

MORECAMBE TOWN COUNCIL RESERVES POLICY

1 Introduction

The Council is required, under statute, to maintain adequate financial reserves to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

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 parts of general reserves;
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the general fund.

The 2016/17 Internal Audit Report advised the Council as follows:

“The annual precept request was underpinned by an annual budget. The Council was regularly updated of progress against the budget during the year. Financial Health remains satisfactory with a balance carried forward of £136,000 representing 17 weeks of expenditure, after allowing for £55,000 of earmarked reserves. We normally recommend that balances represent about half a year's annual expenditure (i.e. about 26 weeks of expenditure) therefore the Council will need to monitor balances to ensure that the level of balances remains satisfactory.”

2. General Fund balance

The general fund balance, commonly termed the 'working balance', is a balance on the council's revenue account which is not held for any specific purpose other than to cushion the council's finances against any unexpected short term problems in the councils cash flow.

The general fund balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year. 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.

3. Financial Risk Management

To assess the adequacy of the general fund when setting the annual budget, the RFO 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 a 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.
The City Council terminates the Town Council's tenancy of the office in Morecambe Town Hall and the new tenancy rate exceeds the budgeted amount for office rent	The Council should include an amount in the budget specifically to cover this issue – see earmarked reserves.
Insurance Claims	Good claims management (cost of excess on 10 claims per year)

4. Statutory Reserves

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

5. 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 earmarked reserves will be held by the Council:

No	Purpose of Reserve	Amount (£)
1	Community Centre and Town Office Fund	55,000.00
2	Asset Replacement Fund (office equipment, SpID and Toilet fixtures/fittings etc.)	9,000.00
3	Election Fund	6,000.00
Total		70,000.00

6. 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.

David Croxall

Responsible Finance Officer

January 2018

Adopted and approved by the Council on 18th January 2018 (Minute No. 57(4) refers).