



**FAIRFORD TOWN COUNCIL
FINANCIAL RESERVES POLICY
(2022-23)**

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1. Purpose

- 1.1** Fairford 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. If the level of the Reserves is above the amount of Precept this should be explained to the Auditor.

2. The Governance & Accountability for Local Councils Practitioners Guide March 2020 stipulates:

‘5.31. 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.

*5.32. **General Reserve** — The generally accepted recommendation with regard to the appropriate minimum level of a Larger Authority’s General Reserve is that this should be maintained at circa (3) months Net Revenue Expenditure (NRE). NRE (subject to any planned surplus or deficit) is effectively Precept\Levy less any Loan Repayment and/or amounts included in Precept\Levy for Capital Projects and transfers to Earmarked Reserves. The larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent General Reserve. In all of this 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.*

*5.33. **Earmarked and Other Reserves** — None of the above in any way affects the level of Earmarked and/or Capital Receipts Reserves (EMR/CRRs) that a authority may or should hold. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from Internal and/or External Auditors”*

3. Types of Reserves:

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).

- 3.1 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.

- 3.1.1 Earmarked Reserves will be established on a “needs” basis in line with anticipated requirements.
- 3.1.2 Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
- 3.2 **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 Council. The “General” or “Emergency” Reserve needs to be regularly reviewed using a risk-based assessment.
 - 3.2.1 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.
 - 3.2.2 The level of General Reserves is a matter of professional judgement and so this policy does not attempt to prescribe a level. 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.
 - 3.2.3 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.
 - 3.2.4 The Council must at all times keep a minimum balance sufficient to pay three month’s salaries to staff and associated expenses e.g. National Insurance and Tax contributions.
- 3.3 Any decision to set up or extinguish redundant Reserves must be **reviewed by the Finance Committee and recommended to Full Council for formal approval.** 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
- 3.4 Expenditure from Reserves can only be authorised by Full Council.
- 3.5 Reserves should not be held to fund ongoing expenditure.
- 3.6 All earmarked reserves are recorded on a central register held by the Responsible Financial Officer. The register should list the purpose for which the earmarked reserve is held.

- 3.7 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.

3. Carry forward of Under-spend

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.

4. Renewals

Used to plan and finance an effective programme of equipment replacement, planned property repair and 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.

5. Insurance Reserve

To enable the Council to meet the excesses not covered by insurance.

6. Principles to Assess the Adequacy of Balances and Reserves

- 6.1 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.
- 6.2 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 then made to full Council for ratification and formal approval. This forms the foundation of setting the precept.
- 6.3 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.
- 6.4 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 CILS monies or grants for projects.

- 6.5 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 expenditure or to finance anticipated or foreseeable projects.

7. Governance concerning the Balances and Reserves:

- 7.1 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.
- 7.2 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.
- 7.3 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 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 full Council for formal approval.

- 7.4 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.
- 7.5 Foreseeable or anticipated project costs should be properly budgeted for and included in Earmarked Reserves.

8. Reserves currently maintained:

- 8.1 The level of General Reserves is to be not less than sufficient to pay three month's salaries to staff and associated expenses e.g. National Insurance and Tax contributions and no more than a quarter (equivalent to approximately 25%) of the annual precepted figure.
- 8.2 The level of Earmarked Reserves included are listed in the register.

Approved Full Council Meeting 8th November 2022

Approved.....Clerk/RFO Date.....2022

Approved.....Chairman (Finance Committee)