

BERE FERRERS PARISH COUNCIL

RESERVES POLICY

Bere Ferrers Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. 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. However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

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.

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.

1. TYPES OF RESERVES

Reserves can be categorised as earmarked, ring fenced or general.

2. 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/or established by the Council at the annual budget setting meeting. Every earmarked reserve proposal must include a costed project plan.

Earmarked reserves are to be administered by the F & G.P Committee in consultation with the Responsible Financial Officer (RFO). Any changes to the proposed use of reserves should be recommended to Council by the F & G.P Committee.

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

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.

3. RING FENCED

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

4. 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.

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Bere Ferrers Parish Council considers a prudent level of general reserves to be no more than 3 months of its annual expenditure.

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 three months' salaries to staff in general reserves at all times.

5. OPPORTUNITY COST OF HOLDING RESERVES

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.

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.

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.

6. Charity Commission

Charity Name PLAYGROUND OR PLEASURE GROUND

Charity Number 300762

The Council currently hold 56 shares with the Charity Commission (CCLA).

Approving Committee	Finance & General Purposes Committee
Last review	21 st March 2023, Minute No: 590
Next review	February 2024