

MELBOURN PARISH COUNCIL

RESERVES POLICY

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 Melbourn 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.

2. TYPES OF RESERVES

- 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 and agreed by the Council at the financial year end. An explanation must be provided for each reserve and, where practical, an estimated cost proposal provided.
- 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

- 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 Melbourn Parish Council considers a prudent level of general reserves to be 6 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

- 6.2 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 and is considered in more detail in the Parish Council's Investment Strategy (document number 4.32) which is reviewed annually.
- 6.2 However, there is an "opportunity cost" of holding funds in reserves, in that these funds cannot then be spent on anything else.
- 6.3 Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed as a minimum each year as part of the budget process and at the financial year end to confirm that they are still required and that the level is still appropriate.



Document Approval:

(Chair to Melbourn Parish Council)

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