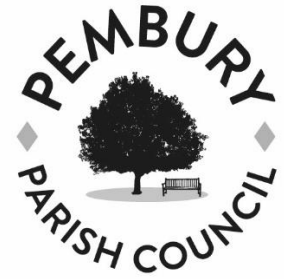


# PEMBURY PARISH COUNCIL

Working for Pembury People



## Reserves Policy

Adopted 04/02/2019

Version:	Date Approved:	Review Date:
1.0	04/02/2019	31/10/2022

## 1. PURPOSE

The Purpose of the policy is to set out how the council will determine and review the level of reserves.

- 1.1. Pembury Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation but has no legal powers to hold reserves other than those for reasonable working capital needs or for specifically earmarked purposes. As part of the year-end Annual Return submitted to the External Auditor, whenever the total of the council's reserves (total reserves -Box 7) is more than twice the annual precept value (precept – Box 2), the council is requested to provide an explanation of the high level of reserves.
- 1.2. Reserves can be used for long term planned or exceptional (unbudgeted or higher than expected) expenditure on the following conditions:
  - the expenditure must not be recurring
  - income in the reserves from the sale of fixed assets (capital receipts) such as the sale of land can only be used for capital projects, such as the acquisition and enhancement of land, building, vehicles, plant and machinery.
- 1.3. Budget allocations can be moved from one budget line to another during the course of a financial year, with approval from the council, so long as the total expenditure for the financial year is not exceeded. This is commonly referred to as "virement".

## 2. TYPE OF RESERVES

Reserves can be categorised as:

- Earmarked
- Ring Fenced
- General

## 3. EARMARKED RESERVES

- 3.1. Earmarked reserves are a means of building up funds over several years to deliver a defined project, predicted liabilities or for known significant expenditure. **They are not to be used for emergency operations.**
- 3.2. **Earmarked reserves must be reviewed and/or established by the council during the annual budget setting process. Every earmarked reserve proposal must include reasonable costing for each project and an estimated timescale.**
- 3.3. Earmarked reserves will be administered by the relevant committee in consultation with the RFO. Any changes to the proposed use of reserves must be agreed by full council.

3.4. The RFO will note earmarked reserves movements at the end of the financial year.

3.5. Earmarked reserves can be held for:

- Renewals - to enable services to plan and finance an effective programme of 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 or excessive Precept increases.
- Carry forward of under spend - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.

#### **4. RING FENCED RESERVES**

4.1. Ring fenced reserves are money or grants allocated for a specific project only.

#### **5. GENERAL RESERVES**

5.1. **General reserves are funds which do not have any restrictions placed upon them as to their use.** These 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.

5.2. Pembury Parish Council considers a prudent level of general reserves to be no more than **6 months or 50%** of its annual expenditure. However, the amount of general reserves should annually be risk assessed and approved by the council.

5.3. 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.

5.4. Even when in times of extreme pressure are placed upon the councils finances the council must always keep a minimum balance enough to pay 3 months' salary to staff and associated payroll costs (e.g. employers NI) in general reserves.

#### **6. OPPORTUNITY COST OF HOLDING RESERVES**

6.1. In addition to allowing the council to manage unforeseen financial pressures and plan known or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget.

6.2. However, there is an "opportunity cost" of holding funds in reserves, in that these funds cannot then be spent on anything else. As an example, if the funds were used to repay a debt, the opportunity cost would equate to the saving on

the repayment of interest, offset by the loss of investment income on the funds. However, using reserves to pay off debt in this way would leave the council with no funds to neither manage unexpected risks nor provide a mechanism to fund unplanned expenditure for which the reserves were earmarked.

- 6.3. Given the opportunity costs of holding reserves it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

## **7. EXAMPLES OF RESERVES**

- 7.1. **Earmarked reserves** - Funds set aside for the purchase of land and the establishment of additional burial grounds within the parish.

- 7.2. To invest in the replacement of play equipment within the parish councils' open spaces

- 7.3. **Ring fenced reserves** - Grants/match funding received from external bodies that have been specifically earmarked for a project such as replacing/improving playground equipment or for the investment in youth services. Could be Section 106 monies?

- 7.4. **General reserves** - Funds remaining from unspent precept that can be reserved for future needs such as:

7.4.1. Emergency tree works or increase to planned programme of works.

7.4.2. Replacement of vandalised equipment within the parish where not covered by an insurance claim/re-imburement.

7.4.3. Improvements to open spaces or allotments (Fencing/gates etc).

7.4.4. Special events in the future (Memorials/anniversaries).

7.4.5. Community development/support.

7.4.6. The Council could choose to convert these into earmarked reserves.