



Thatcham Town Council

GENERAL RESERVES POLICY 2018/19

1. Introduction

1.1 Thatcham Town Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of general reserves is to minimise the possible financial impacts to the authority from:

- Emergencies
- Unforeseen events
- In-year emerging issues

This includes:

- providing protection against risk,
- ensuring contingencies are in place.

1.2 The purpose of this policy is to set out how the Council will determine and review the level of its General Reserve. The General Reserve is where all the revenue income and expenditure of the Council is accounted for. It does not include specific funds which have been earmarked for long term projects.

1.3 Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting future expenditure when calculating the budget requirement. The amount that councils need or choose to hold in their reserves varies according to local circumstance. Elected members are responsible for deciding what reserves their council holds when setting the budget; informed by their longer-term spending plans (LAAP Bulletin 99). There is no set formula for determining the level of reserves that each council should have, and no consensus on what is appropriate, too low or too high (Audit Commission: Striking a Balance). Consequently, there is no specified minimum or maximum level of reserves that Thatcham Town Council should hold. It is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure there are key protocols for their establishment and use.

2. Types of reserves

2.1 Thatcham Town Council maintains two types of reserves.

(a) General Reserve

General reserves or working balances are funds which do not have any restrictions as to their use. These reserves operate as a working balance to help manage the impact of

uneven cash flows. They can also be used to smooth the impact of significant pressures, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies. In general, a robust level of reserve should be maintained and should take account of operational and financial issues facing the Town Council.

(b) Earmarked Reserves

Earmarked reserves provide a means of accumulating funds, for use in a later financial year, to meet known or planned policy initiatives and are the subject of a separate review as part of the year end procedures.

3. Adequacy of reserves

3.1 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 Financial Officer and base its judgement on local circumstances.

3.2 A well-run authority with a prudent approach to setting its budget will consider its level of general reserves each year. These general reserves will need to be supported by earmarked reserves for specific needs, contingencies and commitments. In assessing the level of the Town Council's general reserves, account needs to be taken of the risks facing the Council in terms of any significant unforeseen expenditure requirements.

4. Financial Responsibility

4.1 Under Thatcham Town Council Standing Orders the Council is responsible for the overall management and control of the Town Council's finances.

4.2 The role of the Council is to review the level of its balances and reserves and make the following decision in respect of general reserves:

- to consider the level of general reserve to be applied to the precept for each year.

5. Role of Responsible Financial Officer

5.1 It is the responsibility of the Responsible Financial Officer to advise the Town Council about the level of general reserve that it should hold and ensure that it has clear protocols for its establishment and use.

5.2 There are four significant safeguards in place against the Town Council over committing itself financially:

- The balanced budget requirement
- Responsible Officer's S114 powers
- The External Auditor's responsibility to review and report on financial standing
- The year-end report from the Town Council's Auditor

5.3 Thatcham Town Council, on the advice of its Responsible Financial Officer, is required to make its own judgments on the level of reserves, taking into account all relevant local circumstances.

5.4 The Responsible Financial Officer has a fiduciary duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

6. General Fund Reserve

6.1 The in-year use of general reserves requires Council approval following a recommendation by Committee and must not be used for any level of recurring spending, unless that spending will be included in the Revenue Budget for the following financial year. In all cases the use of reserves should be approved by the Responsible Financial Officer in consultation with the Committee Chairman.

6.2 There is no prescribed level of general fund reserves but between 25% to 30% of the annual precept ensures adequate provision in the event of any unforeseen occurrence which would affect cash flow.

7. Risk Assessment

7.1 Identifying the risks allows the Council to take account of the circumstances around current structural change due to service provision and economic circumstance.

7.2 Risks can be identified as follows:

- risks from potential one-off events
- risks which will have general financial consequences

8. Insurance Cover

8.1 The greatest risk facing Thatcham Town Council is not being able to deliver the activity or services expected of it. The Town Council manages many of the underlying risks when it reviews the robustness of insurance providers, insurance and its systems.

8.2 Zurich Municipal provide tailored insurance cover to suit the needs of the Town Council. Employers Liability (£10,000,000), Public Liability (£10,000,000) and Fidelity Guarantee (£1,000,000) are statutory requirements under The Compulsory Insurance Act (1969) and S114 of the Local Government Act (1972). Other voluntary areas of cover includes all risks (protection of physical assets), money, hirer's liability, libel and slander, personal accident and legal expenses.

9. Assessment of Potential Risks

9.1 In all types of undertaking there is the potential for events and consequences that may either be opportunities for benefits or threats to success. Risk management identifies what can go wrong and how to take proportionate steps to avoid this or successfully manage the consequences. The failure to manage risks effectively can be expensive in terms of litigation and reputation, and the ability to achieve desired targets, and, eventually, on the local community's Council Tax bills.

9.2 In order to assess the adequacy of unallocated general reserves, it is necessary to place an estimated financial value on the key strategic, operational and financial risks facing the authority and set aside a reasonable provision. The value of the risks to Thatcham Town Council have been estimated by:

- considering the probability of each risk
- considering the range, nature, complexity and scale of the risk

- evaluating the financial consequences of each risk by taking into consideration budgeted figures for income and expenditure
- setting aside amounts where applicable to cover contingencies
- having regard to the provisions made by Town Councils of a similar size and operation

Risk	Effects	Action	Value of Risk £
Loss of Income	Substantial disruption of income streams		55,000
	Income from fees/charges affected by economic conditions locally and nationally		15,000
Recruitment plans	Additional advertising costs to attract staff, cost of agency staff		5,000
Major loss of service through fire/flood structural damage	Severe weather – staffing, materials costs	Emergency plan	10,000
	Premises not operational	Disaster recovery plan	60,000
	Insurance claims	Claims management	30,000
ICT security/data corruption	Loss of service	Security policies	10,000
Legal costs/Industrial relations	Costs relating to service provision		15,000
	Costs relating to the General Data Protection Regulations (GDPR)		15,000
OVERALL RISK QUANTIFIED (30% of PRECEPT 2018/19)			215,000.00

10. Conclusion

10.1 Reviewing the Council's Financial Risk Assessment is part of the budgeting procedure. It helps to identify planned and unplanned expenditure items and thereby indicates an appropriate level of reserves.

10.2 In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised. This investment income forms part of the budget strategy.

Adopted by Full Council on 24th September 2018