Financial Reserves Policy 2026

Policy title	Financial Reserves Policy 2026
Version	1.0 (draft for Policy and Resources Committee, 2 December 2026)
Supersedes	Financial Reserves Policy 2019 (approved by Council 14 March 2019)
Approved by	Full Council
Policy owner	Town Clerk and Responsible Financial Officer (RFO)
Review	Annually, as part of the budget-setting cycle (Policy and Resources Committee in November), or sooner if legislation, regulation or the Council's circumstances change
Next review due	November 2027
Related documents	Financial Regulations (NALC model 2026, approved 20 May 2026, C 029/05/26); Standing Orders; Financial Risk Assessment 2026; Risk Management Scheme; Treasury Management and Investment Strategy; Strategic Plan 2026 to 2036; Earmarked Reserves Register

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1 Introduction and purpose

1.1 Andover Town Council (the Council) must hold adequate reserves to meet its statutory obligations, manage cash flow, absorb unexpected costs and deliver its agreed plans without disruption to services. Reserves are public money raised from Andover council taxpayers, so they must also be held at a level that is justified and not excessive.

1.2 This policy sets out how the Council determines, holds, uses, protects and reviews its reserves. It replaces the Financial Reserves Policy 2019 and reflects the Council's current size and responsibilities, the Financial Regulations adopted in 2026, the Financial Risk Assessment 2026, and the increase in the Financial Services Compensation Scheme (FSCS) deposit protection limit to £120,000 from 1 December 2025.

1.3 The policy applies to all funds held by the Council, whether in current accounts, deposit accounts, term deposits or pooled public sector funds.

2 Legal and guidance framework

2.1 There is no statutory minimum or maximum level of reserves for a local council. Under section 49A of the Local Government Finance Act 1992, the Council must have regard to the level of reserves needed for meeting estimated future expenditure when calculating its council tax requirement (precept).

2.2 The Accounts and Audit Regulations 2015 require the Council to maintain a sound system of internal control, including the management of financial risk. Reserves are reported in the Annual Governance and Accountability Return (AGAR), and the internal and external auditors review whether reserves are reasonable and explained.

2.3 The Practitioners' Guide (proper practices for smaller authorities, issued by the Smaller Authorities Proper Practices Panel) advises that a general reserve should normally be between three and twelve months of net revenue expenditure, and that an authority with net revenue expenditure above £200,000 should plan towards three months. It also expects the reasons for significant reserves to be explained.

2.4 The Council's Financial Regulations govern how reserves are created and used, in particular:

(a) Regulation 4.4: unspent budgets for completed projects are not carried forward; funds for partially completed projects may be carried forward only by placing them in an earmarked reserve with the approval of Full Council.

(b) Regulation 4.6: recommendations on the use or accumulation of reserves form part of the budget papers considered by the Policy and Resources Committee before recommendation to Full Council.

(c) Regulation 4.11: any addition to, or withdrawal from, an earmarked reserve must be agreed by Full Council.

(d) Regulation 6.1: banking arrangements, including the choice of bank, are approved by Full Council and reviewed annually; this cannot be delegated to a committee.

(e) Regulation 12.3: the Council considers an Investment Policy, in line with the Statutory Guidance on Local Government Investments, aligned with its risk management scheme and financial risk assessment and reviewed annually.

2.5 Community Infrastructure Levy (CIL) receipts are governed by the Community Infrastructure Levy Regulations 2010 and must be held and reported separately (see section 7).

3 Types of reserve

3.1 **General Reserve.** An unallocated balance that acts as a working balance to smooth uneven cash flow (the precept is received in two instalments) and as a contingency against unexpected events or emergencies. Previous reports may refer to this as the "operational reserve" or "general fund"; these terms mean the General Reserve.

3.2 **Earmarked Reserves (EMRs).** Sums set aside by Full Council for a specific, known or predicted purpose, such as elections, asset renewal, planned projects or identified liabilities.

3.3 **Restricted Reserves.** Money the Council holds but which can only be spent for purposes set by law or by a third party, such as CIL receipts, grants received with conditions, or developer contributions. These are not available for general use.

3.4 Reserves are not provisions. A known liability of uncertain timing or amount which the Council is already committed to (for example an agreed exit payment) should be recognised in the accounts as a creditor or provision at year end, in line with the Council's income and expenditure accounting basis.

4 Principles

4.1 Reserves will be held for a clear, stated purpose and at a level supported by an assessment of risk.

4.2 Reserves will not be used to fund recurring, day-to-day expenditure. Using reserves to balance the budget is a one-off, short-term measure only and must be accompanied by a plan to restore the budget to balance.

4.3 The Council will not accumulate reserves beyond what it can justify. Any balance above the target ranges in this policy will be explained in the budget papers and either earmarked for a purpose, applied to reduce future precept requirements, or returned to the General Reserve.

4.4 The security of public money comes first, then access to it when needed (liquidity), and only then the interest earned (yield).

4.5 All decisions on reserves will be taken openly, minuted and published.

5 General Reserve

5.1 The General Reserve will be maintained within the following range, measured against net revenue expenditure (NRE). NRE is the precept, less any sums within it for loan repayment, capital projects and

planned transfers to earmarked reserves (for example the Election Costs contribution towards the Elections reserve and the Allotment Maintenance Reserve Fund).

Level	Months of NRE	Illustration using 2026/27 NRE of £630,605 (precept of £669,105 less the £38,500 Allotment Maintenance Reserve Fund contribution; about £52,550 a month)
Minimum (floor)	3 months	£157,651
Target	4 months	£210,202
Upper limit	6 months	£315,303

5.2 The figures in 5.1 are recalculated each year by the RFO using the NRE in the approved budget for the coming year, and reported to the Policy and Resources Committee with the draft budget. On the 2027/28 second draft budget, NRE is about £695,930 (the precept needed to balance, £773,280, less the £35,000 Election Costs contribution and the £42,350 Allotment Maintenance Reserve Fund contribution), so the figures are £173,982 (minimum), £231,977 (target) and £347,965 (upper limit). They will be recalculated on the final budget.

5.3 The target of four months, rather than the three-month planning figure in the Practitioners' Guide, reflects risks specific to the Council at this time: the one-off liability from exiting the Local Government Pension Scheme in 2027; the possibility that local government reorganisation will require the Council to take on staff, assets or services quickly; office accommodation pressures; and the Council's reliance on the precept for over 95% of its income.

5.4 The minimum of three months will always exceed two months' staff salaries and on-costs, which was the floor in the 2019 policy. The RFO will confirm this in the annual budget report.

5.5 The General Reserve may be used, with the approval of Full Council, to:

(a) meet unforeseen or emergency expenditure that cannot be met from the revenue budget;

(b) cover a temporary cash-flow shortfall;

(c) fund a one-off decision in line with the Strategic Plan 2026 to 2036, where the decision report shows the effect on the General Reserve.

5.6 Where the Proper Officer uses emergency powers under the Financial Regulations (for example regulation 5.18), any resulting draw on the General Reserve will be reported to the next meeting of Full Council.

5.7 If the General Reserve falls, or is forecast to fall, below the minimum, the RFO will report this to the next Policy and Resources Committee with a recovery plan to restore it within no more than two financial years, normally through the budget and precept.

5.8 If the General Reserve exceeds the upper limit at year end, the RFO will recommend whether the excess should be earmarked, used to support the following year's budget, or retained with a stated reason.

6 Earmarked Reserves

6.1 Earmarked reserves are created on a needs basis. The Policy and Resources Committee will consider each proposal and make a recommendation to Full Council, which alone may create, add to, draw from or close an earmarked reserve (Financial Regulation 4.11).

6.2 Each earmarked reserve will have, as recorded in the Earmarked Reserves Register kept by the RFO:

(a) a clear purpose and the minute that created it;

(b) a target balance and how it was calculated;

(c) the committee responsible and the circumstances in which it may be used;

(d) the planned timing of use and a review date.

6.3 Where an earmarked reserve funds a project or activity already approved by Full Council, the approval of the project will include approval to draw the stated amount from that reserve, so that separate approval is not needed for each payment. Payments will then follow the normal authorisation process in the Financial Regulations.

6.4 An earmarked reserve that has not been used for three years, or whose purpose has been met or no longer applies, will be reviewed. Any balance no longer needed will be returned to the General Reserve by resolution of Full Council.

6.5 Earmarked reserves will not be used to fund ongoing revenue expenditure. In an emergency, Full Council may resolve to borrow temporarily from an earmarked reserve to support cash flow; the resolution must state how and when the sum will be repaid.

6.6 The earmarked reserves the Council intends to hold, and the basis for each, are set out in Appendix A. Amounts will be confirmed through the annual budget.

7 Restricted Reserves

7.1 CIL receipts passed to the Council by Test Valley Borough Council will be recorded in a separate restricted reserve. They must be spent on supporting the development of the area, in accordance with the CIL Regulations, and within five years of receipt, or the borough council may require their repayment. The Council will publish its annual CIL report by 31 December each year, as the Regulations require.

7.2 Grants received with conditions will be held in a restricted reserve until spent in accordance with those conditions. Any unspent balance that must be returned will be identified in the year-end accounts.

7.3 Restricted reserves do not count towards the General Reserve minimum.

8 Protecting reserves: banking and FSCS

8.1 From 1 December 2025, the FSCS protects eligible deposits up to £120,000 per depositor, per authorised bank or building society (previously £85,000). Banks that share one banking licence count as a single institution for this limit.

8.2 Public authorities, including town and parish councils, are not eligible for FSCS protection unless they are a "small local authority", defined as one with an annual budget of up to €500,000 (about £430,000 to £440,000, depending on the exchange rate on 3 July each year). The Council's 2026/27 budget requirement is £697,980 gross and £669,105 net. **None of the Council's deposits are protected by the FSCS**, whatever their size and whichever institution holds them, and the £120,000 limit does not apply to the Council.

8.3 The Council therefore protects its reserves through its Treasury Management and Investment Strategy, which Full Council approves each year before 1 April under the Statutory Guidance on Local Government Investments and Financial Regulation 12.3. That Strategy sets out the approved institutions, the counterparty criteria and the maximum to be held under each banking licence (its Appendix 1), the liquidity rules and how institutions are monitored. This policy does not repeat those limits, so that there is only one approved set.

8.4 In applying the Strategy to reserves, the RFO will:

(a) place earmarked reserves in accounts whose notice or term matches the planned date of use, so that money is available when projects are due to proceed;

(b) hold CIL receipts only in accounts that allow them to be spent within the five-year limit;

(c) keep the General Reserve minimum in accounts that can be accessed within seven days, in addition to the working balance required by the Strategy;

(d) check, before each annual budget, that the approved institutions and limits in the Strategy are large enough to hold the Council's total reserves at their peak (after each precept instalment) without a breach, and report to the Policy and Resources Committee if they are not.

8.5 The RFO will review the standing of each institution holding Council funds, as the Strategy requires, and report it to the Policy and Resources Committee with the budget monitoring reports. The first review will be completed by 31 March 2027, meeting the action in item 8.4 of the Financial Risk Assessment 2026.

8.6 All accounts will be held in the name of Andover Town Council (Financial Regulation 12.4) and operated under the bank mandate approved by Full Council, with at least two people involved in every payment approval. Approval of new institutions and accounts rests with Full Council (Financial Regulation 6.1).

9 Assessing the adequacy of reserves

9.1 Each year, as part of budget setting, the RFO will prepare a risk-based statement of the reserves required, considering at least:

(a) the strategic, operational and financial risks in the Financial Risk Assessment and Risk Management Scheme;

(b) pay awards, increments, pension costs and inflation;

(c) planned projects and commitments in the Strategic Plan 2026 to 2036;

(d) known liabilities such as election costs and the Local Government Pension Scheme exit payment;

(e) insurance excesses and uninsured risks (including low-value assets not on the insurance schedule, item 8.3 of the Financial Risk Assessment);

(f) the effect of local government reorganisation and any proposed transfer of assets or services;

(g) the security of funds under section 8 and the Treasury Management and Investment Strategy.

9.2 The statement will be considered by the Policy and Resources Committee with the draft budget and recommended to Full Council before the budget and precept are set.

10 Reporting and monitoring

Report	Frequency and recipient
Reserves statement: balances of the General Reserve, each earmarked reserve and restricted reserve, with movements	Quarterly to the Policy and Resources Committee; summary with the monthly financial papers to Full Council
Funds held by institution against the limits in the Treasury Management and Investment Strategy, and the institution review (8.5)	With each budget monitoring report to the Policy and Resources Committee
Risk-based reserves statement (section 9)	Annually with the draft budget (November to January)
Earmarked Reserves Register review	Annually to the Policy and Resources Committee, then Full Council
Year-end reserves position and explanation for the AGAR	Annually after 31 March, with the year-end accounts

Report	Frequency and recipient
Review of this policy	Annually in November alongside the Financial Regulations and budget

11 Local government reorganisation

11.1 If local government reorganisation in Hampshire leads to the transfer of assets, services or staff to or from the Council, the RFO will report on the effect on reserves before any agreement is made. Reserves held by the Council belong to the Council and its taxpayers. The Council will seek to make sure that any reserves associated with transferred services, and any restrictions or directions under a structural changes order, are clearly identified and properly accounted for.

12 Responsibilities

Who	Responsibility
Full Council	Approves this policy, the budget and precept, banking arrangements and approved institutions, and all creation, use and closure of earmarked reserves.
Policy and Resources Committee	Reviews this policy, the reserves statements and the Earmarked Reserves Register, and makes recommendations to Full Council.
Other committees	Identify needs for earmarked reserves within their remit through the budget process.
Town Clerk and RFO	Maintains the Earmarked Reserves Register, prepares the reserves statements and risk-based assessment, manages funds within the Treasury Management and Investment Strategy, reviews institutions and reports breaches.
Member verifying bank reconciliations (Financial Regulation 2.6)	Confirms quarterly that reserves balances agree with the bank statements.

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Appendix A: Reserves held at 28 October 2026

Purposes reflect the recommendations in the Budget 2027/28 report to Policy and Resources on 2 December 2026, subject to Full Council.

Balances are taken from the Reserve Movements report (28 October 2026). Purposes and targets are to be confirmed in the Earmarked Reserves Register and through the 2027/28 budget.

Reserve	Balance	Purpose, target and planned use
Elections	£108,000.00	Four-yearly ordinary elections and by-elections. Used in full by the May 2027 elections, then rebuilt at £35,000 a year (recommended) towards the next election.
Allotments	£55,500.00	Allotment infrastructure and improvement works. Fence replacements to sites: Old Winton Road, Mylen Road, Vigo Road, Barlows Lane, The Drove – every two years as reserves allow. Water pipe replacements to sites– Admirals Way, Churchill Way, Old Winton Road, Mylen Road, Vigo Road, Barlows Lane, The Drove. As approved by Full Council when reserves allow.
Christmas Lights	£20,700.00	Renewal and replacement of the Christmas lights. Reviewed every 4 years, extensions are planned annually.
Property Purchases	£172,000.00	Recommended to become the Reorganisation and Asset Transfer reserve: legal, due-diligence, survey, HR and pensions costs, and the first-year costs of any assets or services transferred under local government reorganisation.
Grants Project	£23,000.00	additional funding for grants to community organisations under the Grant Funding Programme, where eligible applications exceed the annual grants budget (4190) or the Council agrees a larger or multi-year award. Transfers in and out need a Full Council resolution (FR 4.11). Any use is first moved into the grants budget by Full Council, before the Grants Committee can award it under the Grants Policy. The reserve is reviewed each year at budget setting, and any sum with no planned use after three years returns to the General Reserve.
Staffing	£71,000.00	absence and maternity cover, recruitment, staff pension costs, and staffing costs arising from local government reorganisation. Recommended to meet the LGPS exit payment (recommendation 7, for Full Council on 13 January 2027). Transfers in and out need a Full Council resolution (FR 4.11). The HR Sub-Committee is responsible for it, with oversight by the Policy and Resources Committee, and it is reviewed each year at budget setting.
Plus 55	£17,250.00	No suitable projects have been brought to the Council for these funds. Recommended for release to the General Reserve (Option B).
Youth Services	£50,000.00	No suitable projects have been brought to the Council for these funds. Recommended for release to the General Reserve (Option B).

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Reserve	Balance	Purpose, target and planned use
Corporate Management	£13,850.00	one-off office and corporate costs the annual budget can't meet, including office moves, furniture and equipment, and the office and systems costs of local government reorganisation. Transfers in and out need a Full Council resolution (FR 4.11), and any use is first moved into the relevant budget by Full Council. The Policy and Resources Committee is responsible for it; it is reviewed each year at budget setting, and any sum with no planned use after three years returns to the General Reserve. (£1,150 returned to the General Reserve, C227/10/26)
Defibrillators	£0.00	No balance. To be reviewed under paragraph 6.4 and closed if no longer needed.
Total earmarked	**£531,300.00**	
CIL (restricted)	£109,677.45	Community Infrastructure Levy receipts (£58,399.92 brought forward and £51,277.53 received in 2025/26). Spent within five years of receipt; reported annually by 31 December.
Total earmarked and restricted	**£640,977.45**	

New and proposed reserves

Proposed reserve	Purpose and basis
U-Choose, U-Choose+ and Community Chef	Agreed (CE 095/11/26, C 275/11/26): funded from the 2026/27 underspends on Youth Services (4700/26) and Pensioner Services (4700/27), to fund agreed projects running into 2027. Amount confirmed at year end (up to £46,811 on half-year figures).
Insurance and legal	Insurance excesses, uninsured losses (including low-value assets not on the insurance schedule) and unbudgeted legal advice.
Projects carried forward	Funds for partially completed projects under Financial Regulation 4.4, recorded project by project and released on completion.
Training	Recommended to Full Council by the Policy and Resources Committee on 18 November 2026 (PR 053/11/26); still to be approved by Full Council. For training generally (staff and councillors), not councillor training only. To be populated when funds allow, including unspent training budgets at year end.
Andover Pride 2027	Recommended to Full Council by the Community and Events Committee on 11 November 2026 (CE 078/11/26); still to be approved by Full Council. £1,619 from the unspent 2026/27 Andover Pride budget, towards Andover Pride 2027. Sponsorship received for the 2026 event was spent in full, which left this sum unspent on the budget (the line shows spending above budget because the sponsorship-funded costs are recorded against it).

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Document history

Version	Date	Minute	Change
2019 (third draft)	14 March 2019		Financial Reserves Policy 2019 approved by Council.
1.0	2 Dec 2026 - PR		Full rewrite: reserves measured against net revenue expenditure; earmarked and restricted reserves set out; FSCS position addressed; banking and counterparty limits linked to the Treasury Management and Investment Strategy; annual review confirmed.

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