

Canvey Island Town Council

Reserves Policy

1. Purpose

- 1.1 Canvey Island Town Council (CITC) 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 Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. It is recommended that general (i.e. non-earmarked) reserves usually lie within the range of three to twelve months of gross expenditure. However, the amount of general reserve should be risk assessed and approved by the Council.

2. Types of reserves

- 2.1 Reserves can be categorised as general or earmarked.
- 2.2 Earmarked reserves can be held for several reasons:
 - Renewals – to enable the Council to plan and finance an effective programme of equipment replacement or planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
 - Carry forward of under spend – the Council may commit expenditure to projects, but cannot spend the budget in the year. Reserves are used as a mechanism to carry forward these resources.
 - Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.
 - Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.
- 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.

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 or its committees.
- 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, 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 and monitored by the Responsible Financial Officer to include the purpose for which they have been established.

3.6 Reviewing the Council's Financial Risk Assessment is part of the budgeting 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 policy does not attempt to prescribe a blanket level. The primary means of building 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 build 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. 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. Funds held in reserves should only be reinvested with financial institutions that are part of the Financial Services Compensation Scheme up to the limit of protection in force at the time funds are invested. 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.

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.

6. Current level of financial reserves

6.1 The level of financial reserves held by the council will be agreed by the Policy & Finance committee during the discussions held regarding the setting of the budget for the next financial year.

6.2 The current minimum level of general reserves to be held by the council should be two twelfths of the annual precept figure, i.e. to fully cover two months expenditure.

6.3 Wherever the Council's yearend general reserves is significantly higher than the annual precept, an explanation must be provided to the auditor.

6.4 The level of earmarked reserves set will be reviewed annually during the discussions held regarding the setting of the budget for the next financial year.