Bowls Club Sponsorship	£ -	£ 437.04	£ 437.04	£ -
Solicitor Fees	£ -	£ -	£ 997.00	£ 997.00
Election Costs	£ -	£ -	£ 100.00	£ 200.00
Computer purchase	£ -	£ -	£ -	£ 100.00
Awards for All Grant (Slide)	£ -	£ -	£ 3,972.00	£ -
CIL	£ -	£ -	£ 5,863.55	£ 8,897.64

Total Ear Marked Reserves	£ 855.38	£ 1,149.24	£ 11,482.17	£ 10,212.42
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