

Reserves Policy

1. The Purpose of the policy is to set out how the council will determine and review the level of reserves.
2. Halesworth 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. 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.
3. Reserves can be used for long term planned or exceptional (unbudgeted or higher than expected) expenditure on the following conditions:
 - a. The expenditure must not be recurring
 - b. 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 (budget lines that have a significant under spend) can be moved from the current year's budget to corresponding reserve at the end of the 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".
4. TYPE OF RESERVES: Reserves can be categorised as: Earmarked , Ring Fenced or General
 - **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 during the annual budget setting process. Every earmarked reserve proposal must include reasonable costing for each project and an estimated timescale. Earmarked reserves will be administered by the relevant committee in consultation with the RFO. Any changes to the proposed use of reserves must be agreed by full council. 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 or refurbishment and improvements. These reserves are normally for large projects that are outside the scope of the usual annual budget and require a period of saving to enable the project to be undertaken. Carry forward of under spend - some services commit expenditure to projects but cannot spend the budget in one 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:** 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. 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 when in times of extreme pressure are placed upon the councils finances the council must always keep a minimum balance ideally equivalent to one year's budget to pay salaries to staff and associated payroll costs, operating costs etc

EXAMPLES OF RESERVES

- *Earmarked reserves - Funds set aside for the purchase or maintenance of land, properties or the undertaking of larger projects within the parish. Investment in the replacement of play equipment, Skateboard Park and other similar infrastructure within the parish councils' open spaces. Long term liabilities and*
- *Ring fenced reserves - Grants/match funding received from external bodies that have been specifically earmarked for a project*
- *General reserves – The balance of all accounts less the reserves, less the Community Infrastructure funds (as potentially they must be repaid to the District Council if unspent after 5 years) and any committed expenditure makes up the Council's general reserves. These remaining funds may be allocated to earmarked or ring fenced reserves as applicable.*