



FORDINGBRIDGE TOWN COUNCIL

FINANCIAL RESERVES POLICY

1. Introduction

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating budget requirement. There is no specified minimum or maximum level of reserves that an authority should hold and it is the responsibility of the Responsible Finance Officer (RFO) to advise the Council about the level of reserves and to ensure that there are key protocols for their establishment and use.

2. Purpose

Fordingbridge Town Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of General Reserves. The Council's General Reserves is where all the revenue income and expenditure of the Council is accounted for. It does not include specific funds earmarked for long term projects.

3. Types of reserves

A Council will hold reserves for these three main purposes:

- 3.1 A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- 3.2 A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- 3.3 A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements and liabilities; earmarked reserves are accounted for separately but remain legally part of the General Reserve. An earmarked reserve may also be used to carry forward a known underspend where work is not completed in the budgeted year.

4. General Reserves Policy

- 4.1 The General Reserve balance is to be maintained at a level based upon a risk assessment carried out annually by the RFO when setting the budget for the forthcoming year. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.
- 4.2 Financial Risk Management – in order to assess the adequacy of the general reserve when setting the annual budget, the RFO will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the general reserve balance for the forthcoming year will therefore be based upon a risk assessment of the Council's main areas of income and expenditure and take into account any provisions and contingencies that may be required. This financial risk assessment will be based on the main financial risks identified in the Council's Risk Register.

5. Earmarked Reserves

Earmarked reserves represents the amounts that are generally built up over a period of time for specific items of expenditure to meet known or anticipated liabilities or projects. Reserves should not be held to fund on-going expenditure as this is unsustainable. The "setting aside" of funds to meet known future expenditure reduces the impact of meeting the full expenditure

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in one year. The Council, when establishing an earmarked reserve, will set out:

- The reason/purpose for the reserve;
- How and when the reserve can be used (expenditure may only be authorised by the Council);
- Procedures for the management and control of the reserve;
- A process and timescale for review of the reserve to ensure continuing relevance and accuracy.

The following earmarked reserves will be held by the Council:

Reserve	Use	Policy for Use
Machinery Replacement Fund	To build up funds to replace vehicles and plant	That the purchase of vehicles and plant, as agreed by Council, are met from this reserve.
Town Hall Maintenance	To build up funds to meet capital expenditure	That expenditure to be met from the reserve is agreed by Full Council.
Good Citizen Award	To hold in reserve for the Community Award at Burgate School.	Allocated annually, agreed by Full Council.
Bishops Pond	To hold in reserve for future conservation work to the pond	That expenditure to be met from this reserve is agreed by Amenities.
Children's Play Area	To build up funds to replace play equipment	That the purchase of replacement equipment, as agreed by Full Council, is met from this reserve.
Avonway Youth Projects	To hold in reserve to support youth projects in the town.	Full Council
Parish Lengthsman	To hold in reserve (accrual) for the scheme unspent funds from previous years.	Authorise by Clerk/RFO (not Council funds)

6. Working Balances

6.1 The level of general reserves or working balances is a matter of judgement. The primary means of building working balances will be through an allocation from the annual budget. This would be in addition to any amounts needed to replenish reserves that may have been consumed in the previous year.

6.2 Setting the working balances 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.

6.3 If in extreme circumstances general reserves are exhausted due to 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.

7. Statutory Reserves

Local Authorities may also hold reserves that arise out of the interaction of legislation and proper accounting practices.

- Capital Receipts Reserves may arise from the proceeds from the sale of assets and can only be used for capital purposes in accordance with regulations.
- Unspent Community Infrastructure Levy (CIL) receipts must also be retained and held in reserves in accordance with regulations.

Fordingbridge do not hold any Statutory Reserves at the current time.

8. 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 interest earned (investment income). This income should be considered with the budget strategy.

9. Review of the Adequacy of Balances and Reserves

In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation.

This Financial Reserves Policy was reviewed in March 2017