DOWNHAM MARKET
TOWN COUNCIL

Financial Reserves Policy

Adopted: 27 February 2024

Revision: Every three years or in line with changes in legislation

Financial Reserves Policy

1. Background

Downham Market Town 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 local precepting authorities 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 or maximum level of reserves that an authority should hold.

1.1 Downham Market Town Council have agreed to set a minimum 6 month target for general reserves.

2. Legislative/ Regulatory Framework

2.1 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the Responsible Finance Officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted, and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

2.2 Furthermore, sections 26 and 27 of the Local Government Act 2003 set out the requirements regarding the determination of minimum

2.3 levels of controlled reserves (unallocated balances) and actions required should they fall below such minimum levels.

2.4 A key element contained within the Use of Resources assessment criteria is Financial Standing. The authority must be able to demonstrate that "The Council monitors and maintains its level of reserves and balances within the range determined by its agreed policy".

3. Role of the Responsible Finance Officer

3.1 Within the existing statutory and regulatory framework, it is the responsibility of the Responsible Financial Officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

3.2 For clarity, within the legislation the minimum level of any reserve is not quantified, and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget. However, guidance can be obtained from National Association of Local Councils and the Society of Local Council Clerks on what is generally acceptable.

4. Purpose of Reserves

4.1 Reserves at Downham Market Town Council can be held for the following main purposes:

1. A Current Fund Account – this is the account where the precept for the financial year is received. The average daily balance on the account is no more than £50,000 to protect against fraud.

2.A Sweep Savings Account – this is the account where the balance of the precept for the financial year is kept once £50,000 is held in the Current Fund Account. Transfers will be made from this account to top up the Current Fund Account.

3. A General Reserve Account – consisting of a working balance and a contingency balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.

4. An Earmarked Reserves Account – specific funds to meet known or predicted liabilities. A means of building up funds or of reallocating specific funds from one year to the next.

For each Earmarked Reserve held, there should be a clear protocol setting out:

• The reason for/purpose of the reserve

• How and when the reserve can be used

• Procedures for the reserve's management and control

• A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

5. A Jubilee Community Centre Account – specific funds which must be spent on the Jubilee Community Centre following the transfer of management from Howdale Community Association.

6. A Community Infrastructure Account – specific funds which must be used on specific projects (see Section 8)

5. Principles to Assess Adequacy

5.1 Setting the level of reserves and balances is just one of several related decisions in the formulation of a financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered.

Budget Assumptions

• The treatment of inflation and interest rates

• Estimates of the level and timing of capital receipts

• The treatment of demand led pressures

• The treatment of planned efficiency savings/gains

• The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements, or major capital developments

• The availability of other funds to deal with major contingencies and the adequacy of provisions.

Financial Standing and Management

• The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)

• The authority's track record in budget and financial management

• The authority's capacity to manage in-year budget pressures

• The strength of the financial information and reporting arrangements

• The authority's virement and end of year procedures in relation to budget under/overspends

• The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

5.2 The minimum level of General Reserves which is considered appropriate for the Council is reviewed annually as part of the budget process.

5.3 A review of the level of Earmarked Reserves in undertaken as part of the annual budget preparation and as part of the closure of accounts process.

5.4 External auditors normally recommend the use of a risk-based approach when setting the level of reserves. As far as reasonably practical this approach is used, although for many reserves the balance is being held to meet a specific budgeted need, or alternatively future spending needs can be restricted to tie in with monies available. For others, whilst the risk of financial liabilities arising is acknowledged, it may be impossible to assess accurately (or quantify) the financial risks involved, and the balances of such reserves are determined initially based on informed judgement. Their future levels will be further reviewed as more information becomes available.

6. Reporting Framework

6.1 The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Responsible Financial Officer / Town Clerk.

6.2 The Council's annual budget report includes a statement showing the estimated opening general fund balances for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. A statement is also included commenting on the adequacy of general balances and provisions in respect of the forthcoming financial year.

6.3 Similarly, a statement is also included, as part of the budget report, identifying Earmarked Reserves, the opening balances for the year, planned additions/withdrawals and the estimated closing balance.

7. Reserve Criteria

7.1 The Current Fund Reserve should consist of the current year's precept.

7.2 The General Reserve should have between 3-12-month amount of precept available for cash flow and contingency spending.

7.3 The Earmarked Reserves should be specified for projects agreed by Council.

7.4 In addition, as a principle of good business, the Council's total assets (including buildings and land) should never be less than the Council's total liabilities (including long term loans).

7.5 The Council will carry out a risk assessment annually to determine the level of the contingency reserve.

8. Community Infrastructure Levy

8.1 The Community Infrastructure Levy (CIL) is a way of securing contributions from developers towards infrastructure provision through the planning system. A proportion of revenue received by the local authority will be passed directly to those Parish and Town Councils where development has taken place. This will be 15% (If covered by a Neighbourhood Plan this will rise to 25%).

8.2 Town and Parish Councils have greater discretion on what they can spend CIL on than principal councils. Principle authorities can only spend their share on infrastructure type projects. A Town or Parish Council's share can be spent on a much wider range of things. The guidance states "anything else that is concerned with addressing the demands that development places on an area".

8.3 'Infrastructure' is broadly defined in the Town and Country Planning Act 2008. There are typically three broad categories of infrastructure:

• Physical infrastructure – highways, transport links, cycleways, energy supply, water, flood alleviation, waste management

• Social infrastructure – education, health, social care, emergency services, art and culture, sports halls, community halls

• Green infrastructure – parks, woodlands, play areas, public open space.

8.4 CIL monies may be used to provide match funding with other income streams. CIL can be used collaboratively with community interest companies or other providers to make the most efficient used of funding to benefit the community.

8.5 CIL funds must be separately accounted for and spent within five years of receipt. Exceptions may be made if it can be shown that the CIL income has been allocated to a particular project for which they are accumulating funds before spending.

End