

CUMNOR PARISH COUNCIL

Reserves Policy

Issue 3

Issue History.

- Issue 1 Adopted 07/11/2022 minute 312/22.
- Issue 2 updated 10/07/2023 minute 202/23.
- Issue 3 updated 03/06/2024 minute 176/24.

Purpose.

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

Cumnor 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 (Box 7 total reserves) is more than twice the annual precept value (Box 2 precept), the Council is required to provide an explanation.

Reserves can be used for long term planned or exceptional (unbudgeted or higher than expected) expenditure on the following conditions:

- Expenditure must not be recurring
- Income in the reserves for 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 to another during the course of the financial year, with approval of Council, so long as the total expenditure for the financial year is not exceeded. This is commonly referred to as 'virement'.

Types of reserves.

- Earmarked
- Ring Fenced
- General

Earmarked Reserves.

Earmarked Reserves are a means of building up funds over several year to deliver a defined project, predicted liabilities of for a known significant expenditure. They are not to be used for emergency operations.

Any decision to set up a reserve must be made by Council.

Expenditure from reserves can only be authorised by Council.

Any changes to the reserves can only be authorised by Council.

The RFO will record all earmarked reserves movement at the end of the financial year.

Earmarked Reserves can be held for:

- Renewals – to enable Council to plan and finance an effective programme of equipment replacement and planned property maintenance
- Carry forward of under spend – some council commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.

Ring Fenced Reserves

Ring Fenced Reserves are money or grants allocated for a specific project only.

General Reserves.

The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

Setting the level of General Reserves is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

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 one month's salaries to staff in General Reserves at all times.

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.

Current level of financial reserves.

The level of financial reserves held by the council will be agreed by the Parish Council during the discussions held regarding the setting of the budget for the next financial year.

The current level of general reserves to be held by the Council is three twelfths of the annual precepted figure, i.e. to fully cover three months' expenditure.

The figure of three twelfths of the precept is to be held rather than three months' expenditure costs. This figure is current £24,750 for the total precept of £99,000 in the financial year of 2024/25.

The Council agreed to the following levels of reserves on ????????????

Burial fund	84,671
Fogwell Road Pavilion	1,168
Closes Pavilion	2,000
Highways	15,367
Major projects	2,827
CIL	13,162
Closes Pavilion	1,000
Recreation future	16,557
Defibrillator	1,059
Office costs	1,202
Neighbourhood Plan	9,000
Contingency	29,000

Contested election	5,000
Kimmeridge road	7,564
	188,578

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