



## STOTFOLD TOWN COUNCIL

### FINANCIAL RESERVES POLICY

#### 1. Town Council Reserves

- 1.1 The Town Council needs to maintain reserves to protect against future risk, ensure contingencies are in place and to support investment in future projects which are beneficial to the town.
- 1.2 The purpose of this policy is to set out how the Council will determine and review the level of its reserves.
- 1.3 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. The amount that Councils need or choose to hold in their reserves varies according to local circumstance.
- 1.4 Elected Members are responsible for deciding what reserves their Council holds when setting the budget; informed by their longer spending plans. There is no set formula for determining the level of reserves that each Council should have, and no consensus on what is appropriate, too low or too high. Consequently, there is no specified minimum or maximum level of reserves that Stotfold Town Council should hold. It is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure there are key protocols for their establishment and use.

#### 2. Types of Reserve

- 2.1 Stotfold Town Council maintains two types of reserves, categorised as General and Earmarked.
- 2.2 General Reserve  
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.
- 2.3 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 Council in terms of any significant unforeseen expenditure requirements.

2.4 The in-year use of General Reserves requires Council approval following a recommendation by a spending Committee and must not be used for any level of recurring spending, unless that spending will be included in the Revenue Budget for the following financial year. In all cases the use of reserves should be approved by the Responsible Financial Officer in consultation with the Chairman of the relevant spending Committee.

#### 2.5 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.

2.6 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 Financial 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.

### 3. **Assessment of reserve levels**

3.1 The assessment of the adequacy of the 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 Financial Officer and base its judgement on local circumstances.

3.2 Possible future transfers of services from Central Bedfordshire Council and any capital requirements for the management of the Council's assets and buildings need to be considered.

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

- Capping of Town Council Precept by HM Government
- Additional transfer of services from Central Bedfordshire Council

3.3 A robust 3 – 5 year strategic plan together with a medium to long term financial plan are essential tools to enable prudent budgeting and management of appropriate levels of general and ear-marked reserves.

### 4. **Risk Assessment**

4.1 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 follows:

- Risks from potential one-off events
- Risks which will have general financial consequences
- Actions need to be in place to minimise the potential for financial support

## 4.2 Assessment of potential risks

Risk	Effects/Action	Value of Risk £
Loss of income	Substantial loss of income streams:  Loss of hirers of Council facilities Demand fluctuations – Cemetery (worst case scenario)	0 *  25,000
Staff absence	Additional advertising costs for recruitment or agency staff	10,000
Major loss of service through fire/flood/structural damage	Staffing, materials costs, alternative locations/robust emergency plan  Insurance claims – running premises/good claims management	45,000
ICT security/data corruption	Loss of service/robust security policies and firewalls	5,000
Legal costs/industrial relations	Costs relating to service provision/employment issues	10,000
Legislative requirements	Unscheduled elections/parish polls	10,000
	Overall risk quantified	105,000

*\* note, loss of income from facilities is covered by insurance policy in place*

The outcome of this analysis has been to place an estimate total value on the range of risks that may arise and which are not covered by insurance.

## 5. Insurance

- 5.1 The greatest risk facing Stotfold Town Council is not being able to deliver the activity or services expected of it. The Town Council manages the underlying risks when it reviews the robustness of insurance providers, insurance and its systems.
- 5.2 Zurich Municipal currently provide tailored insurance cover to suit the needs of the Town Council. Employers Liability (£10,000,000), Public Liability (£15,000,000) and Fidelity Guarantee (£2,000,000) are statutory requirements under The Compulsory Insurance Act (1969) and S114 of the Local Government Act (1972). Other voluntary areas of cover include all risks (protection of physical assets), money, hirer's liability, libel and slander, personal accident and legal expenses.

## **6. Financial Responsibility**

- 6.1 Under Stotfold Town Council Standing Orders and Committee Terms of Reference, each Committee has delegated responsibility for the management of their Committee budget.
- 6.2 The role of each Committee is to review the level of its balances and reserves and make the following decisions:
- To recommend the Council to reallocate Earmarked Reserves which will not be used for the original purpose for which they were established
  - To consider the level of reserves to be applied to the Precept for each year

## **7. Role of Responsible Financial Officer**

- 7.1 It is the responsibility of the Responsible Financial Officer 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.
- 7.2 There is no statutory minimum but there are three significant safeguards in place against the Town Council over committing itself financially:
- (a) Responsible Financial Officer's S114 powers
  - (b) The External Auditor's responsibility to review and report on financial standing
  - (c) The year-end audit report from the Town Council's Internal Auditor
- 7.3 Stotfold Town Council, on the advice of their Responsible Financial Officer, are required to make their 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.
- 7.4 Finally, the Responsible Financial Officer has a fiduciary duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

## **8. Conclusion**

- 8.1 Reviewing the Council's Financial Risk Assessment is part of the budgeting procedure. It helps to identify planned and unplanned expenditure items and thereby indicates an appropriate level of reserves.
- 8.2 In addition to allowing Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised.