

Ivybridge Town Council

Reserves Policy

Introduction

Local Authorities are empowered to hold reserves through section 42a of the Local Government Finance Act 1992.

Reserves are an essential part of good financial management, they assist the Council to manage unpredictable financial pressures and plan for future spending commitments.

Legislation states the Council must set a balanced budget, in setting the balanced budget the Council should consider the following:

- What level of expenditure is required to deliver the desired level of services;
- What income the Council can generate through fees and charges to support the expenditure;
- The amount of reserves available to support the Council's expenditure;
- The level of reserves required to fund the Council's capital projects contained within the medium term financial plan;
- The level of Precept the Council is prepared to charge local residents.

Reserves Definitions

This Council's reserves fall into four main categories:

1. General Reserve
2. Earmarked Reserves
3. Committed Earmarked Reserves – For future revenue and capital costs
4. Restricted Reserves – Legally/contractually restricted

1 General Reserve:

The level of this reserve is designed to reflect the general cash flow and day to day risks surrounding the delivery of the Council's services. There is no specific guidance on the minimum level of the general reserve, the Council should determine what is a prudent level of reserve based on its own circumstances, risks and uncertainties.

2 Earmarked Reserves:

This is a pool of reserves designed to support smaller, one off or unexpected items requiring funding across the Council. It is there to enable the Council to be responsive and flexible when required.

3 Committed Earmarked Reserves:

These are sums set aside for service delivery, to meet future expenditure of a capital or revenue nature not contained within the annual budget. They are created by carrying approved unspent budgets or over recovery on income into earmarked

reserves, also if expenditure on certain items is delayed then these may be earmarked for completion in the following year. The Precept Support Fund is held here to minimise future precept increases.

4 Restricted Reserves:

These are created from sums received with restrictions on how they may be spent, examples are: contributions received under Section 106 Agreements. They may also contain sums received as grants or other means that have specific legal or contractual ways which they must be spent.

Reserves Policy

General Reserve

As stated above there is no hard and fast rule governing the level of general reserve, using a ratio of precept to income generated from activities. In this Council income is 54% precept, 46% other income (2021-2022) mostly comprised of income from The Watermark – a commercial venture. The cash flow risk is considered to be high based on this income mix, and so the level of General Reserve should be between four and six months operating costs (excluding capital projects). If the General Reserve drops below four months operating costs it should be topped up by either contribution from the precept or by virement of sufficient funds from the Earmarked Reserves to restore the General Reserve to an acceptable level. If the General Reserve exceeds six months operating costs, surplus funds should be carried into the Committed Earmarked Reserves created to support future year's precept.

Earmarked Reserves

These are general funds as a result of unexpected income and surpluses from previous years. The total of all these reserves should not exceed £60,000. They should be considered for use before the Committed Earmarked Reserves. They should mainly be used for unplanned or unexpected projects, or initiatives, which the Council want to happen within the financial year. They can be spent by resolution of the relevant committee.

Committed Earmarked Reserves

Committed Earmarked Reserves are created by carrying surpluses into the following financial year, these may be either underspends on expenditure or over recovery on income budgets. They may also be created to smooth irregular revenue expenditure by making an annual allowance in the budget (for example an Election Reserve). Budgets cannot be rolled over to the following year and accounting for any surpluses will take place each year end, when the overall financial position of the Council can be established and the treatment of the surplus/deficit is decided by the Policy and Resources Committee.

Committed Earmarked Reserves are controlled by the committee responsible for the delivery of the relevant services and are spent by resolution of that committee.

The Policy and Resources Committee in conjunction with Clerk should define:

- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control;
- Timescale for review of the reserve to ensure its continuing relevance and adequacy.

Restricted Reserves

Restricted Reserves contain sums received with legal or contractual restrictions on how the monies may be spent, for example Section 106 funding.

Section 106 Receipts – These are sums received from developers to finance specific projects such as the provision and maintenance of a play area etc. The use to which the funds can be put are generally contained within the agreement when the funds are handed over.

These funds require resolution of Full Council or Policy and Resources Committee to be spent.