

Reserves Policy

This Reserves Policy was approved by the Council on 12 December 2022.

1. PURPOSE

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

- a) Gilberdyke 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 strategic 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.
- b) Reserves can be used for long term planned or exceptional 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.
- c) 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”.
- d) Funds remaining from an unspent precept can be allocated to specific, non-recurring liabilities, activities or projects, subject to the correct process of resolving such decisions, and must be so allocated within six months of the publication of the AGAR for the year in which the funds arose.

2. TYPE OF RESERVES

Reserves can be categorised as:

- Strategic
- Specific
- Operational

3. STRATEGIC RESERVES

- a) Strategic 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.**
- b) **Strategic reserves must be reviewed and/or established by the council during the annual budget setting process. Every strategic reserve proposal must include reasonable costing for each project and an estimated timescale.**

- c) Strategic reserves will be administered by the relevant committee in consultation with the Clerk. Any changes to the proposed use of reserves must be agreed by full council.
- d) The Clerk will note strategic reserves movements at the end of the financial year.
- e) Strategic 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. SPECIFIC RESERVES

- a) Specific reserves are money or grants allocated for a specific, fully costed and budgeted liability, activity or project only.
- b) Specific Reserves that have been used to meet a liability, activity or project should not be replenished, having served the purpose for which they were established.

5. GENERAL RESERVES

- a) **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.
- b) Gilberdyke Parish Council considers a prudent level of general reserves to be no more than **6 months or 50%** of its annual precept. However, the amount of general reserves should annually be risk assessed and approved by the council.
- c) 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 strategic reserves to provide short term resources.
- d) Even when in times of extreme pressure are placed upon the council's finances the council must always keep a minimum balance enough to pay 3 months' salary to staff and associated payroll costs (e.g. employers PAYE & NI) in general reserves.

6. OPPORTUNITY COST OF HOLDING RESERVES

- a) 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.
- b) 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 strategic.

- c) 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

a) **Strategic reserves**

- To plan asset maintenance schedules, for example bus shelter refurbishment and replacement, without large increases in the precept in the year in which the work is carried out.
- To invest in the long-term development of a play area, where the precise costs and timescale are dependent on public consultation. However an estimate of costs and timescale must be agreed.

b) **Specific reserves**

- A multi-year budget for improving an asset over a number of years set aside for the purchase of land and the establishment of additional burial grounds within the parish.
- A joint project with another organisation to improve accessibility, such as an induction loop in the village hall.

c) **General reserves**

- General reserves are only to be used for operational expenditure and cannot be used for projects.
- The Parish Council will aim to ensure that the amount held in the general reserve should not exceed 60% or fall below 40% of the annual precept.