



Carnforth Town Council

Reserves Policy 2022

Introduction

The Council is required, under statute, to maintain adequate financial reserves to meet the needs of the organisation.

Section 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 specific minimum level of reserves that an authority must hold, and it is the responsibility of the Responsible Finance Officer to advise the Council about the level of reserves to ensure that there are procedures for their establishment, maintenance and use.

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

The Council will hold reserves for these three main purposes;

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

Control objective D of the Annual Governance and Accountability Return requires that *'The precept or rates requirement resulted from an adequate budgetary process progress against the budget was regularly monitored; and reserves were appropriate'* The 2021/22 Internal Audit Report concluded that this control objective had been met and that the Council had built on its improved reserves position as at 31st March 2021 and that 'The closing level of reserves as at 31st March 2022 represents an appropriate level for the Council':

General Fund Balance

The general fund balance, commonly termed the 'working balance' or general reserve, is a balance on the council's revenue account which is not held for any specific purpose other than to cushion the council's finance against any unexpected short-term calls on 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 Finance and Governance Committee, supported by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year.



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In line with best practice, it is recommended that the Council holds a General Fund Balance equivalent to no less than twenty-five percent of annual expenditure. Any amount in excess of this minimum value will be determined as part of the annual budget process.

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.

Financial Risk Management

To assess the adequacy of the general fund when setting the annual budget, the Finance and Government Committee 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 risk assessment of the council's main areas of income and expenditure and consider any provisions and contingencies that may be required.

The main items to be considered are:

Financial Risk	Analysis of Risk
Loss of staff due to long term sickness – Contractually salaries must be paid for 6 months.	Council could not function effectively – Additional costs would be incurred to pay for staff cover.
Pay inflation is greater than budgeted.	The cost of living increase is above the level allowed for in the estimates.
Contractual inflation is greater than budgeted.	A general assumption is made when estimating the percentage increase on rates and utilities. This may increase above budgeted inflation. Professional and other services costs increase above estimate.
By-Elections expenses greater than budgeted amount.	As assumption is made that an average ward by-election would cost £6,000 and this amount is included within the budget each year – see earmarked reserves.
Insurance Claims	Good claims management (cost of excess on 10 claims per year)



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Statutory Reserves

Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices. Carnforth Town Council has no requirements to maintain statutory reserves.

Earmarked Reserves

Earmarked Reserves represent amounts that are generally built up over a period 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:

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

The following reserves will be held by the Council:

No	Purpose of Reserve	Amount (£)
1.	General Reserves	£25,000
2.	Earmarked Reserves	£56,913
3.	Election Fund	£5,000
4.	Neighbourhood Plan	£1,374
5.	Emergency Planning	£768
Total		£89,055

Review of the adequacy of balances and reserves

In accessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be considered. The level of earmarked reserves will be reviewed as part of the annual budget preparation.

Bob Bailey, Town Clerk & Responsible Finance Officer