

Haverhill Town Council

Reserves Policy

Adopted 2019-07-22 (C19/119b)



1 Policy Statement

1.1 The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. Consideration should also be given to the CIPFA guidance notes on Local Authority Reserves and Balances issued July 2014.

1.2 The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be reviewed annually.

1.3 The Council will hold reserves for these three main purposes:

- a) a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves;
- b) a contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves;
- c) a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

1.4 General Fund Balance

The General Fund Balance, commonly termed the "working balance", is a balance on the Council's revenue account which is not held for any specific purpose other than to cushion the Council's finances against any unexpected short term problems in the council's cash flow.

The General Fund Balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer when setting the budget for the forthcoming year. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.

2 Financial Risk Management

2.1 In order to assess the adequacy of the general fund when setting the annual budget, the Responsible Finance Officer will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the Council's main areas of income and expenditure and take into account any provisions and contingencies that may be required. This financial risk assessment will be based upon the following items:

The main items to be considered are:

Financial Risk	Analysis of Risk	Risk Control	Risk level after control measure
Pay inflation is greater than budgeted	The cost of living increase is above the level allowed for in the estimates.	RFO considers past performance and current government policy/state of national negotiations when setting budget	Low – Public Sector pay is subject to long negotiations so the likely outcome is known well in advance of setting the annual budget.
Contractual inflation is greater than budgeted	A general assumption is made when estimating the percentage increase on rates & utilities. This may increase above budgeted inflation.	RFO considers general market conditions and negotiates long-term agreements	Low – We know likely costs from market conditions and these costs form a relatively small part of the overall budget
	Professional and other services costs increase above estimate.	RFO negotiates long-term deals	Low – with long-term deals in place we know costs up-front
Treasury management income is not achieved	The actual interest rate realised is below the rate predicted at budget setting.	The Annual Investment Strategy (Investment Policy) will set out a strategy for balancing RoI with security of funds and maintaining liquidity	Low – the investments have been made in accordance with the investments policy
Seasonal income is lower than budgeted/shortfall in income from fees and charges	That a decrease in revenue is realised from estimate.	RFO, Accountant and Arts Manager analyse past performance to predict future performance. Budgets are set at a low bar to avoid underestimates.	Medium – it is very difficult to make accurate forecasts due to the number of variables, so budget setting is very conservative.
Potential liabilities are realised	That the Council becomes liable to pay potential liabilities.	RFO and Arts Manager review the Arts Centre replacement schedule to ensure major outgoings are covered by earmarked reserves.	Low – There is currently an extremely healthy replacement reserve.
Project costs exceed predictions	Projects to which the Council has committed itself incur costs that were not foreseeable	RFO commissions good quality business planning and financial consultants to cost accurately major projects	Medium – Whilst there are reserves set aside for projects the possibility remains that additional costs are only discoverable during works (e.g. asbestos)

3 General Reserves

3.1 Local Authorities hold reserves to enable day-to-day operations to continue without the need to resort to short-term borrowing. These general reserves are calculated to cover a delay in the precept arriving and are usually considered to be adequate at a level equivalent to six month's net expenditure.

At 31st March 2019 general reserves was calculated as £500,000 CCLA property fund minus £183,866 deficit on cash holding within the general reserve, meaning general reserves stand at £316,134. For the year ending 31st March 2019, expenditure was £1,409,681. This means general reserves stood at the equivalent of 22.43% of expenditure.

3.2 The policy of the Council is to increase general reserves to the equivalent of 3 months' expenditure by March 31st 2023 – a minimum of £352,356 plus inflation and the precept will be set at a level to achieve this.

4 Statutory Reserves

4.1 Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices. At Haverhill Town Council this is:

- a) Capital Receipts Reserves - this reserve holds the proceeds from the sale of assets, and can only be used for capital purposes in accordance with regulations.

5 Earmarked Reserves

5.1 Earmarked reserves represent amounts that are generally built up over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. The "setting aside" of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year. The Council, when establishing an earmarked reserve, will set out:

- a) the reason/purpose of the reserve;
- b) how and when the reserve can be used;
- c) procedures for the management and control of the reserve;
- d) a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

5.2 The Earmarked Reserves as at year end are reported to the Annual Meeting of the Council each May and adopted.

6 Review of the Adequacy of Balances and Reserves

6.1 In assessing the adequacy of reserves the strategic, operational and financial risks facing the Council will be taken into account. The level of general and earmarked reserves will be reviewed as part of the annual budget preparation.