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# FINANCIAL RESERVES POLICY

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## **Document Control**

<b>Title:</b>	Financial Reserves Policy	
<b>Document Purpose:</b>	The purpose of this policy is to set out how the Council will determine and review the level of its reserves.	
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## **Version History**

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## **1. Introduction**

1.1 The Town Council needs to maintain adequate financial 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.*

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 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-term spending plans (LAAP Bulletin 99). 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 (Audit Commission: Striking a Balance). Consequently, there is no specified minimum or maximum level of reserves that Bridgnorth 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. Risk Management**

2.1 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.

## **3. Types of Reserves**

3.1 Bridgnorth Town Council maintains two types of reserves;

### **a) 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.

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 should be reviewed annually to ensure that it is still relevant.

### **b) 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.

3.2 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

3.3 **NOTE:** Bridgnorth Town Council is aware that setting the general reserve at too high a level may in future years reduce the ability of the Town Council of increasing its precept. Too much money in the bank could be seen as poor budgeting and in contradiction to CIPFA guidelines of 3 – 6 months (25% to 50%) of annual net operating costs. Principle authorities are beginning to take notice of this requirement, as are external auditors who will question why reserve levels are out of sync with budget requirements. Apart from external auditors putting qualifications against a council's accounts/annual return, central government may empower principle authorities to monitor and withhold precept demands where there are excessive general reserves. 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.

3.4 Further major elements which could impact adversely on future precepts are;

- Capping of Town Council Precept by Central Government
- Possible future transfers of services and assets from Shropshire Council

#### **4. General Fund Reserve**

4.1 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.

4.2 The in-year use of general reserves requires Council approval 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 Council Chairman.

4.3 There is no prescribed level of general fund reserves but a level of 30% to 50% of annual operating budget ensures adequate provision in the event of any unforeseen occurrence which would affect cash flow.

#### **5. General Fund Reserve – Risk Assessment**

5.1 Identifying the risks allows the Council to take account of the circumstances around current structural change due to service provision and economic circumstances.

5.2 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.

## **6. Assessment of Potential Risks (not covered by insurance)**

6.1 Identifying the risks allows the Council to take account of the circumstances around current structural change due to service provision and economic circumstance.

6.2 Risks can be identified as follows:

- risks from potential one-off events
- risks which will have general financial consequences

<b>Risk</b>	<b>Effects/Action</b>	<b>Value of Risk £</b>
Loss of Income	Substantial disruption of income streams:  Ticket machine malfunctions/car park flooding  Demand fluctuations – cemetery  Unexpected vacancies BTC let properties  Market	. 50,000
Equipment breakdowns	Hire of equipment fees	10,000
Staff absence Recruitment Plans	Additional advertising costs to attract staff Agency staff	10,000
Major Loss of Service through fire/flood/structural damage	Severe Weather – staffing, materials costs/robust emergency plan	10,000
	Insurance Claims – running premises/good claims management.	35,000

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	40,000
Legislative requirements	Unscheduled elections/parish polls	4,000
	Overall Risk Quantified	164,000

## **7. Insurance Cover**

7.1 The greatest risk facing Bridgnorth Town Council is not being able to deliver the activity or services expected of it. The Town Council manages many of the underlying risks when it reviews the robustness of insurance providers, insurance and its systems.

7.2 Zurich Municipal currently provide tailored insurance cover to suit the needs of the Town Council. Employers Liability (£10,000,000), Public Liability (£10,000,000) and Fidelity Guarantee (£1,000,000) are statutory requirements under The Compulsory Insurance Act (1969) and S114 of the Local Government Act (1972). Other voluntary areas of cover includes all risks (protection of physical assets), money, hirer's liability, libel and slander, personal accident and legal expenses.

## **8. Assessment of Potential Risks**

8.1 In all types of undertaking there is the potential for events and consequences that may either be opportunities for benefits or threats to success. Risk management identifies what can go wrong and how to take proportionate steps to avoid this or successfully manage the consequences. The failure to manage risks effectively can be expensive in terms of litigation and reputation, and the ability to achieve desired targets, and, eventually, on the local community's Council Tax bills.

8.2 In order to assess the adequacy of unallocated general reserves, it is necessary to place an estimated financial value on the key strategic, operational and financial risks facing the authority and set aside a reasonable provision. The value of the risks to Bridgnorth Town Council have been estimated by:

- considering the probability of each risk
- considering the range, nature, complexity and scale of the risk
- evaluating the financial consequences of each risk by taking into consideration budgeted figures for income and expenditure
- setting aside amounts where applicable to cover contingencies
- having regard to the provisions made by Town Councils of a similar size and operation

## **9. Financial Responsibility**

9.1 Under Bridgnorth Town Council Standing Orders the Council is responsible for the overall management and control of the Town Council's finances.

9.2 The role of the Council is to review the level of its balances and reserves and make the following decision in respect of general reserves:

- to consider the level of general reserve to be applied to the precept for each year.

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

10.1 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.

10.2 There is no statutory minimum but there are four significant safeguards in place against the Town Council over committing itself financially;

(a) The balanced budget requirement.

(b) RFO S114 Powers.

(c) The External Auditor's responsibility to review and report on financial standing.

(d) The year-end audit report from the Town Council's Internal Auditor

10.3 Bridgnorth Town Council, on the advice of their 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 range (25% to 50% of annual operating budget) given its emerging service responsibilities.

10.4 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.

10.5 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.

## **11. Conclusion**

11.1 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.

11.2 In addition to allowing the 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. This investment income forms part of the budget strategy.

This Policy will be reviewed annually by Council, or sooner should circumstances or legislation change.

Adopted by Council on 19/12/2017

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