



BEXHILL-ON-SEA TOWN COUNCIL RESERVE POLICY FOR APPROVAL

1. Introduction

1.1. This policy is for the Council to set out how it manages its reserves and is separate to the council's investment policy.

2. Purpose

2.1 Bexhill-on-Sea Town Council is required to maintain adequate financial reserves to meet the needs of the council.

Section 32 and 43 of the Local Government Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirements.

The advice of the Internal Audit is based on the following guidelines in the Local Accountability and Governance.

The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure. (Para 5.34)

In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income. (Para 5.36)

Based on the size of Bexhill-on-Sea Town Council 3-6 months of precept should be the general reserve recommended level.

There are two main types of reserves.

3. General Reserve

3.1 The general reserves are funds that have no restriction as to their use. These reserves cushion the impact of uneven cashflows, offset budget requirements (if necessary), fund short term financial risks and unexpected or exceptional events.

The reserve represents the balance on the council's revenue accounts i.e. the account which records all its financial transactions. Unless allocated for a specific purpose, revenue budget under spendings and windfalls are added to the working balance, while overspendings are taken from the working balance.

As per the note above the council aims to hold up to 6 months of precept in the general reserve.

Reserves can only be used once and so should not be held to fund ongoing expenditure as this is unsustainable. To the extent that the general reserve is used to meet short term funding gaps it should be replenished in the following year's budget setting process.

4. Earmarked Reserves

4.1 Earmarked reserves are created and held for a specific ring-fenced purpose or to help smooth out medium to long-term financial risks and spending plans.

They can also be held as carry forwards of underspend. As is the case where the Council commits expenditure to a specific project but is unable to spend the budget in the year. Reserves in this instance are used as a mechanism to carry forward budgeted resources. Carry forward should be an ear marked reserve for 1 year only.

Earmarked reserves will increase through decisions of council and decrease as they are spent on their specific and intended purpose, no earmarked reserve should be overspent.

All earmarked reserves are recorded on a central register held by the RFO, and the register will list the purpose for which the ear marked reserve is held.

Reviewing the Councils Financial Risk assessment is part of the budget and year end procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of reserves.

5. Consideration of Financial Risks – Short and Long-term

5.1 Short-Term Financial Risks

To assess the adequacy of the general reserves, the council has considered the strategic, operational, and financial risks faced. The short-term risks that the council faces, with reference to its current plans include.

Lower than expected income.

- Other income – the revenue estimates forming the basis of the precepted income from a range of sources, such as hire fees, allotment income. If this falls below budgeted level, then the balance could be funded from general reserves.
- Calculations of Band D and non-collection allowances giving lower than expected precept tax base.
- Other risks – e.g, inflation and cost of living crisis may impact on availability of grants and other income sources.

Higher than expected costs due to;

- Inflation costs – Utilities sector
- Unexpected professional fees
- Shortage of staff resources

5.2 Long-Term Financial Risks

Long-term financial risks faced by the Council.

- Funding council capital projects and uncertainties therein
- Funding deficit in the Local Government pension scheme
- Funding for expenditure that arises once every 2-5 years e.g. Elections
- Funding repairs or replacement assets
- Changes to legislation e.g. National Insurance and Tax thresholds, uncertainties surrounding CIL income.

6. Review

General reserves will be reviewed at the end of the financial year in conjunction with the year's surplus or deficit being added or subtracted.

Earmarked reserves are established on 'needs' basis in line with anticipated requirements. The Council to review the earmarked reserves on an annual basis as a minimum and will approve and additions or carry forward balances.

The Council will review the policy annually.