

PAPER G



RECOMMENDATION FROM FINANCE AND COMMUNITY RESOURCES COMMITTEE MEETING

HELD ON 23rd JANUARY 2024

To recommend to full council the approval of the Reserves Policy written by the Responsible Financial Officer.



RESERVES POLICY

ADOPTED 1st February 2024

Introduction

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

Ryde Town 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.

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. The only exception to this is when the proceeds from the sale are under £10,000.

Budget allocations can be moved from one budget line to another during a financial year, with approval from the relevant committee in line with their terms of reference.

Types of Reserves

There is, in practice, no upper or lower limit to Earmarked Reserves save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting) and should be separately identified and enumerated. Significant levels of Earmarked Reserves may give rise to enquiries from internal and/or external auditors. (Joint Panel on Accountability and Governance – March 2023).

1.1 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. Earmarked reserves are monitored by the Responsible Financial Officer (RFO) monthly.

Earmarked reserves are to be administered by the relevant committee in consultation with the RFO. Any changes (virements) to the proposed use of reserves must be agreed by the relevant committee in line with their terms of reference.

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 significant under spend for a project which started within a financial year - some services commit expenditure to projects but cannot spend the budget in year. Reserves can be used as a mechanism to carry forward these resources, but general reserves should be used for lower values.

1.2 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.

Ryde Town Council aims to hold a level of general reserves to be approximately 3 months of its annual expenditure, which as of January 2024 is £298,000. Ryde Town Council has committed to reaching this level of reserves within the next 5 years, adjusting the total as appropriate.

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 month's salaries to staff and contractual liabilities in general reserves at all times.

2.1 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.