



Okehampton Town Council

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DRAFT Reserves (Financial) Policy

Introduction

Okehampton 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 it holds.

Types of Reserves

Okehampton Town Council maintains two types of reserves:

Earmarked Reserves

This provides a means of accumulating or specifying funds, for use in a later financial year, to meet known or planned initiatives. 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.

Earmarked Reserves will increase through resolutions of the Council and will decrease as they are spent on their specific intended purposes.

Where expenditure is planned in future accounting periods, it is prudent to build up reserves in advance. When an Earmarked Reserve is established, a clear reason/purpose should be set out. 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.

There is no limit on the amount of Earmarked Reserves that can be held except that the reason must be for genuine intended purposes.

General Reserves

This represents the unallocated balance of Council funds.

The main purposes of the General Reserves are firstly to operate as a working balance to help manage the impact of uneven cash flow and secondly, to provide a contingency to cushion the impact of emerging or unforeseen events or genuine emergencies, a good example of this being the COVID-19 Pandemic. 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 NALC 'Accountability and Governance Practitioners' Guide' to hold between 3 and 12 months expenditure¹ as a General Reserve. However, if the general reserve is too high the level will need to be justified to the external auditor.

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.

Budget Assumptions and Risk

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 Council for Local Government Services
- Loss of staff
- 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
- Potential capping of Town Council precept by central government

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

¹ Net Revenue Expenditure – effectively the Precept