

North Tawton Town Council

Reserves Policy December 2020

[the original was Approved by Full Council 3rd December 2019

Min Ref: 13.]

Background

The Governance & Accountability for Local Councils Practitioners Guide:

“Councils have no legal powers to hold revenue reserves other than for reasonable working capital needs or for specifically earmarked purposes, whenever a council’s year end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor. Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the Council. However, the amount of general reserve should annually be risk assessed and approved by the Council”

1. Purpose

1.1 North Tawton Town Council is required to maintain adequate financial reserves to meet the needs of the organisation. This policy sets out how the Council will determine and review the levels of reserves it holds.

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 in order to meet estimated future expenditure when calculating the annual budget requirement. There is no specified minimum or maximum level of reserves that an authority should hold and it is the responsibility of the Council’s Responsible Financial Officer to advise the Council about the levels of reserves required, and to make sure there are clear protocols for their establishment and use.

2. Types of Reserves

2.1 It is recommended that the reserves the Council holds should be put in the following commonly used categories of General, Earmarked or Restricted reserves.

2.2 General reserves (Table A)

This represents the non-ring fenced (earmarked) balance of Council funds. The main purposes of the General Reserves are:

- to operate as a working balance to help manage the impact of uneven cash flows and
- 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.

2.3 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 can only be set up and increased by decision of the Council and will decrease as they are spent on their specific intended purposes.
- Expenditure from Earmarked reserves can only be made by decision of the Council and this must be supported by the relevant minute.
- 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 will be recorded on a schedule held by the Clerk/ RFO and should be reviewed annually to ensure that it is still relevant.

2.4 Restricted reserves

These reserves are, as the name indicates, restricted in their use and must be spent specifically for the purpose for which they were originally received - for example:

- S106 receipts
- unspent loans or grants – unspent balances should be returned to the donor
- capital receipts – ie monies received from the sale of capital items

6. 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. (Local Government Finance Act 1988)
- The External Auditors responsibility to review and report on financial standing.
- The year-end audit report from the Town Council's Internal Auditor

North Tawton Town Council, on the advice of their RFO, must make its 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 Town Council's current range given its emerging service responsibilities.
- 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 to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent responsible stewardship of public funds.

7. 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), and will be reviewed on a yearly basis. Earmarked reserves are based on an assessment of potential costs and will also be reviewed on a yearly basis.

The sums in Table A, General Reserves, remain the same as for the last financial year. The sums in Table B, Earmarked Reserves, have been amended to reflect the total estimated sums needed for each item, rather than the sums required to build towards the final estimated cost.

Table A – General Reserves Assessment

No.	Risk	Effects	Action	Value of Risk £
1	Loss of staff either permanently or temporarily (ie due to sickness etc)	Council could not function effectively	Additional advertising costs to attract staff, payment for staff cover	7000.00
2	Major Loss of Service through fire/flood structural damage	Premises not operational	Need to hire temporary premises. <i>Put disaster recovery plan into place</i>	10000.00
3	Insurance Claims	Uninsurable losses	Good claims management	7000.00
4	ICT Security/data corruption	Loss of service	Robust security policies, backup, firewalls and off site electronic document storage	5000.00
5	Capping of precept by central government	Funding shortfall if precept is capped in future years	Build up general reserves to cover this contingency	15000.00
6	Election Reserve	Reserve to meet potential future Election Costs/By-election-Town Poll	Build up general reserves to cover this contingency	6000.00
7	Unexpected buildings or properties maintenance costs	Insufficient funding available to pay unexpected costs	Build up general reserves to cover this contingency <i>Regular inspection of properties for which the council is responsible</i>	6000.00
8	Inflation is greater than budgeted	Knock on effect on wages, utility bills, etc	Build up general reserves to cover this contingency	3000.00
			TOTAL	59000.00

Table B - Earmarked Reserves Assessment

No.	Item	Use	Policy for use	Suggested Value to aim for
1	Town Council Office	Future refurbishment of office and replacement of boiler, alarm, lighting, furniture, etc	Expenditure to be met from this fund on agreement by full council.	15000.00
2	Public Toilets	Future full refurbishment of toilets	Expenditure to be met from this fund on agreement by full council.	25000.00
3	Cemetery extension	All works necessary to lay out the cemetery extension appropriately	Expenditure to be met from this fund on agreement by full council.	25000.00
4	Manshed	Refurbishment/provision of services to Chapel of Rest building for use as 'Manshed'	Expenditure to be met from this fund on agreement by full council.	10000.00
5	Stone walls for which the council is responsible	Repair and maintenance works to stone walling at park, churchyard, etc.	Expenditure to be met from this fund on agreement by full council.	15000.00
6	Emergency works to trees for which the council is responsible	Potential felling of trees identified as dangerous	Expenditure to be met from this fund on agreement by full council.	20000.00
7	Defibrillator lease and maintenance	Lease lasts for 3 years and covers supply and maintenance.	Expenditure to be met from this fund on agreement by full council	5000.00
8	Car Park Maintenance and Repair	Future repainting of lines and resurfacing of car park.	Expenditure to be met from this fund on agreement by full council	15000.00
9	Environmental Fund	Environmental issues taking a higher profile, proposals are likely to be put to the Council during the coming year - it is considered prudent to have an amount in	Expenditure to be met from this fund on agreement by full council.	5000.00

		earmarked reserves to meet this contingency.		
10	Projects Development	Further to the formation of the Council's Projects Development Working Group, it is considered prudent to build a fund towards costs of future projects. Whilst borrowing will need to be considered for major projects, there will be associated upfront costs to be funded. Any excess over and above upfront costs will go towards the main project(s).	Expenditure to be met from this fund on agreement by full council	15000.00
			TOTAL	£150,000.00