Lympstone Parish Council
Reserves Policy

1. Introduction

Lympstone 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.

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

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. However, there is no specific minimum level of reserves which an authority should hold, and 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. Types of Reserves

These may be 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 flows, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies. Setting the level of General Reserves is agreed with the Annual Budget.

JPAG (2024 edition) advises:
"The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.
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.
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."
The primary means of building General Reserves will be through a reallocation of funds (underspend on a completed project) and allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves which have been spent in the previous year. If in extreme circumstances

General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Parish Council would be able to draw down from its EMRs to provide short term resources. Lympstone Parish Council has set a reserve of a minimum of three to six months' operational costs.

2.2 Earmarked Reserves 'EMR's

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 to prevent query from internal and external auditors.

EMRs are held for several reasons and shall only be used for the purpose for which they were created:

• Renewals – to enable the planning and financing of an effective program of equipment replacement and property maintenance/refurbishment. The funds required are built up incrementally over several years when considering asset conditions and asset life. They are a mechanism to smooth expenditure without the need to vary budgets.

• Carry forward of underspend on an uncompleted project – expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward those resources.

• Developers Contributions, CIL/S106 – proceeds from developers which can only be used for specified purposes.

• Other Earmarked Reserves – these may be set up from time to time to meet known or predicted liabilities.

Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an overprovision 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.

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 an EMR must be approved by Parish Council. 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.

3. Management and Control of Reserves

Movements in Earmarked Reserves and General Reserves shall be reported to the Parish Council as part of the budget monitor documentation. The use of Reserves shall be approved by the Parish Council.

The level of General Reserves shall be reviewed at minimum 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 Clerk (who is the Responsible Financial Officer). This will form part of the recommendations for the Annual Budget and Precept request by the Parish Council and is currently set at three to six months' operational costs.

Earmarked Reserves shall be reviewed on an individual basis. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be considered by the Finance and Advisory Committee and ratified by the Parish Council.

Lucy Tyrrell, Clerk and RFO to Lympstone Parish Council

Initially adopted: October 2025
Previous Update: October 2025
Current Update: October 2026 LPC Minutes Reference: 26/74.1
Next review: October 2027