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GENERAL RESERVES AND EARMARKED FUNDS POLICY

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Author: Responsible Financial Officer

Responsibility: Policy and Resources Committee

Grade: Three - Low

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1.0 Policy Outline

- 1.1 This policy sets out how Shepton Mallet Town Council manages its reserves, held across two types of funds: General Reserves and Earmarked Funds.
- 1.2 Shepton Mallet Town Council needs to ensure that it has adequate funds to protect and mitigate against risk by ensuring that there are contingencies in place to support both its existing infrastructure and assets, as well as supporting any investment in future projects which are of benefit to the town of Shepton Mallet. A list of town council assets is at **Appendix A**.

2.0 Policy Purpose

- 2.1 The purpose of this Policy is to enable the Council to review the level of reserves to ensure they meet the current and future needs of Shepton Mallet Town Council.
- 2.2 Shepton Mallet Town Council is required to maintain adequate financial reserves to meet the needs of the Council and to protect against risk, by ensuring contingencies are in place.
- 2.3 Section 32 and 43 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure, when calculating the budget requirements. However, there is no specified minimum level of reserves that an authority should hold. It is the responsibility of the Responsible Financial Officer and the members of the council to determine the level of reserves and to ensure that there are procedures in place for their establishment and use.
- 2.4 The Town Council manages risk by assessing the potential impacts of future projects, 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.
- 2.5 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 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 Financial Officer and base its judgement on local circumstances.

3.0 Governance

3.1 Councils have no legal powers to hold revenue reserves other than for reasonable working capital needs or for specifically earmarked purposes. Whenever a council's year end general reserve is significantly higher than the annual precept, an explanation should be provided to the auditor. Earmarked Funds which are set aside for specific purposes or for savings for future projects should be realistic and approved by council.

3.2 The setting of budgets is the responsibility of the individual committees in collaboration with the Responsible Financial Officer, and reviewed by the Policy and Resources Committee, with a recommendation to Full Council for ratification and formal approval. This forms the basis for the setting of the precept. The timetable for the budget setting process is September to January, with sign off in mid-January. During this process the committees will identify any new Earmarked Funds they wish to establish for future expenditure and also identify existing Earmarked Funds that they wish to replenish, along with justification. They will also determine expenditure from existing funds.

3.3 Once ratified and adopted, Full Council is responsible for determining the amount in General Reserves and managing that fund. Full Council also determines how General Reserves can be spent and determines the upper budget for individual projects. If project costs exceed the upper spending limit a request must be made to Full Council to release additional funds from General Reserves to allow the project to be completed, or otherwise. Once established for a specific purpose, Earmarked Funds are managed by the RFO who ensures that they are spent in line with their intended purpose.

3.4 Applications to spend General Reserves must be made to Full Council, unless in exceptional circumstances, such as a health and safety matter which requires immediate attention. This would fall within the delegated spending authority of the Town Clerk, and actioned in conjunction with the Responsible Financial Officer. A report would be brought to the next Full Council meeting to explain the nature of the requirement, action taken, and the amount spent.

4.0 Review Statement

4.1 This policy has been prepared considering prevailing legislation and recognised good practice. New legislation requirements or changes in current legislation may necessitate the review of this policy document. The Council will continue to review and amend all or part of this policy on a regular basis. It is the officer's responsibility to ensure that the copy of the policy being referred to is the most up-to-date version.

5.0 Equality

5.1 In putting the procedure into practice, no aspect of the procedure will discriminate on the grounds of race, sex, sexual orientation, gender reassignment, age, religion, politics, marital status,

disability, politics, caste and/or union membership or any other grounds likely to place any particular employee at a disadvantage.

6.0 Responsibility of the Responsible Financial Officer (RFO)

- 6.1 It is the responsibility of the RFO, who has a fiduciary duty to the tax payers, to be satisfied that the decisions taken on balances and reserves represent responsible stewardship of public funds.
- 6.2 It is the responsibility of the RFO to advise the Town Council about the level of reserves that it should hold and to ensure that clear protocols are in place for the establishment and use of General and Earmarked Funds.
- 6.3 It is the responsibility of the RFO to ensure reserves are spent in line with their purpose. The RFO must be aware of the strategic, operation and financial risks facing the Council. An assessment of risks should include external risks as well as the internal risks.
- 6.4 It is the responsibility of the RFO to ensure that the Council has put in place effective arrangements for internal audit, and systems for internal control.
- 6.5 The RFO can only be expected to provide advice with the help and guidance from members and other advisory sources.

7.0 Responsibility of Shepton Mallet Town Council

- 7.1 Shepton Mallet Town Council, on the advice of the RFO, is required to make its own judgement on the level of reserves to keep, taking into account all relevant local circumstances. Local circumstances vary. A well-managed council with a prudent approach to budgeting should operate with reserves in the Town Council's current range, given its emerging service responsibilities.

8.0 Risk

- 8.1 A well run council with a prudent approach to setting its budget will each year consider the levels of funds within the General Reserves and the Earmarked Funds.
- 8.2 When assessing the amount that must be held in these funds, account needs to be taken of several risks that might place unforeseen expenditure requirements on the Council.
- 8.3 This needs to be addressed through the Council's Risk Policy and Risk Strategy combined with a Medium Term Financial Plan (MTFP). Part of the risk management process is to mitigate or remove risk. This in turn might lead to a lower level of reserves being required and therefore it is appropriate to consider the balances of reserves when reviewing the risk register. Balances of the funds should be part of the risk management policy and considered as part of the annual budget process.

9.0 Safeguards

9.1 There are four significant safeguards in place against the Town Council over-committing itself financially:

- The balanced budget requirement
- The Section 114 Power (Local Government Finance Act 1988), in that the RFO has a duty to report on the robustness of the estimates and adequacy of reserves when the council is considering its budget requirement
- Internal Auditors' review and reports
- The Year-end external audit process

10.0 Medium Term Financial Plan

10.1 When reviewing its medium term financial plan and preparing the annual budget the Council should consider the establishment and maintenance of the reserves. Reserves should be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing
- A contingency to cushion the impact of unexpected events or emergencies
- A means of building up funds

11.0 Principles for assessing the adequacy of balances and reserves

11.1 Setting the level of Reserves is just one of several related decisions in the formulation of the long and medium term financial strategy as well as the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Town Council's financial management arrangements.

In addition to the cash flow requirements of the Council the following factors should be considered:

Budget Assumptions	Financial standing and management
Inflation and interest rates and other influences on the financial market	The overall financial standing of the Town Council (such as the level of borrowing, debt outstanding, collection rates etc)
Estimates of the level and timing of capital receipts	The authorities track record in budget and financial management including the robustness of plans.
The treatment of demand led pressures and increase on commodities and reduction in income	The Town Council's capacity to manage in-year budget pressures
Planned efficiency savings / productivity gains	The strength of the financial information and reporting arrangements.
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or	The Town Council's virement and end of year procedures in relation to budget under / overspends.

major capital developments. The availability of other funds to deal with major contingencies and the adequacy or provisions	The adequacy of the insurance arrangements to cover major unforeseen risks
Keeping increases to a minimum or within any applied capping	Taking a balanced approach between likely expenditure and the ability of the Council as a whole to absorb the financial impact of an increased precept
Availability of other funding sources	Bearing in mind the possibility of other funding streams e.g. Section 106 monies or grants for projects.

11.2 Balancing the annual budget by drawing on General Reserves must be viewed as a legitimate short term option only. Such reserves must not be deployed to finance recurrent expenditure or to finance anticipated or foreseeable projects.

12.0 Types of Reserves

Reserves can be categorised as General and Earmarked.

Shepton Mallet Town Council maintains two types of reserves;

12.1 General Reserves

- a. This represents the non-ring fenced balance of Council funds and is often referred to as the working balance. General Reserves are created through surpluses as a result of activities being postponed or cancelled, or underspends and efficiency savings. 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 Town Council.
- b. The level of General Reserves is a matter of professional judgement and so this policy does not prescribe an upper level. However, a lower level at which reserves should be regularly maintained is at least **one third of the previous year's precept** (2020/21 figure equates to £193,417). This would be factored into the budget setting process to ensure that this is the intended working balance of the council at the beginning of the financial year. This figure will be determined by the RFO on an annual basis. If the Council spends from General Reserves in any given year it must make every attempt, via the cancellation of intended projects, movement from Earmarked Funds, the precept, income streams or efficiency savings, to return general reserves to this level for the next financial year.
- c. The Council must keep an absolute minimum balance sufficient to pay two months' salaries to staff (along with associated expenses of NI, tax and pension contributions) (in 2020/21 budget this figures stands at £30,819) which will be reviewed on an annual basis. This figure will be determined by the RFO on an annual basis. If the council spends this sum of money,

every attempt must be made to return General Reserves to the level in para b. above for the next financial year.

12.2 Earmarked Funds

- a. These provide a means of accumulating funds for use in a later financial year, to meet known or planned policy initiatives.
- b. Earmarked Funds will increase through decisions of the Council and will decrease as they are spent on their specific intended purposes.
- c. The purpose of an Earmarked Fund is to set aside amounts for projects or activities that extend beyond one year or as a contingency against a specific situation occurring.
- d. Once an Earmarked Fund has been established by the Town Council it is the responsibility of the Responsible Financial Officer to ensure funds are spent in line with their purpose.
- e. The purpose of each Earmarked Fund should be reviewed annually to ensure that it is still relevant.
- f. Earmarked funds are typically held for these reasons:
 - As an effective programme of equipment replacement, planned property repair and maintenance or grounds maintenance. These funds are a mechanism for smooth expenditure so that a sensible replacement programme can be achieved without the need to vary in-year budgets.
 - Carry forward of any underspend in one year into the new financial year where a projects spans more than one year
 - Set up from time to time to meet known or predicted liabilities
 - On a needs basis in line with anticipated requirements

12.3 Shepton Mallet Town has agreed that the following Earmarked Funds are in existence:

311	Local Projects Capital	To hold a cash surplus for the purpose of contributing to the Market resurfacing project.
313	Town Improvements	For the purpose of improvements to the equipment, surfaces and other public realm items (fencing, bins, benches, noticeboards, signs, planters etc)
315	Skatepark	For the purpose of replacing/repairing/paying for any damage to the skatepark.
316	Neighbourhood Plan	For the purpose of developing and adopting a Neighbourhood Plan.

318	Strawberry Line	For the purpose of contributing towards the costs of the continuation of the Strawberry Line as a network between local towns.
320	Professional Fees & Elections	For the purpose of paying for local by-elections to fill councillor vacancies. Any legal of significant professional fees which arise.
322	Collett Park Feasibility Study	For the purpose of carrying out a study/masterplan to determine the viability of future projects in Collett Park.
325	Town Signage	For the purpose of renewing and adding additional signage within the town.
327	Collett Park Capital replacement	For the purpose of improvements to the equipment, surfaces and other infrastructure (toilets, walls, bins, pond etc).
328	Library Support	For the purpose of supporting the library for future use.
Proposed	Rollover funding	Rollover funding from the revenue accounts for works and projects started in 2020/21 and yet to be completed.

13.0 Monitoring

- 13.1 The annual budget report should include a statement showing the estimated opening General Reserve balance for the year ahead, any additions and withdrawals in the year and the estimated year-end balance. A statement reporting the annual balances of the Earmarked Fund, additions and withdrawals in the year and the estimated year end balances will also be provided. Council will then review the necessity to continue with funds at this point.
- 13.2 Applications to utilise General Reserves will also include the amount in the general fund and on completion of the project a report will provide the end balance of the General Reserve.
- 13.3 The RFO will maintain a central register of Earmarked Funds and will bring a report to the Policy and Resources Committee on a quarterly basis.

14.0 Process for establishing new Earmarked Funds or replenishing existing funds

- 14.1 There should be a clear protocol for the establishment and management of funds. Councillors or members of staff who have a project that they wish to be considered will need to complete the application form that is at Appendix B.
- 14.2 The following factors should be considered.
- The title and purpose of the fund
 - How and when the fund can be used, with a proposed project timeline
 - The procedure for the fund management and control
 - The process and timescale for review of the fund to ensure continuing relevance and adequacy

APPENDIX A

ASSETS OF SHEPTON MALLETT TOWN COUNCIL

<u>Ownership</u>	<u>Asset</u>	<u>Description</u>
Trustee	Collett Park	Park
Owner	Collett Park infrastructure and equipment	Covered shelter, Toilet Block, Bandstand, Zip wire, Outside gym equipment, Trees ,Flag Pole, Signs, Benches, Bins, Play equipment, Noticeboard
Trustee	Market Cross	Monument
Trustee	Cenotaph	Monument
Tenant	Allotment Site	Whitstone Road
Owner	Allotment Site	Hitchin Lane
Owner	BMX track & Skatepark	BMX track, Skatepark, Bins, Noticeboard
Owner	Town Infrastructure	Noticeboards, benches, planters, signs, bins, flag pole, bus shelters, railings and general street furniture
Owner	ICT Infrastructure	ICT equipment
Owner	Office furniture	Desks, Chairs etc

Other assets include: Civic Regalia, art work and memorabilia

APPENDIX B

APPLICATION TO CREATE AN EARMARKED FUND/INCREASE AN EARMARKED FUND

This application will form part of the budget setting process where there is a requirement to create a saving plan for a future project that spans more than one year. Please read the attached policy prior to submission. Complete this form by the end of October of each year so that it can be considered by the appropriate committee for approval and to be factored into the medium term financial plan.

Post Title of Applicant	
Name of Committee to consider initial application:	
Title and Purpose of the fund:	
Town Plan Priority	
Does this project require planning permission? If so has permission been granted?	
Required value of fund: Please provide evidence/quotes to support	
Timeline to reach required funds (ie 3 years at 1/3 of value of project each year)	
Timeline of expenditure if application is agreed	
Will this fund be required beyond the end of the project? Fund review date? Outline fund management plan	
Financial contributions from other sources (with evidence is applicable)	
Signed and Dated	

On completion of this form please send, along with all useful evidence and draft committee report, to the Town Clerk and the RFO.