



Ilchester Parish Council Reserves Policy

Adopted 12th September 2024

1. Introduction

Ilchester Parish Council is required to maintain adequate Financial Reserves to meet the needs of its operations and to ensure financial security. This policy sets out how the Council will determine and review the level of reserves.

There is no statutory minimum or maximum level of reserves which a parish council should hold, but there is clear guidance within the annually updated Joint Panel on Accountability and Governance Practitioners Guide (JPAG). This advises:

'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.'

Sections 32 and 43 of the Local Government Finance Act 1992 also require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

Auditors will usually comment on the adequacy of the General Reserve. They will also check that earmarked reserves have been reviewed and are still required.

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.

2. General Reserve

The General Reserve is a fund that does not have any restrictions on what it may be spent on. If unexpected expenses arise Council may agree to spend a specific sum of money from the General Reserve.

If the General Reserve is depleted by withdrawals, it is in order to budget for an amount to be added each year to bring it back up to the required level. In this way unexpected spending can be smoothed over several years, potentially preventing the precept having to be raised.

Parish Councils reclaim VAT so this does not need to be funded by the precept. The General Reserve also has a role to fund the upfront payment of VAT that is not recoverable until the following financial year.

The General Reserve is recommended to be *'3-12 months-worth of precept, smaller authorities at the higher end'*.

- The recommended level for Ilchester is 10 months-worth of precept.
- If the level falls below 9 months a contribution could be made within the next budget(s) to replenish it. This may happen over more than one year.
- If the level rises above 11 months a planned reduction could be made by:
 - Increasing spending in the next budget year, or
 - Transfer of money to an earmarked reserve that requires more funding, or
 - If no additional spending is required, the Council may reduce the next precept.

3. Earmarked Reserves

Earmarked Reserves must be separately identified. They are held for a *genuine and intended purposes* and can only be used for the purpose they were created for.

The Council must approve any new Earmarked Reserve and agree:

- Purpose
- Level of immediate and target funding
- Expected timescale for spending

Reserves lose value due to inflation so an effort must be made to spend earmarked reserves for projects within a reasonable time.

Earmarked reserves are not transferable. If Council agree that the purpose of an Earmarked Reserve has disappeared, then the money will be released to the General Reserve. (From there it may be allocated to another Earmarked Reserves project, but that is a separate decision).

If the General Reserve is exhausted due to major unforeseen spending, the Parish Council is permitted to draw from its Earmarked Reserves. This would only happen in extreme circumstances and a plan must be in place to ensure it is paid back as soon as possible.

Ilchester Parish Council may hold an earmarked reserve for the following or other reasons:

- 3.1 Unpaid bills:** At the end of the year some bills might not have been paid, or expenditure has been delayed for some short-term reason.
- 3.2 Carry forward of underspend on an uncompleted project:** Expenditure may be committed to a project that cannot be spent in the budget year.

In both of the above cases funds have already been raised from the precept so the money is identified in the earmarked reserve and NOT put into the new budget OR into the General Reserve.

- 3.3 Renewals:** To build up funds incrementally over several years to replace assets.
- 3.4 Grants or Developers Contributions:** These can only be used for the specified purpose.

3.5 Community Benefit Fund: This holds income from solar farms and other grants received for community projects.

4. Management and Review of Reserves

General and Earmarked Reserves shall be reviewed on annual basis and agreed by the Parish Council as part of the budget setting process. A reserves statement shall be published annually on the parish council website.