OTTERY ST MARY TOWN COUNCIL

RESERVES POLICY

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OTTERY ST MARY TOWN COUNCIL
RESERVES POLICY

1. Council Reserves

Ottery St Mary Town Council (`the Council`) needs to maintain reserves to protect against risk, ensure contingencies are in place and to support investment in future projects which are beneficial to the town *Current CIPFA guidance on Local Authority Reserves and Balances, Proper Practices and the Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide.*

The Reserves Policy presents information about the requirements to maintain appropriate financial reserves and provides details on the types of reserves and current and predicted balances. The Council manages risk by assessing the potential impacts of future events, based on the likelihood that they may occur and the severity of any impact. Mitigating actions are then identified to reduce the exposure and appropriate plans are put in place.

The purpose of this Policy is to enable the Committee to review the level of reserves to ensure they meet the current and future needs of the Council.
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 Finance Officer and base its judgement on local circumstances.
The Council will review all reserves annually as part of the budget and precept setting process. Creation, amendment and release of earmarked reserves must be approved by Full Council.

2. Types of Reserves

The Council maintains two types of reserves;

a) Earmarked 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. Once an Earmarked Reserve has been established by the Council it is the responsibility of the Responsible Finance Officer 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.

b) General Reserves
This represents the non-ring fenced (earmarked) 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 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 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.

Further major element which could impact adversely on future precepts are;
• Capping of Council Precept by Central Government

3. Purpose of General Fund Reserves

The purpose of general reserves is to minimise the possible financial impacts to the authority from; emergencies, unforeseen events and ad hoc emerging issues during the year.

4. General Fund Reserve – Risk Assessment

Identifying the risks allows the Council to take account of the circumstances around current structural change due to service provision and economic circumstances. Risks can be identified as; risks from potential one-off events; risks which will have general financial consequences and actions that need to be in place to minimise the potential for financial support.

5. Use of Reserves

Reserves shall not be used to finance recurring operational expenditure. Earmarked reserves may only be applied for the purpose for which they were established unless Full Council resolves otherwise. Reserves may be used to support one-off expenditure, asset replacement, project delivery and management of financial risks.

6. Assessment of Potential Risks (*not covered by insurance*)

The outcome of this analysis has been to place an estimated total value on the range of risks that may arise and which are not covered by insurance.

No	Risk	Effects/Action	Value of Risk
1	Loss of staff	Council could not function effectively. Additional advertising costs to attract staff, pay for staff cover	£15,000
2	Major Loss of Service through fire/flood structural damage	Premises	£15,000
3	Insurance Claims – Good claims management		£10,000

4	Uninsurable losses		£15,000
5	ICT Security/data corruption	Loss of service robust security policies, backup, firewalls and off-site electronic document storage	£15,000
6	Unanticipated Legal costs	Legal costs that cannot be recovered	£25,000

7. Role of Responsible Finance Officer

It is the responsibility of the Responsible Finance Officer (RFO) to advise the Council about the level of reserves that it should hold and ensure that it has clear protocols for their establishment and use.

There is no statutory minimum but there are four significant safeguards in place against the Council over committing itself financially;

(a) The balanced budget requirement.
(b) RFO S114 Powers. (Local Government Finance Act 1988)
(c) The External Auditors responsibility to review and report on financial standing.
(d) The year-end audit report from the Council's Internal Auditor

Ottery St Mary Council, on the advice of their RFO, are required to make their own judgements on the level of reserves, taking into account all relevant local circumstances. Local circumstances vary. A well-managed authority with a prudent approach to budgeting should operate with reserves in the Council's current range given its emerging service responsibilities.

It is the responsibility of the RFO to ensure reserves are spent in line with their purpose. Where expenditure is planned in future accounting periods, it is prudent to build up reserves in advance.

The RFO has a fiduciary duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent responsible stewardship of public funds.

7. Summary

General Reserves should normally be maintained at between 3 and 12 months of net revenue expenditure, subject to annual review and risk assessment.
The figure for General Reserves is obtained from Assessment of Potential Risks (*not covered by insurance*), section 5 and will be reviewed on a yearly basis.

Produced by: Kerry Kennell - Clerk and Responsible Finance Officer

Signed: