



# St Stephen in Brannel Parish Council

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## Reserves Policy 2020/21<sup>1</sup>

### Introduction

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2020 edition) advises

*“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.”*

St Stephen in Brannel Parish Council is required to maintain adequate financial reserves to meet the needs of the business and ensure financial security. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed when calculating the budget and precept requirement. However, legislation does not specify the 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.

### Types of Reserves

Reserves fall into two categories – earmarked or general.

Earmarked Reserves can be held for several reasons. The money is held for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked reserves can be used to ‘smooth’ the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year. Typically, they are held for four main reasons: -

- a) Renewals
- b) To carry forward an underspend
- c) To indicate commitment to a capital project
- d) To meet known or predicted liabilities

General Reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

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<sup>1</sup> Adopted by Full Council at the meeting held on Wednesday 2<sup>nd</sup> September 2020 under minute number FPC204/20. Due for review in 2021.

### **Earmarked Reserves (EMRs)**

EMRs must be held for genuine and intended purposes, and their level should be subject to annual review and justification. They should be separately identified and enumerated to prevent query from internal and external auditors.

EMRs will be established on a “needs” basis, in line with anticipated requirements. Any decision to set up an EMR must be approved by Full Council.

If the EMRs are used to meet short term funding gaps, they must be replenished in the following financial year. However, EMRs that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

### **General Reserves**

JPAG (March 2020 edition) advises that

*“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 (NRE).”*

*“The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent.”*

The primary means of building General Reserves will be through a reallocation of funds (underspend on project) and allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

If in extreme circumstances General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its EMRs to provide short term resources.

### **Review of Reserves**

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

The current level of General Reserves to be held by the Council is set at equal to four months of predicted expenditure.

This policy will be reviewed on an annual basis to ensure these level remains appropriate as changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum of General Reserves in order to provide working capital for those activities.