

# Royston Town Council



## Policy on Reserves and Balances

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### Contents

1. Introduction
2. General Fund Balance
3. Earmarked Reserves
4. Statutory Reserves
5. Policy
- 6 Financial Risk Management

## **1. Introduction**

Royston Town Council (RTC) is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

Statute or regulations do not indicate that a local council should maintain reserves of any particular size. However, with regard to General Funds, the advice received from our Auditor is that it is best practice that General Reserves usually lie within the range of three to twelve months gross expenditure but that the amount should be regularly assessed.

The Council holds reserves for these three main purposes:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of General Reserves;
2. A contingency to cushion the impact of unexpected events or emergencies - this also forms part of General Reserves;
3. A means of building up funds, often referred to as Earmarked Reserves, to meet known or predicted requirements; Earmarked Reserves are accounted for separately within General Reserves.

The purpose of this Policy is to enable the Budget Working Party/Finance Committee to review the level of reserves to ensure they meet the current and future needs of Royston Town Council.

## **2. General Fund Balance**

The General Fund Balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer (RFO) and Budget Working Party when setting the budget for the forthcoming year. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.

## **3. Earmarked Reserves**

The “setting aside” of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year. The Council, when establishing an Earmarked Reserve, will set out:

- the reason/purpose of the reserve;
- how and when the reserve can be used;
- Procedures for the management and control of the reserve;
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

Earmarked General Reserves currently held by the Council:

<b>Reserve</b>	<b>Use</b>	<b>Policy for Use</b>
Town Hall Maintenance	To build up funds to maintain the hall and ensure its continuous use, especially as a cinema.	That expenditure to be met from this reserve is agreed by the Finance Committee or Full Council.
Market Hill & Angel Pavement Car Parks and Markets Operation	To build up funds to maintain & re-surface the car park and maintain the fee collection machines and to support the operation of the market.	That the maintenance of the car park and operational funds for the market, as agreed by the Finance Committee, be met from this reserve.
War Memorial	To build up funds to meet the cost of future maintenance and repairs.	That expenditure to be met from the reserve is to maintain the War Memorial.
Allotments	To ensure funds are ring-fenced for future expenditure on the allotments.	That income received is ring-fenced for work required on the allotments.
Royston Museum	To ensure grants/funding and income receive from projects/events and workshops held in the museum are used to enhance the work of the museum.	That grants and funds received are used in accordance with the terms set and that income received from education events are used to fund future events and workshops.
Election costs	To cover the cost of elections	To fund future election or by-election costs.
Legacy Project	To cover the cost of projects developed by the 4 year plan working party and agreed by Full Council.	That expenditure to be met from the reserve is agreed by Full Council.
Town Council property maintenance	To cover the costs of unexpected property repairs and maintenance.	That the maintenance of the properties be met from these reserves.
GDPR	To cover the costs of ensuring that the council is up to date with Data Protection requirements.	That the costs of remaining Data Protection compliant are met from this reserve.
Insurance & Contingency Reserve	To hold funds to cover costs that the Council is not covered for under its Insurance.	That any revenue expenditure to be met from the reserve is agreed by Council.

#### **4. Statutory Reserves**

The Town Council also holds reserves that arise out of the interaction of legislation and proper accounting practices.

Capital Receipts Reserves - these reserves hold the proceeds from the sale of assets, and can only be used for capital purposes in accordance with regulations.

Cemetery Development (£26,686)	Funds received from sale of land to be used to cover cemetery development costs, if a suitable site can be found.	That expenditure to be met from the reserve is agreed by the Finance Committee/Full Council.
Capital reserve - Unallocated Funds (£34,639)	Other Funds received from sale of assets.	Not allocated at present to any project
Stamford Yard proceeds (£65,722)	Funds received from the sale of land to be used on a capital project.	£30,000 allocated to the A505 bridge project, the remainder is unallocated.

#### **5. Policy**

The General Fund Balance is to be maintained at a level based upon a risk assessment carried out annually by the RFO and Budget Working Party when setting the budget for the forthcoming year.

In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. Any surplus on the reserves may be used to fund capital expenditure, be appropriated to ear-marked reserves or used to limit any increase in the precept.

The level of earmarked reserves will also be reviewed on an annual basis and approved by council.

#### **6. Financial Risk Management**

In order to assess the adequacy of the general fund when setting the annual budget, the RFO and Budget Working Party will take account of the strategic, operational and financial risks facing the Council.

The assessment of the Council's main areas of income and expenditure will be taken into account along with any provisions and contingencies that may be required.

The main items to be considered are:

<b>Financial Risk</b>	<b>Analysis of Risk</b>
Pay inflation is greater than budgeted	The cost of living increase and any pay scale enhancements are above the level allowed for in the estimates.
Contractual inflation is greater than budgeted	A general assumption is made when estimating the percentage increase on rates & utilities. This may increase above budgeted inflation. Professional and other service costs increase above estimate.
Treasury management income is not achieved	The actual interest rate realised is below the rate predicted at budget setting.
Car park revenue is below forecast	That a decrease in revenue is realised from estimate.
Property Lease payments are not received	Rental income payments are not received when agreed.
Hall hiring income is below forecast	That a decrease in revenue is realised from estimate.
Un-expected buildings, properties and grounds maintenance costs	That a sum be available to carry out emergency work or repairs where the budget is not sufficient to cover.
There is a national pandemic or other serious unforeseen event	Unexpected expenditure will occur and council functions will be partially or wholly suspended.
Human Resources	Unexpected staff costs (including redundancy and sickness) and legal fees.
Contingent liabilities are realised	That the Council becomes liable to pay contingent liabilities.

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