

Annual Reserves Policy

RESPONSIBLE COMMITTEE: P&F

This is a policy/procedure document of Saltash Town Council to be followed by both Council Members and Employees.

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Reserves Policy

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 – *detailed within Section 50 of the Local Government Finance Act 1992*; supported by CIPFA LAAP Bulletin 99 Local Authority Reserves and Balances July 2014.

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. As required under sections 31A, 42A of the Local Government Finance Act 1992.

The Governance & Accountability for Local Councils Practitioners Guide:

“As with any financial entity, it is essential that authorities have sufficient Reserves (General and Earmarked) to finance both its day-to-day operations and future plans. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive

It is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget so as to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.”

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

The assessment of the adequacy of the Town Council's balances and reserves is based on the guidance note on Local Authority Reserves and Balances, 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.

Types of Reserves

Saltash Town Council maintains two types of reserves:

1. 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 Town 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 and to support the General Reserve.

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.

2. General Reserves

This represents the non-ring fenced (earmarked) balance of Town 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 authority 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 Town 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.

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 Town 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. Saltash Town Council has set its contingency level to be equivalent to 5.06 months' revenue expenditure for 2024/25 which is £584,870 set during the setting of the budget for the year.

The Town Council has budgeted for the following reserves in addition to this contingency as of 1st April 2024:

Earmarked Reserves: £659,483

General Reserves: £276,344

Breakdown of Contingency Risks

No	Risk	Effects/Action	Value of Risk	Information
1	5.06 months budgeted salary costs for 2024/25	Contingency/ General Reserve to be used	£443,335	
2	Annual PWLB Loan Repayments for Churchtown Cemetery	Default on Loan Repayments	£31,917	Balance of outstanding loan at 19/02/2024
3	Annual PWLB Loan Repayment for the Library Building	Default on Loan Repayments	£188,513	Balance of outstanding loan at 19/02/2024

4	Major Loss of Service through fire/flood structural damage and other uninsurable losses	Premises not operational	£63,120	STC insurance cover for Business interruption of £250k and loss of revenue cover £10k Assumption STC will have to fund 1 month expenditure until insurance claim funding is received. (Average monthly expenditure excluding salaries)
5	Election Reserve	Reserve to meet potential future Election Costs/By-election-Town Poll	£26,157	Balance of 6271 EMF Election
6	Unanticipated Legal costs	Legal costs that cannot be recovered	£50,000	STC has insurance cover for Legal Expenses. Limit of Indemnity £200k

Role of the 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:

1. The balanced budget requirement.
2. RFO S114 Powers.
3. The External Auditors responsibility to review and report on financial standing.
4. The year-end audit report from the Town Council's Internal Auditor.

Saltash Town Council, on the advice of their RFO, is required to make its own judgements on the level of reserves, taking into account all relevant local circumstances however, 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.

Summary

General Reserves should not reach the level of the precept.

The figure for General Reserves is obtained from an Assessment of Potential Risks and will be reviewed on a yearly basis.

It is recommended in the 'Good Councillor's Guide to Finance and Transparency' and 'The Governance & Accountability for Local Councils Practitioners Guide' to hold a minimum of 3 to 12 months' reserves depending on the model of the Town Council.