

**Swanage Town Council**



**Policy on Reserves and Balances**

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## **1. Introduction**

The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. Consideration should also be given to the CIPFA guidance notes on Local Authority Reserves and Balances issued November 2008.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered during the annual review of the Council's Medium Term Financial Strategy (MTFS) and preparation of the annual budget.

The Council will hold reserves for these three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves;
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

## **2. General Fund Balance**

The General Fund Balance, commonly termed the "working balance", is a balance on the Council's revenue account which is not held for any specific purpose other than to cushion the Council's finances against any unexpected short term problems in the council's cash flow.

- 3. Policy:** The General Fund Balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer 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. Financial Risk Management**

In order to assess the adequacy of the general fund when setting the annual budget, the Responsible Finance Officer will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the general fund 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 upon the main financial risks identified in the Council's Corporate Risk Register

The main items to be considered are:

<b>Financial Risk</b>	<b>Analysis of Risk</b>
Pay inflation is greater than budgeted	The cost of living increase is above the level allowed for in the estimates.
Contractual inflation is greater than budgeted	A general assumption is made when estimating the percentage increase on rates & utilities. This may increase above budgeted inflation. Professional and other services costs increase above estimate.
Treasury management income is not achieved	The actual interest rate realised is below the rate predicted at budget setting.
Car park revenue is below forecast	That a decrease in revenue is realised from estimate.
Seasonal income is lower than budgeted/shortfall in income from fees and charges	That a decrease in revenue is realised from estimate.
Contingent liabilities are realised	That the Council becomes liable to pay contingent liabilities.

## **5. Statutory Reserves**

Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices. At Swanage Town Council this is:

- Capital Receipts Reserves - this reserve holds the proceeds from the sale of assets, and can only be used for capital purposes in accordance with regulations.

## **6. Earmarked Reserves**

Earmarked reserves represent amounts that are generally built up over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. The 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year. The Council, when establishing an earmarked reserve, will set out:

- the reason/purpose of the reserve;
- how and when the reserve can be used;
- procedures for the management and control of the reserve;
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

The following earmarked reserves will be held by the Council:

<b>Reserve</b>	<b>Use</b>	<b>Policy for Use</b>
Festive Lights	To build up funds to meet the repairing obligation on the acquisition of the lights	That the surplus/(deficit) on the revenue account be appropriated to/(from) the reserve.
Vehicle & Plant Replacement	To build up funds to replace vehicles and plant	That the purchase of vehicles and plant, as agreed by Council, be met from this reserve.
King Georges Play Area and Skate Park	To build up funds to replace play & skate Park equipment	That the purchase of equipment, as agreed by Council, be met from this reserve.
Play Equipment-General Areas	To build up funds to replace play equipment	That the purchase of equipment, as agreed by Council, be met from this reserve.
Car Park Machines	To build up funds to replace car park ticket machines	That the purchase of equipment, as agreed by Council, be met from this reserve.
Tennis Courts Refurbishment	To build up funds to resurface the tennis courts	That a contribution of up to £3,600 be made by the Council with an equal contribution to be met by the Tennis Club.
Seafront Enhancement Reserve	To build up funds to meet the costs of improvements to the Spa, Weather Station Field and Sandpit Field	That expenditure to be met from the reserve is agreed by full council.
Public Conveniences Fund	To build up funds to meet future capital expenditure	To fund future capital projects as agreed by full council.
Beach Huts Reserve	To build up funds to meet future capital expenditure	To fund future capital projects as agreed by full council.
Football Club Facilities	To build up funds to meet future costs	To fund future capital expenditure at the Football Club.
De Moulham Back Roads	To fund the repair and maintenance of the De Moulham Estate Back Roads	That the surplus/(deficit) on the revenue account be appropriated to/(from) the reserve.
Insurance & Contingency Reserve	To hold funds to cover one-off costs that may result from Local Government Re-organisation	That any expenditure to be met from the reserve is agreed by Council.
IT Equipment	To hold funds to meet future expenditure for IT equipment replacement	That the purchase of equipment, as agreed by Council, be met from this reserve.
Community Infrastructure Levy	To hold funds for the provision, improvement, replacement, operation or maintenance of infrastructure; or anything else that is concerned with addressing the demands that development places on an area	This money must be spent in accordance with Regulation 59 C, within 5 years of receipt from the District Council.

FJ Grace Will Trust	To hold funds from the FJ Grace Will Trust	To fund a project in order to provide additional amenities for the towns people of and the visitors to Swanage, as determined by Council.
Sea Defence Project Reserve	To hold the funds donated by Wessex Water following and Enforcement Undertaking	To help fund a sea defence project

**7. 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.