

# **Sandwich Town Council Reserves Policy**

adopted on ...27/09/2021...

## **1. INTRODUCTION**

The Town Council is required to maintain adequate financial reserves to meet the needs of the organisation. Section 50 of the Local Government Act 1992 requires local precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

The purpose of this policy is to set out how the Council will determine and review the level of reserves.

There is no specified minimum level of reserves that an authority should hold.

## **2. TYPES OF RESERVES**

Sandwich Town Council maintains two types of reserves:

### **Earmarked / Ring-Fenced 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. Where expenditure is planned in future accounting periods, it is prudent to build up reserves in advance.

Where an earmarked reserve is established, a clear reason/purpose should be set out, together with how and when the funds are expected to be used. It is the responsibility of the Responsible Finance Officer (RFO) 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.

### **Current held Earmarked / Ring-Fenced Reserves are:**

**Monks Wall Nature Reserve ring-fenced monies:** Historically kept in a separate bank account, this was amalgamated into the Sandwich Town Council account, and the balance of this reserve is brought forward and ring-fenced each new financial year.

**IT Reserve:** This earmarked reserve budget was commenced in 2020/21, for the purposes of renewal of IT hardware over a four-year rolling period.

HIPS (Highways Improvement Plan) Reserve: This earmarked reserve was commenced in 2020/21. This reserve is to fund improvements to the road systems in Sandwich.

Drill Hall Reserve: This earmarked reserve was commenced in 2021/22 using the underspend from 2020/21. To pay for Drill Hall building repairs.

### General (Operating) Reserves

This represents the non-ring fenced (earmarked) balance of Council funds. The main purpose of the General Reserves is 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.

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.

The primary means of building a General Reserve will be through the reallocation of funds e.g. where a project comes in under budget or through an allocation from the annual budget.

It is recommended in the 'Good Councillors Guide to Finance and Transparency' to hold between 3 and 12 months expenditure as a General reserve. However, if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community, and the level will need to be justified to the external auditor.

The RFO will advise the Town Council on the level of reserves it should hold. The level of the General Reserve should be reviewed each year as part of the budgeting process.

Balancing the annual budget by drawing on reserves must be viewed as a legitimate short-term option only. Such reserves must not be deployed to finance recurrent expenditure.

### **3. BUDGET ASSUMPTIONS AND RISKS**

When budgeting and reviewing reserve requirements the council must make assumptions and assess possible identifiable risks which include the following:

- The level of inflation and interest rates
- Salary and benefit reviews negotiated by the National Joint Committee for Local Government Services

- Loss of staff
- Revaluation and changes to required funding for the LGPS
- The level and timing of revenue and capital receipts
- Planned efficiency savings / gains
- Financial risks inherent in any new project
- Legislation changes
- One-off events
- Demand led pressures
- Uninsurable losses
- Availability of other funding sources e.g. grants, investments
- Capping of Town Council precept by central government

Unexpected or emergency Guildhall building expenses can be covered by drawing funds from Sandwich Toll Bridge Fund investments. For this reason, the level of general operating reserves can be seen as only needing to cover Sandwich Town Council functions.

The council undertakes an annual Financial Risk Assessment and has insurance in place to protect against possible identifiable insurance losses.

#### **4. SUMMARY**

The level of the General Reserve should not exceed the annual precept and will be determined by the assessment of potential risks.

All reserves will be reviewed annually.

The RFO will advise the Council on the level of reserves required to fulfil it's obligations.

Policy adopted by Review