

FARINGDON TOWN COUNCIL

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RESERVES POLICY

1. Town Council Reserves

The Town Council needs to maintain 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.*

The Reserves Policy presents information about the requirements to maintain appropriate financial reserves and provides details on the types of reserves and current and predicted balances. 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.

The purpose of this Policy is to enable the Finance and Audit Committee to review the level of reserves to ensure they meet the current and future needs of the Town Council. 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 Finance Officer and base its judgement on local circumstances.

The Town Council within its 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 and the maintenance and asset replacement fund. 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

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

- Capping of Town Council Precept by Central Government
- Vale of the White Horse District Council as Billing Authority further reducing the Council Tax Support grant through the localisation of council tax benefit support scheme.

2. Purpose of Reserves

The purpose of general reserves is to minimise the possible financial impacts to the authority from:

- Emergencies
- unforeseen events
- Emerging issues during the year.

3. Types of Reserves

Faringdon Town Council maintains three 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 Finance and Audit Committee 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) Maintenance and Asset Replacement Fund

This provides a fund to replace assets and to carry out major maintenance tasks. It is the responsibility of the Finance and Audit Committee to ensure this fund is spent in line with its purpose. The Maintenance and Asset Replacement Fund will increase through decisions of the Council and will decrease as spent on its specific intended purposes. The fund should be reviewed on an annual basis.

c) 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.

4. Reserve – Risk Assessment

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; 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.

5. Assessment of Potential Risks (not covered by insurance)

This places an agreed estimated total value on the range of risks that may arise and which are not covered by insurance.

No	Risk	Effects/Action	Value of Risk
1	Loss of staff	Council could not function effectively Additional advertising costs to attract staff, pay for staff cover	£10,000
2	Major Loss of Service through fire/flood structural damage Uninsurable losses	Premises/Market not operational	£3,000
3	ICT Security/data corruption	Loss of service robust security policies, backup, firewalls	£3,000

		and off site electronic document storage	
4	Loss of Council Tax Support Grant	Funding shortfall if precept is capped in future years	£5,000
5	Election Reserve	Reserve to meet potential future Election Costs/By-election-Town Poll	£5,000 <i>per annum</i>
6	Christmas Lights	Loss of lights due to disrepair Future financial provision to ensure display	£5,000
7	Unanticipated Legal costs	Legal costs that cannot be recovered	£12,000
8.	Loss of Income – rent or Information centre income	Substantial disruption of income streams such as: Loss of tenants Income from Information Centre and hire charges affected by economic conditions locally and nationally	£15,000
9.	Contracts, leases and loans	Outstanding liability including breach clauses Van £2k (12 months) IT £2.5k (12 months) Telephone £3k(24 months) HR and Health and Safety £3k (12 months) PWLB £15k (12 months) Photocopier £1.7k (36 months)	£27,200
Total			£85,200

6. Financial Responsibility

Faringdon Town Council, considering any advice, is required to make its own judgements on the level of reserves, taking into account all relevant local circumstances. The Town Council 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.

It is the responsibility of the Finance and Audit Committee to review the balances and reserves and make the following decisions:

- To recommend to Council to reallocate earmarked reserves which will not be used for the original purpose for what they were established

- To consider the level; of funds in the Maintenance and Asset Replacement fund and make recommendations to council on any adjustments
- To consider the level of reserves to be applied to the precept for each year. Where expenditure is planned in future accounting periods, it is prudent to build up reserves in advance.
- To ensure reserves are spent in line with their purpose.

It is the responsibility of the Responsible Finance Officer (RFO) to advise the Town Council about any factors that may impact the level of reserves that it should hold and ensure that it has clear protocols for their establishment and use.

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 Auditors responsibility to review and report on financial standing.
- (d) The year-end audit report from the Town Council's Internal Auditor

7. Summary

General Reserves should not reach the level of the precept.

The figure for General Reserves is obtained from Assessment of Potential Risks (*not covered by insurance*), section 5 and will be reviewed on a yearly basis.