



TORPOINT TOWN COUNCIL

RESERVES POLICY

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**REVIEWING COMMITTEE – Finance and
Operations Committee**

TORPOINT TOWN COUNCIL

RESERVES POLICY

Torpoint 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 general reserves. At year end the Council's general reserves is where the revenue income is held (that is to say the general reserve from the previous year plus surplus/ (deficit) revenue income of the Council for the year is accounted for). It does not include funds held and allocated for specific projects.

The Town Council needs to maintain reserves to protect against risk, to ensure contingencies are in place and to support investment in future projects that are beneficial to the town. 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 allocated 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 and of the referendum requirement being extended to increases in the precept exceeding a prescribed figure.

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 or maximum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are key protocols for their establishment and use.

1. Types of Reserves

The Town Council holds and maintains two types of reserves;

- (a) General Reserves and
- (b) Allocated Reserves (these are broken down into several types and are clearly identified).

These are explained further below

(a) General Reserve: -

The general reserve represents the non-ring fenced balance of Council funds that is not part of an Allocated Reserve. The main purposes of the General Reserve is 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.

General Reserve Policy:

- i) *Torpoint Town Council will set the precept at the level required to maintain a predicted General Reserve balance at the relevant financial year end that is no higher than 100% of the precept set for that year.*

b) Allocated Reserves: -

Allocated reserves are held for the following principal reasons:

- i) Repairs and Renewals – to enable Council to plan and finance an effective programme of machinery, vehicle and equipment replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure

- so that a sensible repair/replacement programme can be achieved.
- ii) Carry forward of underspend - some services commit expenditure to projects, but cannot spend the budget in year. Allocated reserves are used as a mechanism to carry forward these resources.
- iii) Trading accounts – In some instances surpluses are retained for future investment.
- iv) Insurance reserve – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
- v) Other allocated reserves may be set up from time to time to meet known or predicted liabilities.
- vi) Election costs.

2. Role of Responsible Finance Officer [RFO]

It is the responsibility of the 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. This will all be dependent on the Council setting a prudent, robust and well informed budget and in particular providing articulate development plans based on, for example Project Initiation Documents or Project Statements. The members of the Town Council, on the advice of the RFO, 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 parameters 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 duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent responsible stewardship of public funds. All members and other officers have a duty to co-operate with the RFO and provide relevant documents and information as appropriate and required by the RFO.

3. Working balances

- a) The level of general reserves or working balances is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building working balances will be through an allocation from the surpluses detailed in the financial accounts and budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.
- b) Setting the level of working balances is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.
- c) The level of financial reserves held by the council will be agreed by the Town Council during the discussions held regarding the setting of the budget for the next financial year. The minimum current level of general reserves to be held by the Council is three twelfths of the annual precepted figure, i.e. to fully cover three months' expenditure.
- d) In practice, however, in determining the precise level of reserves about this minimum, the Responsible Financial Officer will consider most if not all of the factors shown in the following table: -

Budget assumptions	Financial standing and management
The treatment of inflation and interest rates	The overall financial standing of the authority (e.g. level of borrowing, debt outstanding etc.)
The treatment of demand led pressures	The authority's capacity to manage in year budget pressures
The treatment of planned efficiency savings	The strength of the financial information and reporting arrangements
The financial risks inherent in any significant new funding partnerships, major contractual arrangements or major capital developments	The authority's virement and end of year procedures in relation to budget under/overspends at council and committee level
The availability of other funds to deal with major contingencies and the adequacy of provisions	The adequacy of the authority's insurance arrangements to cover major unforeseen risks

If in extreme circumstances general reserves were exhausted due to 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.