



General Reserves Policy

Brantham Parish Council

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1. Introduction

Brantham Parish Council is required to maintain adequate Financial Reserves to meet the needs of its operations and to 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 for meeting estimated future expenditure when calculating the budget requirement.

Proper Practices (March 2025 – to be applied to the Annual Governance and Accountability Returns covering the period 1 April 2025 to 31 March 2026) - requires all authorities to have sufficient reserves (general and earmarked) to finance their day-to-day operations and future plans.

Furthermore, it is stated that smaller authorities have no specific rights to accumulate funds via the precept. All reserves should be reviewed and justified regularly (at least annually). It is good practice to publish both the level and rationale of all reserves.

2. Types of Reserves

These may be categorised as either general, earmarked or restricted (CIL).

2.1 General Reserves

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.

The level of general reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building general reserves will be through an 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.

Setting the level of general reserves is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

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 earmarked reserves to provide short-term resources.

Even at times when extreme pressure is put on the council's finances the council must keep a minimum balance sufficient to pay one month's worth of contractual obligations to staff and contractors in general reserves.

Council should also be aware of the guidance given in Proper Practices (March 2025) which states 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 and twelve months of net revenue expenditure."

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.

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.

Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.”

2.2 Earmarked Reserves ‘EMR’s

Earmarked reserves can be used to cover items such as:

- Renewals – to enable services to plan and finance an effective programme of vehicle and equipment replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of underspend - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities and may include an insurance reserve to enable the council to meet the excesses of claims not covered by insurance.
- Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements.

Where 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 Parish Council, be transferred to other budget headings within the revenue budget, to General Reserves or to one or more other Earmarked Reserves.

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

EMRs will be established on a “needs” basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed.

Any decision to set up a reserve must be made by the council. Expenditure from reserves can only be authorised by the council.

2.3. Restricted Reserves (CIL)

Neighbourhood CIL is passed to parish or town councils by BDC where development is taking place. The amount will be 15% or 25% depending on whether the community has an adopted Neighbourhood Development Plan (NDP). Brantham does not have a Neighbourhood Plan.

The CIL Regulations 2010 as amended state that the parish council must spend the CIL income they received from the District on either:

- The provision, improvement, replacement, operation or maintenance of infrastructure; or
- Anything else that is concerned with addressing the demands that development places on an area.

Providing CIL is spent in accordance with the above, CIL monies may be used to provide seed or match funding with other income streams and/or may be spent collaboratively with other parish councils, community interest companies or other providers to make the most efficient use of funding to benefit the community.

Brantham Parish Council has a five-year period in which to spend CIL monies from the date received, thus funds may be accumulated to provide for major projects.

These sums must be held in a designated reserve (restricted reserve) to support the expenditure on facilities and services to ensure that there is the capacity to sustain such growth. Over time this will lead to a reduction in the total reserve available and all associated revenue costs will need to be brought into the revenue budgets funded by the Precept.

3. Management and Control of Reserves

The Council will hold Reserves for these four main purposes:

- A working balance to help cushion the impact of uneven cash flows – this forms part of the General Reserves.
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves.
- A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.
- A means of using funds to address the demands that development has placed on the area from the (CIL) Restricted Reserves.

The Council will control reserves available and expenditure using reserves in the following ways:

- Movements in Earmarked Reserves and General Reserves shall be reported to the Parish Council as part of the quarterly Budget to Actual Report and at monthly meetings if required. The use of Reserves shall be approved by the Parish Council.
- The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review and agreed by the Parish Council. The minimum level of General Reserves shall be recommended to the Parish Council by the Responsible Financial Officer. This will form part of the recommendations for the Annual Budget and Precept request by the Parish Council.
- The current level of General Reserves to be held by the Council is set at equal to between three and six months of predicted expenditure. Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the Annual Budgetary Review. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be given by the Parish Council.