

Swanage Town Council



Policy on Reserves and Balances

Contents

1. Introduction
2. General Reserve
3. Policy
4. Financial Risk Management
5. Statutory Reserves
6. Earmarked Reserves
7. Review of Adequacy of Reserves

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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 Joint Panel on Accountability & Governance (JPAG) Practitioners' Guide.

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.

An authority has no legal powers to hold reserves other than those for reasonable working capital needs, or for specifically earmarked purposes. The general reserve should not be significantly higher than the annual precept.

2. **General Reserves – The 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**: JPAG recommends that a General Reserve between three and twelve months of Net Revenue Expenditure is maintained, with larger authorities holding nearer to three months. However, an authority may adopt a General Reserve Policy to set a level appropriate to their size and situation. For this authority, a General Reserve 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:

Financial Risk	Analysis of Risk
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 and rental income is lower than budgeted/shortfall in income from fees and charges	That a decrease in revenue is realised from estimate.
Insurance Cover	That events occur resulting in losses that are not covered by insurance.

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:

Reserve	Use	Policy for Use
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 Unitary Authority.
Community Sea Defence Project Reserve	To hold the funds donated by Wessex Water following and Enforcement Undertaking	To help fund a sea defence project

Committed revenue expenditure C fwd	To hold funds committed to revenue expenditure which have been deferred to the next financial year	To fund deferred revenue expenditure as recommended by the Town Clerk and agreed by full Council.
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7. Review of the Adequacy of Balances and Reserves

As these reserves are funded from taxation it is important that these reserves are not excessive. In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of general and earmarked reserves will be reviewed as part of the annual budget preparation.

Table 1: Estimate of Reserves and Balances 2021/22 to 2023/24

	Forecast Outturn 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
The General Fund Balance (GFB)				
<i>Movements on the General Fund:</i>				
Net Operating Expenditure	1,054,345	918,285	757,945	805,425
Transfers to/(from) Reserves	(75,865)	(180)	70,000	70,000
Capital Expenditure charged to the GFB	0	0	0	0
	978,480	918,105	827,945	875,425
<i>To be financed by:</i>				
Precept	732,390	747,040	761,980	777,220
Grants/Donations	261,640	3,000	3,000	3,000
	994,030	750,040	764,980	780,220
Surplus / (Deficit) for Year	15,550	(168,065)	(62,965)	(95,205)
General Fund Balance B f'd	699,015	714,565	546,500	483,535
Surplus / (Deficit) for Year	15,550	(168,065)	(62,965)	(95,205)
General Fund Balance C f'd	714,565	546,500	483,535	388,330

Earmarked Reserves				
Vehicle & Plant Replacement	0	10,000	20,000	30,000
King Georges Play Area & Skate Park	93,017	3,017	13,017	23,017
Play Equipment-General Areas	13,904	23,904	33,904	43,904
Car Park Machines	26,748	34,248	39,248	44,248
Tennis Courts Refurbishment	3,000	6,000	9,000	12,000
Seafront Enhancement Scheme	1,134,557	834,557	334,557	184,557
Community Sea Defence Project	450,000	450,000	0	0
Public Conveniences	50,000	70,000	65,000	80,000
Beach Huts Reserve	55,000	65,000	75,000	85,000
Football Club Facilities	6,958	6,958	6,958	6,958
De Moulham Back Roads	26,953	28,953	30,953	32,953
Insurance & Contingency Reserve	40,000	40,000	40,000	40,000
Community Infrastructure Levy	191,160	173,160	173,160	173,160
IT Equipment Reserves	13,164	18,164	23,164	28,164
Committed expenditure c fwd	67,680	0	0	0
Reserves C f'd	2,172,141	1,763,961	863,961	783,961

Usable Capital Receipts Reserve				
UCRR Balance B f'd	2,514,050	2,477,495	1,986,495	1,483,495
Capital expenditure	(36,555)	(491,000)	(503,000)	0
Capital Receipts	0	0	0	0
UCRR Balance C f'd	2,477,495	1,986,495	1,483,495	1,483,495

Total Useable Reserves

The General Fund	714,565	546,500	483,535	388,330
Earmarked Reserves	2,172,141	1,763,961	863,961	783,961
Useable Capital Receipts Reserve	2,477,495	1,986,495	1,483,495	1,483,495
Total of Reserves held by the Council	5,364,201	4,296,956	2,830,991	2,655,786

Table 2: Estimate of Additions to and Expenditure from Earmarked Reserves 2020/21

Earmarked Reserves	Actual 31/03/2020 £	Additions	Expenditure	Forecast 31/03/2021 £
Vehicle & Plant Replacement	20,000	0	20,000	0
King Georges Play Area & Skate Park	83,017	10,000	0	93,017
Play Equipment-General Areas	188,904	0	175,000	13,904
Car Park Machines	19,248	7,500	0	26,748
Tennis Courts Refurbishment	0	3,000	0	3,000
Seafront Enhancement Scheme	1,134,557	0	0	1,134,557
Community Sea Defence Project	450,000		0	450,000
Public Conveniences	40,000	10,000	0	50,000
Beach Huts Reserve	45,000	10,000	0	55,000
Football Club Facilities	6,958	0	0	6,958
De Moulham Back Roads	33,248	2,000	8,295	26,953
Insurance & Contingency Reserve	40,000	0	0	40,000
Community Infrastructure Levy	142,410	148,750	100,000	191,160
IT Equipment Reserves	13,164	0	0	13,164
Committed revenue expenditure c fwd	326,500	0	258,820	67,680
Total	2,543,006	191,250	562,115	2,172,141

Transfers from the General Fund to EMR: £191,250, (including £148,750 CIL)
less transfers to the General Fund to finance revenue expenditure: £267,115
Net movement to/(from) Earmarked Reserves to the General Fund: **(£75,865)**

less Financing Capital Expenditure from EMR: **(£295,000)**

Total increase/(decrease) in Earmarked Reserves: (£370,865)