

# Shepshed Town Council

## Financial Reserves Policy

### 1. Purpose

- 1.1. Shepshed Town Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.
- 1.2. The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, legislation does not specify the minimum level of reserves that an authority should hold, meaning it is the responsibility of the Responsible Financial Officer to follow current best practice and advise the Council, whilst ensuring there are procedures to follow.
- 1.3. The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2022 edition) advises: 'As with any financial entity, it is essential that authorities have sufficient Reserves (General and Earmarked) to finance both their day-to-day operations and future plans. Smaller authorities have no specific right to accumulate funds via the precept. All reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.'

### 2. Types of Reserves in Shepshed Town Council

- 2.1. For Shepshed Town Council, reserves are set up and categorised as general reserves or earmarked reserves.
- 2.2. General Reserves is held to cushion the impact of uneven cash flows or unexpected events
  - 2.2.1. JPAG (March 2022 edition) advises that: 'The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserves is that this should be maintained at between three- and twelve-months Net Revenue Expenditure (NRE). The smaller the authority the closer the figure may be to 12 months. In all of this, it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained.' NRE is effectively Precept less any Loan Repayments and/or amounts included in Precept for Capital Projects and transfers to Earmarked Reserves.
  - 2.2.2. General reserves as working balance - To the extent that reserves are used to meet short term funding gaps, they must be replenished the following year.

2.2.3. General reserves as contingency purpose - Setting the level of General Reserves is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

### 2.3. Earmarked Reserves is held for a specific purpose

2.3.1. The money is held for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked Reserves can be used to 'smooth' the effects of certain expenditure commitments over a period of time, thereby reducing the impact of significant expenditure in any one year.

2.3.2. Typically, three categories are applicable for Shepshed Town Council:

- a. Renewals – to plan and finance an programme of equipment, planned property maintenance, ground maintenance, which is a mechanism to smooth expenditure without the need to vary budgets;
- b. Carry forward an underspend - where expenditure has been committed to a particular project that cannot be spent in year, reserves are used as a mechanism to carry forward these resources;
- c. Other earmarked reserves – which maybe set up from time to time to meet the known or predicted liabilities

2.3.3. Earmarked Reserves will be established on a 'needs' basis, in line with anticipated requirements, and must be held for a genuine and intended purpose. Any decision to set up a reserve must be made by the Council. Expenditure from reserves can only be authorised by the Council.

2.3.4. Earmarked Reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

## 3. Management of the Reserves

3.1. CIPFA published guidance in 2008 in support of these matters and it is a requirement of the guidance, backed by legislation through the provisions contained in the local government Act 2003 that the Council's Responsible Finance Officer reports to members on the robustness and plans to utilise the Council's reserves and balances. The statement to all members should include:

- The estimated opening and closing General Revenue Balances for the year;

- The estimated addition to and withdrawal from Balances

Details of the above items will be demonstrated in section 7 of this paper.

#### **4. Control and Monitoring of the Reserves**

Shepshed Town Council sets up a list of control procedures on the Movements in Earmarked Reserves and General Reserves as below.

- 4.1. As part of the quarterly Budget to Actual Report, the movement of the earmarked reserves and general reserves should be presented at the Finance and General Purposes Meetings or Full Council Meeting.
- 4.2. The list of earmarked reserves items will be set up into the SCRIBE accounting system, all the expenses related to these items will be automatically recorded once the relevant vouchers are input. Remaining balances will be produced by the system and kept tracked.
- 4.3. The use and amendment of Reserves shall be approved by the Council.
- 4.4. The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review and agreed by the Council. The minimum level of General Reserves shall be recommended to the Council by the Responsible Financial Officer. This will form part of the recommendations for the annual precept of the Council.
- 4.5. Earmarked Reserves shall be reviewed on an individual basis. This review will also be undertaken as part of the regular and annual precept review. Approval for the creation, amendment, cessation or continuation of Earmarked Reserves will be given by the Council

#### **5. Annual Review of Reserves**

- 5.1. Shepshed Town Council adopt the methodology to assess the adequacy of reserves through a comprehensive financial risk assessment, which determines the degree to which the Council is exposed to uninsured and unbudgeted financial expenditure.
- 5.2. A summary of the financial risk analysis is shown in the following table. The risk of financial loss can come from a wide variety of places. The risks have been assessed in the context of the Council's overall approach to risk management and internal financial controls. This information has then been used to determine the optimal level of reserve holdings needed to meet the requirements of the contingency and working balance, details of which are covered later in this document section 7.

5.3. Risk Assessment for the General Fund Balance Matrix is reviewed during budget process.

Risks	Likelihood
<p><u>Economic Issues</u> The Council has some contractual arrangements whereby if the contractor were to go into liquidation</p>	<p>Low A general assumption is made when estimating the percentage increase on rates and utilities. This may increase above budgeted inflation. Professional and other services may increase above estimate.</p>
<p><u>Grant Funding</u> The Council sometimes seeks external funding/grants for one-off projects. In the event of the expected projected outturns are not achieved, repayment of funding or grant may be required.</p>	<p>Low Projects that require external funding are closely monitored by the Council in terms of quality, progress and effectiveness. Funding should not be paid to the contractors in one-time basis, instead, by phases.</p>
<p><u>Finance Support to other Organization</u> The Council has provided urgent funding support to other organization which has liquidity problem.</p>	<p>Low The Council has mechanism and policy on Community Grant. The grant to other organization is reviewed by the Grant Committee with application purposes. Organization background due diligence is deployed to ensure the grant are fully committed to the interest of the community.</p>
<p><u>Unstable or Overestimated Income</u> All income from fees and charges is lower than budgeted</p>	<p>Low A decrease in revenue is realised from estimate.</p>
<p><u>Legal Issue</u> It would be prudent for the Council to make provision for an unfavourable outcome of any legal action taken against it, which could be made on a range of different grounds, including compensation payments, equal pay, discrimination and corporate manslaughter.</p>	<p>Low Insurance on public and staff have been engaged. The Council and the Clerk will closely monitor and manage work place equality and corporate image.</p>
<p><u>Natural disasters and national emergencies</u> Business Continuity – in the event of flooding, damage of the building, gas leaks, electrical / gas, costs could arise from needing urgent consultancy or</p>	<p>Low The damage of the building has mainly been covered by insurance policy.</p>

replacement equipment, which could be costly at short notice.	
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## 6. Key Financial Assumptions on Budget underpinning General Reserves Level

Setting the level of General Reserves is one of several related decisions in the formulation of the medium-term financial strategy and the budget for a particular year. In addition to the cash flow requirements of the Council, key financial assumptions are considered to justify the budget alongside a consideration of the Council's financial management arrangements

### A) Inflation and Interest Rate Impact

The inflation rate and interest rates forecast highly and widely affect the overall financial position of the Council, including operating expenses, staff costs, debt outstanding.

### B) Level and timing of Precept receipts

The timing and interval receipt of Precept will affect the cash flow and liability repayment. Terms of payment with various contractors or services companies is required to be negotiated and arranged accordingly. Stringent track record of the budget utilization and financial management including the medium-term plan is essential to the control.

### C) Treatment of Demand Led Pressure

The programmes which are demand-led, such as welfare or public services may be unpredictable or not easily controlled. This pressure will affect not only the operating expenditure, but also consume part of the reserves unexpectedly.

### D) Treatment of planned efficiency savings / productivity gains

Timeliness and accuracy of the financial information and reporting arrangement will facilitate the immediate observation of the financial position. Workflow or control procedures should follow the policy of Financial Regulations.

## 7. Level of Reserves for the Financial Year 2024-2025

### 7.1 General Reserves

7.1.1 It is decided to keep equivalent of two months running costs (based on the previous financial year) to cover unforeseen emergencies.

7.1.2 The contingent cash will be equivalent to one-month of running cost to cover the funding gap due to the sudden drop in the income received or uneven cash flow. In case of the contingent cash is required to be used, pre-approval should be sought from the Council.

- 7.1.3 Since this is the first year of the Reserve Policy set up, the Council will not aim to put additional yearly contribution into the reserves or setting any targeting level. However, the level of general reserve will be kept monitored.

## 7.2 Earmarked Reserves

- 7.2.1 A list of earmarked reserves items has been separated from the General Reserve starting from 2024-2025 financial year, to deal with specific projects. The list are shown as appendix with the Balance Sheet.
- 7.2.2 Earmarked Reserves will be reviewed on an individual basis. This review will also be undertaken on regular finance meeting and as part of the Annual Precept Review. The creation, amendment, cessation or continuation of Earmarked Reserves should be discussed and approved by the Council.