



STURMINSTER NEWTON TOWN COUNCIL

Reserves Policy

Adopted on: 3rd November 2016

Review date:

1. Town Council Reserves

The Town Council needs to maintain reserves to protect against risk, to ensure contingencies are in place and to support investment in future projects which are beneficial to the town. 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 and of the referendum requirement being extended to increases in the precept exceeding a prescribed figure.

This Reserves Policy presents information about the requirements to maintain appropriate financial reserves and provides details on the types of reserves to be maintained. 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 councillors to review the level of reserves to ensure they meet the current and future needs of the Council

- when approving annual budgets and setting the precept;
- when over-seeing budgets throughout the year; and
- when deciding whether to make expenditure commitments and how to meet them.

The assessment of the adequacy of the Council's balances and reserves will take account of all relevant sector guidance on best practice and on the advice from its Responsible Finance Officer ("RFO") in light of local circumstances.

2. Types of Reserves

The Town Council maintains two types of reserves; (i) a General Reserve and (ii) Earmarked Reserves (of which there are several sub-types). These are explained further below and the policies relevant to each are set out.

(a) General Reserve

The General Reserve represents the non-ring fenced balance of Council funds (i.e. the net balance of all funds held at the financial year end that is neither required to fund expenditure already incurred but not paid nor part of an Earmarked Reserve. The main purposes of the General Reserve are first 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.

General Reserve Policy: Unless and until the Council is able to assess these requirements more precisely, it will set the precept at the level required to maintain a predicted General Reserve balance at the relevant financial year end that is between 25% and 33% of the precept set for that year.

(b) Earmarked Reserves

Earmarked Reserves provide a means of setting funds aside for purposes other than expenditure planned in the current financial year or as provision against the contingencies intended to be met from the General Reserve. Once an Earmarked Reserve has been established by the Town Council the RFO has both the delegated authority and the responsibility to ensure that funds in them are applied in line with their purpose. The different types of Earmarked Reserve and the policies relating them are as follows:

(i) Commuted Sums

The Town Council has received lump sum payments intended to subsidise the cost of maintaining land and/or assets transferred to the Town Council and may receive further such payments in future. In some cases, these payments were received in accordance with Agreements made pursuant to section 106 of the Town & Country Planning Act 1990 ("s.106 Agreements"). In some cases, the relevant subject matter includes play equipment or other items which will require replacement at a time and cost that is, in principle at least, predictable.

Commuted Sums Policy: Upon receipt, each sum which can fairly be considered to fall in this category (however described and regardless of the precise legal basis of its payment) will be assigned to a separate Earmarked Reserve of the Commuted Sum sub-type and will thereafter be applied as follows:

- 1. In accordance with any directions or requirements that are legally binding on the Town Council (whether by virtue of any s.106 Agreement or otherwise) and subject thereto;*
- 2. Where the relevant subject matter includes play equipment or other items likely to require replacement, in accordance with any planned replacement programme prepared by the RFO and approved by the Town Council (which may include transfers to relevant Earmarked Reserves of the Sinking Fund sub-type); and subject thereto*
- 3. In contributing to the general costs incurred by the Town Council in managing and maintaining the relevant subject matter by being reduced by approximately 5% of the original sum received each year.*

(ii) Sinking Funds

In addition to the types of expenditure that predictably arise every year, the Town Council is able to predict some expenses that only occur irregularly; such as, the cost of replacing play equipment or vehicles. Where these expenses are relatively substantial, it is advisable to accumulate funds over time to meet them (because this avoids large changes in the precept from year to year and by spreading the cost over a period of years treats council tax payers more fairly over time).

Sinking Funds policy: The Town Council will from time to time establish Earmarked Reserves of the Sinking Fund sub-type to meet the cost of anticipated expenditure that is substantial and irregular and will review and adjust the level of such funds at least once every year in accordance with a scheme prepared by the RFO and approved by the Town Council.

(iii) Specific Contingency funds

The Town Council has considered the risk of having in any year to incur exceptional unplanned expenditure in order to sustain the provision of existing services and amenities (e.g. the cost of reactive repairs to footway-lighting, public toilets, benches and other street furniture, etc.) or to provide immediate funding for new projects or services not specifically planned-for when the budget was agreed. It has concluded that these risks are better dealt with separately from the General Reserve because they are neither totally unpredictable nor genuine emergencies and there is a limit to the amount it would be willing to spend on them in any event. It has further concluded that these risks are better

addressed collectively than individually because the probability of ALL such risks arising in any one year is very small.

Specific contingency funds policy: The Town Council will from time to time establish earmarked funds to meet:

- (A) the cost of reactive repairs to infrastructure;*
- (B) the requirement for interim funding for new projects or services approved by the Town Council in year*

and will review and adjust the level of such funds (and any others of a similar type established from time to time) at least once every year.

(iv) Future Project Funds

Finally, the Town Council sometimes needs to set aside funds for use in a later financial year, to meet known or planned policy initiatives. Earmarked Reserves of this type will increase through decisions of the Council and receipt of monies required to be spent only on the relevant project and will decrease as they are spent on their specific intended purposes. The purpose of this type of Earmarked Reserve is to set aside amounts for projects that extend beyond one year.

Future Projects Funds policy: The Town Council will from to time establish Earmarked Reserves to provide funds for specific, named policy initiatives which are known or planned and are not expected to be completed in the current financial year. Such funds will only be spent on the specified initiative. Each such fund will be reviewed at least once every year. If at any time the Town Council decides to cancel or abandon any relevant initiative any such fund relating to it will thereupon be re-paid in accordance with the requirements of any relevant donor or funding agency and subject thereto re-assigned to the General Reserve unless an alternative suitable direction is made by the Town Council at that time.

3. Role of Responsible Finance Officer

It is the responsibility of the 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.

The members of the Town Council, on the advice of the 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 given its emerging service responsibilities.

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.

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.