



ALTON TOWN COUNCIL RESERVES STRATEGY

1.1 Town Council Reserves

- 1.2 The Town Council needs to maintain reserves to protect against risk, ensure contingencies are in place and to support investment in future projects which are beneficial to the town.
- 1.3 The Reserves Strategy presents information about the requirements to maintain appropriate financial reserves and provides details on the types of reserves and current and predicted balances. The Town Council manages risk by assessing the potential impacts of future events, based on the likelihood that they may occur and the severity of any impact. Mitigating actions are then identified to reduce the exposure and appropriate plans are put in place.
- 1.4 In summary, the Council are obliged to maintain satisfactory levels of reserves not based solely on one year's financial outturn, but to meet future financial risks. Higher reserves will provide the Council with greater strategic flexibility in future years. The purpose of this strategy is to enable the Committee to review the level of reserves to ensure they meet the current and future needs of Alton Town Council.
- 1.5 Sections 32 and 43 of the Local Government Finance Act 1992 require local 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 and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are key protocols for their establishment and use.

2.1 Types of Reserves

- 2.2 Alton Town Council maintains two types of reserves, categorised as general (e.g. held to cushion the impact of uneven cash flows or unexpected events) or earmarked (held for a specific purpose).

(a) General Reserve

This represents the non-ring fenced (earmarked) balance of Council funds. The main purposes of the General Reserves are firstly to operate as a working balance to help manage the impact of uneven cash flows and secondly, to provide a contingency to cushion the impact of emerging or unforeseen events or genuine emergencies. In general, a robust level of reserve should be maintained and take account of operational and financial issues facing the Town Council.

(b) Earmarked Reserves

This provides a means of accumulating funds, for use in a later financial year, to meet known or planned policy initiatives. Earmarked Reserves will increase through decisions of the Council and will decrease as they are spent on their specific intended purposes.

The purpose of an Earmarked Reserve is to set aside amounts for projects that extend beyond one year or as a contingency against a specific situation occurring. Once an Earmarked Reserve has been established by the Town Council it is the responsibility of the Policy and Resources Committee to ensure funds are spent in line with their purpose. The purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant.

- 2.3 The assessment of the adequacy of the Council's balances and reserves is based on the guidance note on Local Authority Reserves and Balances, which whilst there is not a statutory requirement, is considered to set out current best practice with regard to balances and reserves. The guidance states that no case has yet been made to set a statutory minimum level of reserves and that each local authority should take advice from its Responsible Financial Officer and base its judgement on local circumstances.
- 2.4 A well-run authority with a prudent approach to setting its budget will each year consider its level of general reserves. These general reserves will also need to be supported by earmarked reserves for specific needs, contingencies and commitments. In assessing the level of the Town Council's reserves, account needs to be taken of the risks facing the Council in terms of any significant unforeseen expenditure requirements
- 2.5 Possible future transfers of services from East Hampshire District Council and Hampshire County Council and any capital requirements for the management of the Council's assets and buildings need to be considered.

Further major elements which could impact adversely on future precepts are:-

- Capping of Town Council Precept by HM Government
- East Hampshire District Council as Billing Authority further reducing the central government support grant through the localisation of council tax benefit support scheme.
- Additional transfer of services from EHDC or HCC

3.1 Financial Responsibility

Under Alton Town Council Standing Orders and Committee Terms of Reference the Policy and Resources Committee is responsible for the overall management and control of the Town Council's finances.

- 3.2 The role of the Committee is to review the level of its balances and reserves and make the following decisions:-
- To recommend the Council to reallocate earmarked reserves which will not be used for the original purpose for which they were established.
 - To consider the level of reserves to be applied to the precept for each year.

4.1 Role of Responsible Financial Officer

- 4.2 It is the responsibility of the Responsible Financial Officer to advise the Town Council about the level of reserves that it should hold and ensure that it has clear protocols for their establishment and use.

4.3 There is no statutory minimum but there are four significant safeguards in place against the Town Council over committing itself financially:-

- (a) The balanced budget requirement.
- (b) Responsible Financial Officer's S114 Powers.
- (c) The External Auditors responsibility to review and report on financial standing.
- (d) The year-end audit report from the Town Council's Auditor.

4.4 Alton Town Council, on the advice of their Responsible Financial Officer, are required to make their own judgements on the level of reserves, taking into account all relevant local circumstances. Local circumstances vary. A well-managed authority with a prudent approach to budgeting should operate with reserves in the Town Council's current range given its emerging service responsibilities.

4.5 Finally the Responsible Financial Officer has a fiduciary duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

5 General Fund Reserves

5.1 Purpose

The purpose of general reserves is to minimise the possible financial impacts to the authority from:-

- Emergencies.
- Unforeseen events
- In year emerging issues.

5.2 The in-year use of general reserves requires Council approval following a recommendation by Finance Committee and must not be used for any level of recurring spending, unless that spending will be included in the Revenue Budget for the following financial year. In all cases the use of reserves should be approved by the Responsible Financial Officer in consultation with the Chairman of Policy and Resources

5.3 There is no prescribed level of general fund reserves but a level of 25% – 30% of annual operating budget ensures adequate provision in the event of any unforeseen occurrence which would affect cash flow as identified in 5.5

5.4 Risk Assessment

Identifying the risks allows the Council to take account of the circumstances around current structural change due to service provision and economic circumstances.

Risks can be identified as follows:-

- Risks from potential one-off events.
- Risks which will have general financial consequences.
- Actions need to be in place to minimise the potential for financial support.

5.5 Assessment of Potential Risks

<u>Risk</u>	<u>Effects/Action</u>	<u>Value of Risk</u> £
Loss of Income	Substantial disruption of income streams.	40,000
	Income from fees/charges affected by economic conditions locally and nationally.	10,000
Recruitment Plans	Additional advertising costs to attract staff, Agency staff	10,000
Major Loss of Service through fire/flood structural damage	Severe Weather – staffing, materials costs/robust emergency plan.	10,000
	Insurance Claims – running premises/good claims	35,000
ICT Security/data corruption	Loss of service/robust security policies and firewalls.	5,000
Legal Costs/Industrial relations	Costs relating to service provision.	10,000
	Overall Risk Quantified	<u>£120,000</u>

The outcome of this analysis has been to place an estimated total value on the range of risks that may arise and which are not covered by insurance.

6.0 Earmarked Reserves

6.1 Purpose

The purpose of earmarked reserves is:-

- To prevent an uneven impact on the precept, by allowing reserves to be set aside for specific projects and contingencies.
- To set aside amounts for projects that extends beyond one year.

6.2 It is the responsibility of the Responsible Financial Officer in consultation with the Chairman of Policy and Resources to ensure reserves are spent in line with their purpose. The most commonly established earmarked reserves and the rationale behind why such reserves are created are as follows:-

6.3 Each earmarked reserve held by Alton Town Council will identify:-

- The purpose of the reserve
- How and when the reserve can be used
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

- Be reviewed at least annually.

6.4 Opening Balance

At 1 April 2016, Alton Town Council will hold Earmarked Reserves of £56,594 (subject to audit).

6.5 Analysis of Earmarked Reserves 2015/16

<u>Earmarked Reserve</u>	<u>Amount</u> £	<u>Use</u>
Football Club Sinking Fund	16,594	Reserve to meet cost of pitch resurfacing
Molson Coors Option Agreement	40,000	Capital investment as yet undetermined.

6.6 Capital Reserves

The purpose of capital reserves is to:-

- Minimise risk from potential emergency spending requirements on assets.
- Support investment plans.

Alton Town Council currently holds no capital reserves but will allocated £20,000 to this fund in 2016/17.