



## **GREAT TORRINGTON TOWN COUNCIL**

### **RESERVES and BALANCES POLICY**

**October 2020**

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## 1. INTRODUCTION

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 the estimated future expenditure when calculating the budget requirement.

The Town Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered during the preparation of the annual budget.

There are also a range of safeguards in place that militate against local authorities over-committing themselves financially. These include:

- The balanced budget requirement
- RFO's S114 powers – to make safe and efficient arrangements for the issue of money payable by the authority
- The external auditor's responsibility to review and report on financial standing.

## 2. THE SCOPE OF THE POLICY

2.1 This Policy applies to all council employees and councillors when acting on behalf of the Council regarding financial matters. It applies specifically to the RFO and Council when setting budgets and monitoring financial spend.

## 3. TYPES OF RESERVE

The Council will hold reserves for the following main purposes:

- **General Reserves:** A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- **Renewal Reserves:** Used or plan and finance an effective programme of equipment replacement, planned property repair and maintenance or ground maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without significant impact on the general fund/reserves.
- **Election Reserves:** Used to fund unpredictable expenses brought on by a by election.
- **Other Reserve Headings:** From time to time the Town Council may wish to set aside reserves for a particular project and/or activity. The details will be held alongside other reserve information and will be annotated accordingly.

For each reserve held by a local authority there should be a clear protocol setting out:

- the reason for/purpose of the reserve
- how and when the reserve can be used
- procedures for the reserve's management and control
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

#### **4. AMOUNT OF RESERVES**

##### **General reserves**

The level of reserve is a matter of professional judgement and this Policy does not attempt to prescribe a level. However, the Department for Communities and Local Government advise the following as a "guide";

- "Local Councils need to hold an amount in reserves to meet unexpected expenditure, otherwise they could run out of money before the end of the financial year."
- "A Council should typically hold between 3- and 12-months expenditure as a general reserve."

The Council must at all times keep a minimum balance sufficient to pay two month's salaries to staff and associated expenses such as National Insurance, tax contributions and pensions.

##### **Renewal Reserves**

- Consideration will be given regarding items etc. that may need replacing.

##### **Election Reserves**

- Statutory elections can be determined and budgeted for in the annual budget. However, at any time, due to a cessation of councillor role, a by election may be called. These elections are funded by the Town Council and could cost a significant amount of money that is not easily absorbed from the general fund. It is prudent therefore to have a reserve set by for this type of unpredictable expenditure.

#### **5. PRINCIPLES to ASSESS the ADEQUACY of BALANCES and RESERVES**

A considerable degree of professional judgement is required in making any financial assessment and the Responsible Financial Officer will provide advice with the help of guidance from Members and other advisory sources.

Setting the budgets is the responsibility of individual Committee in collaboration with the Responsible Financial Officer, reviewed by Policy and Resources

Committee and a recommendation then made to Council for ratification and formal approval. This forms the foundation for the setting of the precept.

In order to assess the adequacy of Reserves when setting the budget, both the Responsible Financial Officer and the Committees should take account of the strategic, operational and financial risks facing the Council.

Setting the level of Reserves is just one of several related decisions in the formulation of the long- and medium-term financial strategy as well as 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 cash flow requirements of the Council the following factors should be considered;

- Inflation and interest rates
- The treatment of demand led pressures
- Planned efficiency savings/productivity gains
- The financial risks inherent in any significant new funding arrangements
- Keeping increases to a minimum
- Availability of other funding sources.

## **6. FINANCIAL RISK MANAGEMENT**

In order to assess the adequacy of the Reserve Account when setting the annual budget, the Responsible Financial Officer will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the Reserve balance for the forthcoming year will therefore be based upon a risk assessment of the Council's main areas of income and expenditure and take into account any provisions and contingencies that may be required.

Balances from all accounts held by the Council to be regularly presented to Policy and Resource Committee and Council and most importantly prior to the annual budget setting by the Responsible Financial Officer.

## **7. REVIEW OF THE ADEQUACY OF THE RESERVE BALANCE**

In assessing the adequacy of reserves the strategic, operational and financial risks facing the Council will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation.

### **7. Section 106 Funds**

Section 106 funds are not to be regarded as Reserves, should be clearly identified and preferably held in a separate account.

### **8. Document Record**

Document:	Reserves and Balances Policy
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