

STAPLEHURST PARISH COUNCIL

RESERVES POLICY

November 2022

Introduction

The Reserves Policy sets out how the council will determine and review the level of reserves.

Under the Local Government Act 1972 Staplehurst 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 – Annual Governance & Accountability Return (AGAR) 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.

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.

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".

The Council operates a "Single Entry or Cash Book Accounting" so any underspend at the end of the year is automatically transferred into Reserves for allocation.

TYPE OF RESERVES

Reserves can be categorised as: -

- General Reserves
- Earmarked
- Ring Fenced

GENERAL RESERVES

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.

NALC guidance suggests a prudent level of general reserves to be not less than **3 months or 25%** of its annual expenditure/precept but no more than **6 months or 50%** of its annual expenditure/precept. However, the amount of general reserves should be annually risk assessed and approved by the council.

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.

In addition, if the precept increases then an adjustment may be required at the start of a financial year.

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

Examples of General Reserves are;

1. A budget ed cost comes in at a higher fee due to inflation
2. Unexpected maintenance cost
3. Extra staffing costs

EARMARKED RESERVES

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.**

Earmarked reserves must be reviewed (and usually 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.

Earmarked reserves will be administered by the relevant committee in consultation with the Responsible Financial Officer (RFO). Any changes to the proposed use of reserves must be agreed by full council.

The RFO will note earmarked reserves movements at the end of the financial year. Earmarked reserves can be held for: -

- Renewals / sinking funds - 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 at the end of a financial year - some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources. The mechanism is that the underspend is transferred to earmarked reserves and is then spent in a timely manner.

Examples of Earmarked reserves are:

1. Funds set aside for the purchase of land
2. Funds set aside for a specific project within the parish,
3. Funds set aside to invest in the replacement of play equipment within the parish councils' open spaces.
4. CIL funding which we can earmark / use on a project

RING FENCED RESERVES

Ring fenced reserves are money or grants (legacies / bequests / donations) allocated for a specific project only. They often come with strict criteria as to how and when the money provided must be spent.

Section 106 funding passed down to parish/town councils are effectively ring-fenced reserves as they are legally tied to a specific area

Examples of Ring-fenced reserves are

1. a donation towards the Youth Club
2. funding set aside for a specific reason that cannot be used for anything else.
3. Grants received towards a specific issue – say Jubilee Field

OPPORTUNITY COST OF HOLDING RESERVES

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.¹ This investment income is fed into the budget strategy. 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,

¹ This is more relevant in times when interest rates for deposits are high. Opportunity costs would be advantageous and should be considered more carefully

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.

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.

Transparency

To ensure transparency we have a current and deposit account with Lloyds and a savings account with Nationwide and Unity Trust.

These accounts are covered by the Financial Services Compensation Scheme up to £85,000 each.

Adoption

This policy supersedes any former policy and was adopted by Staplehurst Parish Council on**28th November 20**....Minute.....**2048 item 6.2**.....

Chairman of the Council

Clerk/RFO to the Council

Staplehurst Parish Council

Draft Allocation of Reserves for discussion

31st March 2022

Category of Reserves	Amount allocated	Comment
General Reserves = £77,719.49		
General Reserves	£77,717.49	Equates to 36.17% of precept
Earmarked Reserves = £41,274.98		
Fund for outside works	£10,000	
Allotment Land	£10,000	Retain in case further opportunities arise
Surrenden Playing Field	£16,500	To be considered
Wimpy Field	£2,769.89	Used for MVCP management plan
Greener Staplehurst Project	£1,005.09	Being used up in 2022/23
Jubilee Field	£1,000	Donation from Magnetic Shields
Ring Fenced Reserves = £4,327.76		
Memory Cafe	£400	KCC Warden
Youth Club Project	£3,927.76	Includes funding left over from COVID 19 and transferred to Youth Club