

STOCKTON PARISH COUNCIL

RESERVES POLICY

1. Purpose

1.1 The purpose of this policy is to set out how the Council will determine and review the level of reserves.

1.2 The 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.

1.3 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 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 equipment.

1.4 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.

2. Types of Reserve

2.1 Reserves can be categorised as earmarked, ring fenced or 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 at the annual budget setting meeting. Every earmarked reserve proposal must include a costed project plan.

3.3 Earmarked reserves are to be administered by the relevant committee in consultation with the RFO. Any changes to the proposed use of reserves must be agreed by 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.
- 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 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.

5.2 The Parish Council considers a prudent level of general reserves to be no more than 12 months of its annual expenditure.

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 at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay three month's salaries to staff in general reserves at all times.

6. Opportunity Cost of Holding Reserves

6.1 In addition to allowing the Council to manage unforeseen financial pressures and plan for 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 strategy.

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 these funds were used to repay debt the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, 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 manage unexpected risks nor provide a mechanism to fund the planned 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.

This policy was amended by Stockton Parish Council on 19th June 2023 and will be reviewed in three years' time, at the AGM

doc title: reserves policy