

Bitterley Parish Council

Reserves Policy

Adopted: 18/11/24

Review: November 2025

Introduction

Bitterley Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, legislation does not specify the minimum level of reserves that an authority should hold, meaning it is the responsibility of the Responsible Financial Officer to follow current best practice and advise the Council, whilst ensuring there are procedures to follow.

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. 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.'*

Reserves fall into two categories – general or earmarked. The following are the recommendations from the JPAG.

General Reserves

5.33. The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.

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.

5.35. 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. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.

5.36. In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income.

Earmarked Reserves

5.38. None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.

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5.39. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting) and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.

Management of Reserves

The level of financial reserves held by the Council will be agreed by the Parish Council during the discussions held regarding the setting of the budget for the next financial year.

The current minimum level of General Reserves to be held by the Council is a minimum of three months of predicted expenditure with an intention to increase, when possible, to a twelve-month predicted expenditure.

The general reserves will be sufficiently maintained to cover the cost of elections, and repairs to equipment.

The Council has a responsibility to wisely invest reserves and surplus funds which are not immediately required to meet expenditure.

This policy will be reviewed on an annual basis to ensure these levels remain appropriate as changes in activity levels / range of services provided will inevitably lead to changes in the requisite minimum of General Reserves.