



Reserves Policy

Adopted by the Town Council on 6 March 2017

TOWN COUNCIL RESERVES

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. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The Responsible Finance Officer has a duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement

The Reserves Policy 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. A risk report will be submitted to the council on an annual basis.

The purpose of this Policy is to enable the Policy & Finance Committee to review the level of reserves to ensure they meet the current and future needs of Faversham Town Council.

The assessment of the adequacy of the Council's balances and reserves is based on the guidance note on LAAP BULLETIN 99 Local Authority Reserves and Balances July 2014, 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 Finance Officer and base its judgement on local circumstances (para 20).

TYPES OF RESERVES

Faversham Town Council maintains two types of reserves:

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 Responsible Finance Officer 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. If a specific reserve is no longer considered relevant or there is an overriding financial requirement to fund a priority elsewhere virement can be considered

General Reserves

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. A well-run council 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

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

- Capping of Town Council Precept by Central Government
- Devolved services

PURPOSE OF GENERAL FUND RESERVES

The purpose of general reserves is to minimise the possible financial impacts to the authority from; emergencies, unforeseen events and ad hoc emerging issues during the year.

GENERAL FUND RESERVE – 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; risks from potential one-off events; risks which will have general financial consequences and actions that need to be in place to minimise the potential for financial support.

ASSESSMENT OF POTENTIAL RISKS (NOT COVERED BY INSURANCE)

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.

No	Risk	Effects/Action	Value of Risk
1	Loss of staff including long term sickness	Council could not function effectively Additional advertising costs to attract staff Salaries for locum staff	£25,000
2	Major Loss of Service through fire/flood structural damage	Premises not operational	£10,000
3	Insurance Claims	Insurance claim not met. Ensure good claims management	£10,000
4	Uninsurable losses		£10,000
5	ICT Security/data corruption	Loss of service robust security policies, backup, firewalls and off site electronic document storage	£10,000
6	Election Reserve	Reserve to meet potential future By-Election Costs	£15,000
7	Unanticipated Legal costs	Legal costs that cannot be recovered	£20,000
		TOTAL	£100,000

ROLE OF RESPONSIBLE FINANCE OFFICER

It is the responsibility of the Responsible Finance Officer (RFO) 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.

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

- The balanced budget requirement.
- RFO s114 Powers.
- The External Auditors responsibility to review and report on financial standing.
- The year-end audit report from the Town Council's Internal Auditor

Faversham Town Council, on the advice of their RFO and guidance of the Internal Auditor, is required to make their own judgements on the level of reserves, taking into account all relevant local circumstances.

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.

The RFO has a fiduciary duty (the highest standard of care) to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent responsible stewardship of public funds.

It is recommended that the level of General Reserves should not fall below the level of current risk, currently some 20% of revenue budget.

SUMMARY

General Reserves should not reach the level of the precept.

The figure for General Reserves is obtained from Assessment of Potential Risks (*not covered by insurance*), section 5 and will be reviewed on a yearly basis.