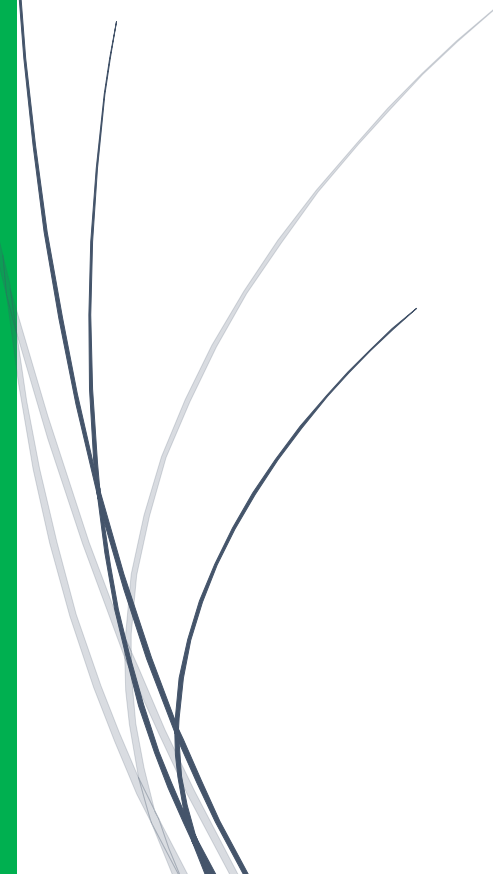




Winchcombe

Winchcombe Town Council Financial Reserves Policy



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1. Purpose

1.1 Winchcombe Town Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

1.2 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 level of reserves that an authority should hold. It is the responsibility of the Responsible Financial Officer and the Members of the Council to determine the level of reserves and to ensure that there are procedures for their establishment and use.

2. Types of Reserves

2.1 Reserves can be categorised as “general” (held to cushion the impact of uneven cash flows or unexpected events) or “earmarked” (held for a specific purpose).

2.2 Earmarked or “specific” Reserves can be held for several reasons.

As the name suggests these represent amounts which are “earmarked” for specific items of expenditure to meet known or predicted liabilities or projects. Specific Reserves can be 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:

- **Renewals**
To enable the Council to plan and finance an effective programme of equipment replacement, planned property repair or maintenance or 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.
- **Carry forward of Underspend**
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.

- Trading accounts
In some instances, surpluses are retained for future investment
- Insurance Reserve
To enable the Council to meet the excesses not covered by insurance.
- Other earmarked reserves
May be set up from time to time to meet known or predicted liabilities.

2.3 General Reserves are often referred to as the “working balance” and is money which is not earmarked for specific purposes but rather a sum of money held in anticipation of uneven cash flow or set aside to deal with unexpected events or emergencies. This is usually created through surpluses as a result of activities being postponed, cancelled or coming in under budget. Reserves of this nature can be spent or earmarked at the discretion of members, subject to approval by the Council. The “General” or “Emergency” Reserve needs to be regularly reviewed using a risk-based assessment.

3. Earmarked Reserves

3.1 The Governance and Accountability Practitioners’ Guide sets out guidance and audit considerations for Town and Parish Councils

3.2 Earmarked Reserves will be established on a “needs” basis in line with anticipated requirements.

3.3 As outlined in the regulations any decision to set up or extinguish redundant Reserves must be formally approved by the full Council. This will normally be on the recommendation of the Finance Committee.

3.4 The Council will be required to identify the following when making recommendations for each reserve:

- a) The reason for / purpose of the Reserve
- b) How and when the Reserve can be used
- c) Any procedures for the Reserve's management and control
- d) A process and timescales for review of the Reserve to ensure continuing relevance and adequacy

3.5 Expenditure from Reserves can only be authorised by the full Council.

- 3.6 Reserves should not be held to fund ongoing expenditures.
- 3.7 All earmarked reserves are recorded on a schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.
- 3.8 Reviewing the Town Council's Financial Risk Assessment is part of the annual budgeting by Committees and the year-end accounting procedures. Part of this process identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

4. General Reserves

- 4.1 An Emergency or General Reserve will be held by the Town Council to cushion the impact of uneven cash flows, and the impact of unexpected, unforeseen, emergency and uninsured situations. The level of General Reserves is a matter of professional judgement and so this policy does not attempt to prescribe a level.
- 4.2 The primary means of building a General Reserve will be through reallocation of funds e.g. where a project comes in under budget or through an allocation from the annual budget.
- 4.3 If in most extreme circumstances general reserves were exhausted due to major unforeseen spending pressures within a particular financial year the Council would be able to draw down from its earmarked reserves to provide short-term resources.
- 4.4 The Council will aim at all times to keep a minimum balance sufficient to pay three months' salaries to staff and associated expenses e.g. National Insurance and Tax contributions.

5. Principles to Assess the Adequacy of Balances and Reserves

- 5.1 A considerable degree of professional judgement is required in making any financial assessment and the Responsible Financial Officer can only be expected to provide advice with the help and possible guidance from the Members and other advisory sources.
- 5.2 Setting the budgets is the responsibility of the individual Committees in collaboration with the Responsible Financial Officer, reviewed by the Finance Committee and a recommendation is then made to the full Council for

ratification and formal approval. This forms the foundation of setting the precept.

5.3 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 Committee / Council. The financial risks should be assessed in the context of the Council's overall approach to risk management. The Responsible Financial Officer should ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control.

5.4 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 the cash flow requirements of the Council, the following factors should be considered.

Budget Assumptions	Financial standing and management
Inflation and interest rates	The overall financial standing of the Town Council (such as the level of borrowing, debt outstanding, collection rates etc.).
Estimates of the level and timing of capital receipts	The authority's track record in budget and financial management including the robustness of plans.
The treatment of demand-led pressures	The Town Council's capacity to manage in-year budget pressures.
Planned efficiency savings/productivity gains	The strength of the financial information and reporting arrangements.
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments. The availability of other funds to deal with major contingencies and the adequacy of provisions.	The Town Council's virement and end-of-year procedures in relation to budget under / overspends. The adequacy of the insurance arrangements to cover major unforeseen risks.
Keeping increases to a minimum or within any applied capping.	Taking a balanced approach between likely expenditure and the ability of the community as a whole to absorb the financial impact of an increased precept.
Availability of other funding sources	Bearing in mind the possibility of other funding streams e.g. Section 106 or CIL monies or grants for projects.

5.5 Balancing the annual budget by drawing on “General” or “Emergency” Reserves must be viewed as a legitimate short-term option only. Such reserves must not be deployed to finance recurrent expenditures or to finance anticipated or foreseeable projects.

6. Governance concerning the Balances and Reserves

6.1 The policy on Balances and Reserves will be reviewed annually as part of the review of Financial Regulations by the Finance Committee and reported to the Town Council as part of the budget-setting process.

6.2 This will include a report from the Responsible Financial Officer, prepared in collaboration with the Finance Committee, on the adequacy of the Reserves (Specific and Emergency) taking into account the forthcoming financial year and the Council's medium and long-term financial plans or projects.

6.3 The Responsible Financial Officer in collaboration with all Council Committees should review the levels of Earmarked Reserves held and make recommendations to the Finance Committee on the creation of additional Reserves as well as the extinction of redundant Earmarked Reserves as part of the annual budgeting process. Any recommendations once reviewed by the Finance Committee will then be taken to the full Council for formal approval.

6.4 General Reserves must be viewed as a short-term resolution of unexpected costs they must not be used to finance recurrent expenditure or to finance foreseeable or anticipated projects.

6.5 Foreseeable or anticipated project costs should be properly budgeted for and included in Earmarked Reserves.

7. Reserves currently maintained

7.1 The guidance states that local councils need to hold an amount in reserves to meet expenditure and that a council should typically hold between 3 and 12 months expenditure. The level of General Reserves is to be not less than sufficient to pay 3 months' salary to staff and associated expenses e.g. National Insurance and Tax contributions and no more than three twelfths (equivalent to approximately 6%) of the annual precept figure.