

Ferndown Town Council's General and Earmarked Reserve Policy

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1. Background

Ferndown Town Council (FTC) is required, under statute, to maintain adequate financial reserves to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires local precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum or maximum level of reserves that an authority should hold. It is the responsibility of the Responsible Financial Officer (RFO) to advise the FTC about the level of reserves and to ensure that there are procedures for their establishment and use. Consideration should be given to the CIPFA guidance notes on Local Authority Reserves and Balances issued in 2008 and the Audit Commission document 'Interpreting the accounts' published in September 2014,

2. The Council will hold reserves for these three main purposes:

- (i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- (ii) A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
- (iii) A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements.

3. General Reserves

The General Reserve 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.

A council should typically hold between 3- and 12-months expenditure as a general reserve. It is the RFO's advice that Council work towards a general reserve fund equal to at least 6 months of the current precept. The primary means of building

general reserves will be through an allocation from the annual budget and will form part of the medium-term financial strategy of the Council

These reserves are 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, in so far as funding allows. 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. If in extreme circumstances general reserves were exhausted due to major unforeseen spending pressures within a particular year the Council would be able to draw down from its earmarked reserves to provide short term resources. Even at times of extreme financial pressure the Council will keep a minimum balance in general reserves sufficient to pay at least three month's salaries to staff and cover existing contractual obligations.

4. Earmarked Reserves

Earmarked Reserves represent amounts that are generally built up or set aside 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:

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

5. 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 considered. The level of earmarked reserves will be reviewed as part of the annual budget preparation.