

# FINEDON TOWN COUNCIL - Financial Reserves Policy

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## Financial Reserves Policy

<p><b>1. Purpose</b></p>	<p>The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.</p> <p>There is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use. However, the Practitioners' Guide to Proper Practices (March 2019) advises that each authority adopts a Reserves Policy and goes on to give guidance that the minimum level of the General Reserve should be maintained at between 3 and 12 months Net Revenue Expenditure (precept less loan repayments and transfers to earmarked reserves), depending on the size of the organisation.</p>
<p><b>2. Types of Reserve</b></p>	<p><b>General Fund Reserves</b>  This represents the non-ring fenced (earmarked) balance of Council funds. The main purposes of the General Fund 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 Council. The level of general funds is a matter of judgement and this policy does not prescribe a specific level. However, Council must maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment. The levels may change from year to year.</p> <p><b>Specific Reserves</b> – As the name suggests these represent amounts which are “<b>Earmarked</b>” for specific items of expenditure to meet known or predicted liabilities or projects.</p> <p><b>Earmarked Reserves</b> are often used to “smooth” the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year. “Earmarked” reserves are typically held for five main reasons:</p> <ol style="list-style-type: none"> <li>a) <b>Projects</b> – to plan and finance a project in the future, such as supporting the Library.</li> <li>b) <b>Renewals</b> – to plan and finance an effective programme of equipment replacement and planned property repair/maintenance; and grounds maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.</li> <li>c) <b>Carry forward of underspend</b> - some expenditure budgeted for projects in a given financial year cannot be spent in that year. Reserves are used as a mechanism to carry forward these resources.</li> <li>d) <b>Trading accounts</b> – In some instances, surpluses may be retained for future investment.</li> <li>e) <b>Insurance reserve</b> – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.</li> </ol> <p><b>Other earmarked reserves</b> may be set up from time to time to meet known or predicted liabilities</p>

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<p><b>3. Policy in Practise</b></p>	<p>The Council will hold Reserves for these three main purposes: -</p> <ul style="list-style-type: none"> <li>a) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves</li> <li>b) A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves</li> <li>c) A means of building up funds (Earmarked Reserves), to meet known or predicted requirements.</li> </ul>																				
<p><b>4. Legislative &amp; Regulatory Framework</b></p>	<p>Chartered Institute of Public Finance &amp; Accountancy (CIPFA) published guidance in 2003 in support of these matters and it is a requirement of the guidance, backed by legislation through the provisions contained in the local government Act 2003 that the Council's Responsible Finance Officer reports on the robustness and plans to utilise the Council's reserves and balances. The RFO is also required to provide a statement on the adequacy of the General Revenue Fund, reserves and provisions in relation to the forthcoming financial year and also over the medium term. In reporting generally on the reserves and balances, the RFO is also required to report on the Specific Reserves of the Council, outlining the purpose for which each is held, establishing an appropriate level of reserve and highlighting any proposed changes during the forthcoming year.</p> <p>The Council 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 Council's current range given its service responsibilities.</p> <p>It is the responsibility of the RFO to ensure reserves are spent in line with their purpose. Where expenditure is planned in future accounting periods, it is prudent to build up reserves in advance.</p> <p>The RFO has a fiduciary duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent responsible stewardship of public funds.</p>																				
<p><b>4. Current Earmarked Reserves</b></p>	<table border="0"> <tr> <td>320 EMR - Library</td> <td style="text-align: right;">£9,600.00</td> </tr> <tr> <td>321 EMR - Tennis Courts</td> <td style="text-align: right;">2,000.00</td> </tr> <tr> <td>322 EMR - Play Equipment</td> <td style="text-align: right;">1,000.00</td> </tr> <tr> <td>323 EMR - War Memorial</td> <td style="text-align: right;">200.00</td> </tr> <tr> <td>324 EMR - General Maintenance</td> <td style="text-align: right;">1,000.00</td> </tr> <tr> <td>325 EMR - Pocket Park &amp; Tainty</td> <td style="text-align: right;">5,000.00</td> </tr> <tr> <td>326 EMR – Cemetery</td> <td style="text-align: right;">2,500.00</td> </tr> <tr> <td>327 EMR - Maintenance Bod</td> <td style="text-align: right;">30,000.00</td> </tr> <tr> <td>328 EMR - Trees</td> <td style="text-align: right;"><u>5,000.00</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><b>£56,300.00</b></td> </tr> </table>	320 EMR - Library	£9,600.00	321 EMR - Tennis Courts	2,000.00	322 EMR - Play Equipment	1,000.00	323 EMR - War Memorial	200.00	324 EMR - General Maintenance	1,000.00	325 EMR - Pocket Park & Tainty	5,000.00	326 EMR – Cemetery	2,500.00	327 EMR - Maintenance Bod	30,000.00	328 EMR - Trees	<u>5,000.00</u>		<b>£56,300.00</b>
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<p><b>5. Principles to Assess the Adequacy of Balances and Reserves</b></p>	<p>In order to assess the adequacy of unallocated General Reserves when setting the budget, the RFO should take account of the strategic, operational and financial risks facing the Council. The financial risks should be assessed in the context of the Council's overall approach to risk management. The RFO needs to ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.</p> <p>Setting the level of General Reserves is just one of several related decisions in the formulation of the medium-term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Town Council's financial management arrangements. In addition to the cash flow requirements of the Council the following budget assumptions should be considered:</p> <ul style="list-style-type: none"> <li>• the treatment of inflation and interest</li> <li>• estimates of the level and timing of capital receipts</li> <li>• the treatment of demand led pressures</li> </ul>																				