



SHERBORNE ST. JOHN PARISH COUNCIL

GENERAL & EARMARKED RESERVES POLICY

The purpose of this Policy is to set out how Sherborne St. John Parish Council will determine and review the reserves it holds.

This Policy was approved and adopted by a Meeting of the Council held on 15 May 2024.

Signed: Melanie Camilleri
(Proper Officer and Responsible Financial Officer)

Signed: Cllr Richard Morgan (Chair)

Date: 15 May 2024

1. Introduction

The budget sets the legal limit of spending pre-authorised by an authority, as required by LGA 1972.

Sections 32 and 43 of the Local Government Finance Act 1992 'Calculation of Budget Requirement' sets out the components for consideration of setting the budget in each financial year: -

- Income: the aggregate of sums payable to the authority for the year
- Estimated Expenditure: expenditure the authority anticipates incurring during the year while performing its functions and charging it to a revenue account
- Contingency Allowance: an allowance for contingencies relates to expenditure charged to the revenue account
- Financial Reserves: the reserves needed to cover future estimated expenditure
- Deficit Provision: reserves to address any revenue account deficit from previous financial years that hasn't been covered yet

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

"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."

There is no specific minimum level of reserves which an authority should hold. It is the responsibility of the Responsible Financial Officer to advise the authority about the level of reserves in the annual budget setting process.

2. Types of Reserves

Reserves are categorised as either 'General' or 'Earmarked'.

2.1 General Reserves

General Reserves are funds which do not have any restrictions on their use. They cushion the impact of uneven cash flow, provide contingency to cover unexpected inflation, unforeseen events, and unusual circumstances.

JPAG (March 2024 edition) advises:

"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."

The level of General Reserves is agreed as part of the annual budget setting process.

If, in extreme circumstances, General Reserves have been exhausted due to major unforeseen spending pressures within a particular financial year, the authority could draw down from Earmarked Reserves (excluding Earmarked Reserves where the source of funds is a Grant, Loan, or Developer Contribution).

2.2 Earmarked Reserves

Earmarked Reserves must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually). They should be separately identified and enumerated.

Examples of Earmarked Reserves: -

- Developer Contributions (S106/CIL): which may only be used for specified purposes
- Capital Spend Projects: funds which are steadily built-up over a number of years for future projects (avoiding the need to significantly vary annual budgets)
- Carry forward of budgeted project funds into the next financial year: when a project has been delayed or not yet completed.

When 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 authority, be transferred to other budget headings within the revenue budget, to General Reserves, or to one or more other Earmarked Reserves.

3. Management and Control of Reserves

- Use of Earmarked Reserves for their identifiable purpose shall be reported to full council.
- Transfer of excess Earmarked Reserves shall be considered and approved by full council.
- Use of General Reserves shall be subject to approval by full council.
- The status of Earmarked and General Reserves shall be reported to full council as part of the half yearly budget review process.