

WHITTINGTON PARISH COUNCIL

GENERAL RESERVES POLICY

Level of council reserves

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 large 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 General Reserves should be considered carefully.

The generally accepted recommendation with regard to the appropriate **minimum** level of a Local Council's General Reserve (as opposed to its Earmarked Reserves), is that this should be maintained at between three and twelve months **Net Revenue Expenditure (NRE)**¹.

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 Reserves². The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual Councils. The smaller the Council, the closer the figure should be to 12 months Net Revenue Expenditure, the larger the Council, the nearer to 3 months. In practice, a Council with an NRE in excess of £200,000 should plan on 3 – 6 months equivalent General Reserve.

As Whittington Parish Council is a small/medium Council with a reasonably small Precept, it should be aiming to maintain General Reserves closer to 12 months Net Revenue Expenditure³, around 9 months NRE.

The budgeting process

Whittington Parish Council and the Responsible Financial Officer will work together to prepare and agree well-thought out, 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)
- Current and future activities (including the possibility of devolved services)
- Councillor and staff training and development
- Capital projects
- Replacing and repairing equipment and assets
- Benefit for the community
- Impact on the tax payer

¹ As per guidance from NALC's Audit and Accounts Advisor Derek Kemp.

² As above.

³ As above.

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Where the Parish Council holds **significantly less than the recommended level of General Reserves**, it should consider **how it will budget for this in the future**, and make allowances for building up these reserves over time to minimise risk. This is to enable the Council to continue its activities and services in case for example, there are delays in receiving Precept payments from the Principal Authority.

However, where a Council holds significantly more than the recommended level of General Reserves, i.e. **where its year end General Reserve is significantly higher than the annual Precept**, it should be prepared to **explain this at Year End** and during the audit process. It is considered **unethical** for parishioners to have to pay a tax which is not then being used for the benefit of the local community⁴.

The Council will monitor and review actual payments against budget throughout the financial year to ensure the appropriate level of General Reserve is maintained. **In general, any underspend at the end of the financial year will go into the Parish Council's General Reserves**, provided this is not already significantly in excess of recommended levels.

The Council may decide to transfer some of the funds from General Reserves into a specified Earmarked Reserve during or at the end of the year. This is acceptable providing usual Financial Regulations and Standing Orders are observed, and providing there is adequate justification for this decision.

There is in practice, **no upper or lower limit to Earmarked Reserves** that a council may or should hold, save that they **must be held for genuine and intended purposes**. These intended purposes should be documents in the Parish Council Action Plan. Earmarked reviews should be subject to regular review and justification (at least annually), and should be separately identified and enumerated⁵.

Review of policy

It is important that local councils adopt a level of reserves appropriate to their size and situation and plan their Budget and Precept so as to ensure the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the required minimum level of General Reserves in order to provide working capital for those activities.

Whittington Parish Council will aim to review this policy and the level of General Reserves annually as a minimum.

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NEXT REVIEW: November 2023

⁴ See JPAG 2018 Practitioners Guide for more guidance.

⁵ As per guidance from NALC's Audit and Accounts Advisor Derek Kemp.