The Guildhall
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Financial Reserves Policy

1. Introduction

Hadleigh 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.

The Local Government Finance Act 1992 requires a local precepting authority to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum level of reserves that an authority should hold; it is the responsibility of the Responsible Finance Officer (RFO) to advise the Council with regards to the level of reserves and to ensure there are procedures for their establishment and use.

It is generally accepted that general (un-earmarked) revenue reserves usually lie within the range of three to twelve months of gross expenditure. (Governance and Accountability for Local Councils A Practitioners' Guide (England) 2014 Part 2 - 2.26.) In the Proper Practices (March 2021) guidance, it states that in practice, any authority with an Net Revenue Expenditure in excess of £200,000 should plan on a minimum of three months equivalent General Reserve. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.

2. Types of reserves

2.1 Reserves are categorised as either 'general' or 'earmarked' or 'restricted (CIL)'

2.2 Earmarked reserves can be held for several reasons:

1. Renewals – to enable services to plan and finance an effective programme of equipment replacement and renewals, planned property maintenance and planned land acquisition. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
2. Carry forward of underspend to specific allocated headings - some committed project funds cannot be spent within the current budget year. Reserves are used as a mechanism to carry forward these resources.
3. Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
4. Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
5. Monies received from CIL (Community Infrastructure Levy) payments must be held in an earmarked reserve in order to account for spending in accordance with government policy.
6. Monies due to the Council under s.106 Agreements are held by Babergh District Council and released to this Council following approval of expenditure and submission of relevant receipted invoices which confirm payment.

2.3 General reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

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3. **Earmarked reserves**

3.1 Earmarked reserves will be established on a "needs" basis, in line with anticipated requirements.

3.2 Any decision to set up a reserve must be given by the Council.

3.3 Expenditure from reserves can only be authorised by the Council.

3.4 Reserves should not be held to fund ongoing expenditure. This would be unsustainable as at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, it must be resolved that they must be replenished in the following year. However, 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.

3.5 All earmarked reserves are recorded on a central schedule held by the Responsible Financial Officer and lists the various earmarked reserves and the purpose for which they are held.

3.6 The Council's Financial Risk Assessment is considered within the budgeting procedure and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of reserves.

4. **General Reserves**

4.1 The level of general reserves is a matter of judgement and so this document does not attempt to prescribe a blanket level. The primary means of accumulating general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

4.2 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 accumulate and maintain sufficient working balances to cover the key risks it faces, as expressed in its Financial Risk Assessment.

4.3 If in extreme circumstances general reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its earmarked reserves to provide short-term resources.

4.4 Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay one month's salaries to staff in general reserves at all times.

5. **Restricted Reserves (CIL)**

5.1 Neighbourhood CIL is passed to parish/town councils by the district council where development is taking place. The amount is either 15% or 25% depending on whether there is a made neighbourhood plan. Hadleigh Town Council is in the process of leading the creation of a Neighbourhood Plan.

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5.2 CIL Regulations 2010 as amended state that the council must spend the CIL income on either:

a) The provision, improvement, replacement, operation or maintenance of infrastructure; or
b) Anything else that is concerned with addressing the demands that development places on an area.

5.3 Providing CIL is spent in accordance with the above, CIL monies may be used to provide seed or match funding with other income streams and / or may be spent collaboratively with other parish councils, community interest companies or other providers, or form part of the funding plan towards a major project, to make the most efficient use of funding to benefit the community.

5.4 There is a five-year period in which CIL funds must be utilised or returned to the district council.

5.5 CIL funds must be designated against an earmarked reserve code to be reported annually.

6. Opportunity cost of holding reserves

5.1 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 is fed into the budget strategy.

5.2 However, there is an "opportunity cost" of holding funds in reserves, in that these funds cannot then be spent on anything else. As an example, if these funds were used to repay debt the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds. However, using reserves to pay off debt in this way would leave the Council with no funds to neither manage unexpected risks nor provide a mechanism to fund the planned expenditure for which the reserves were earmarked.

5.3 Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

7. Determining the level of financial reserves

6.1 The level of financial reserves held by the Council will be agreed by Full Council upon recommendation from the RFO, during the discussions held regarding the setting of the budget and precept for the forthcoming financial year.

6.2 The minimum level of general reserves to be held by the Council is no less an amount considered to be adequate for 3 months running costs of the council.

6.3 The reserves held will be reviewed by the Council as part of the budget setting process each year.

6.4 The RFO will maintain a detailed schedule of all reserves which will form part of the accounts package.