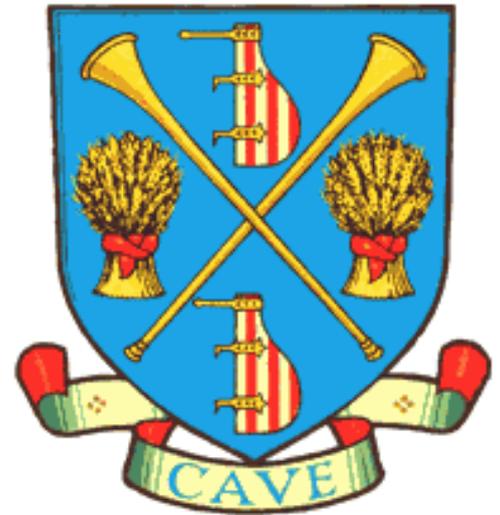

RESERVES POLICY

WARE TOWN
COUNCIL



What's in the Policy:

This policy provides details of the

- Legislative/ Regulatory Framework
- Role of the Responsible Financial Officer
- The Purpose of Reserves
- Principles to assess adequacy
- Reporting Framework
- Current Reserve Criteria

Adopted

27th January 2020

Review

January 2023

Reserves Policy of Ware Town Council

1. Legislative/Regulatory Framework

1.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

1.2 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the Responsible Finance Officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

1.3 Furthermore, sections 26 and 27 of the Local Government Act 2003 set out the requirements regarding the determination of minimum levels of controlled reserves (i.e. currently unallocated balances), and actions required should they fall below such minimum levels.

1.4 A key element contained within the Use of Resources assessment criteria is Financial Standing; the authority must be able to demonstrate that "The Council monitors and maintains its level of reserves and balances within the range determined by its agreed policy".

2. Role of the Responsible Financial Officer

2.1 Within the existing statutory and regulatory framework, it is the responsibility of the Responsible Finance Officer at Ware Town Council to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

2.2 For clarity, within the legislation the minimum level of any reserve is not quantified, and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget. However guidance can be obtained from NALC and SLCC on what is generally acceptable.

3. Purpose of Reserves

3.1 Reserves at Ware Town Council can be held for four main purposes:

- A **Business Reserve Account** – this is the account where the precept for the financial year is listed, to go out as expenditure in the current year
- A contingency to cushion the impact of unexpected events or emergencies – in Ware Town Council we call this the **Contingency Reserve**
- A means of building up funds or of reallocating specific funds from one year to the next- referred to as **Earmarked Reserves**, to meet known or predicted liabilities

3.2 For each Earmarked Reserve held there should be a clear protocol setting out:

- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4. Principles to Assess Adequacy

4.1 Setting the level of reserves and balances is just one of several related decisions in the formulation of a financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

Budget Assumptions

- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures
- The treatment of planned efficiency savings/gains
- 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

Financial Standing and Management

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)
- The authority's track record in budget and financial management
- The authority's capacity to manage in-year budget pressures
- The strength of the financial information and reporting arrangements
- The authority's virement and end of year procedures in relation to budget under/over spends
- The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

4.2 The minimum level of Contingency and General Reserves which is considered appropriate for the Council is reviewed annually as part of the budget process.

4.3 A review of the level of Earmarked Reserves is undertaken generally as part of the annual budget preparation and as part of the closure of accounts process.

4.4 External auditors normally recommend the use of a risk based approach when setting the level of reserves. As far as reasonably practical this approach is used, although for many reserves the balance is being held to meet a specific budgeted need, or alternatively future spending needs can be restricted to tie in with monies available. For others, whilst the risk of financial liabilities arising is acknowledged, it may be impossible to assess accurately (or quantify) the financial risks involved, and the balances of such reserves are determined initially based on informed judgement. Their future levels will be further reviewed as more information becomes available.

5. Reporting Framework

5.1 The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Clerk.

5.2 The Council's annual budget report includes a statement showing the estimated opening general fund balances for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. A statement is also included commenting on the adequacy of general balances and provisions in respect of the forthcoming financial year.

5.3 Similarly, a statement is also included, as part of the budget report, identifying Earmarked Reserves, the opening balances for the year, planned additions/withdrawals and the estimated closing

balance.

6. Current reserve Criteria

6.1 The **Business Reserve** should consist of the precept and all other revenues as received

6.2 The **Earmarked Reserves** should be specified for particular projects and carry-overs

6.3 The **Contingency Reserve** should normally be around four months precept

In addition, as a principle of good business, the Council's total Assets (including buildings and land) should never be less than the Council's total Liabilities (including long term loans)

The Council will carry out a risk assessment annually to determine the level of the Contingency Reserve.