



Edenbridge Town Council

Town Clerk: Caroline Leet



EARMARKED/CAPITAL AND GENERAL RESERVE FUND POLICY

Adopted 09 November 2021

1. Purpose and Scope

- 1.1. The purpose of this Policy is to define procedures to ensure the prudent financial management of the Capital and Reserve Funds held by Edenbridge Town Council to enable it to protect the assets owned on the public's behalf, to replace assets, as and when the need arises and to ensure that adequate reserves are in place to fund specified future projects and activities.
- 1.2. The Local Government Finance Act 1992 s32 and s43, 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 level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.
- 1.3. Local councils need to hold an amount in reserves to meet unexpected expenditure. A council should typically hold between 3 and 12 months expenditure as a general reserve. If the general reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community; (*NALC: Good Councillor Guide to finance and transparency 2017; Practitioners Guide 2019*)
- 1.4. Many councils also hold an 'election reserve', as all reasonable costs of holding local council elections can be fully recharged by the district or unitary council to the local council. In the case of contested elections for a council with several wards then these costs can be relatively high.
- 1.5. If the amount of reserves at the year-end are above a certain level in relation to the annual precept then the council must advise the external auditor of why this level of reserves is required.

2. Policy Aims

- 2.1. To ensure that Edenbridge Town Council complies with all statutory duties in relation to the retention of monies held in the Capital and Reserve Funds and to verify the procedures in place ensuring competent governance and full transparency in the stringent management of the funds it holds.

3. Types of reserves

3.1. Reserves can be categorised as general or earmarked.

3.2. General Reserves

The General Fund represents non-earmarked or reserved monies that have been set aside to provide for unexpected events, emergencies and unforeseen cash emergencies. Funds are held to meet unexpected calamities, such as a flooding emergency or uninsured damage. Cash flows, particularly of income, can be interrupted or impaired either by a bank or banking system failure/crisis or by a wider crisis, such as a pandemic, affecting precept or other income. In addition to these working balances it includes any surpluses against the annual budget and equally covers deficits if they arise.

3.3. 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.

3.4. 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.

3.5. 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. 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.

3.6. Earmarked/Capital Reserves

Earmarked reserves are created and held for specific ring-fenced purposes or to help smooth out medium and long term financial risks and spending plans.

3.7. They can also be held as carry forward of underspend. As is the case where the Council commits expenditure to specific projects but is unable to spend the budget in the year.

3.8. Reserves in this instance are used as a mechanism to carry forward budgeted resources e.g.:

- rolling Capital Projects
- to meet known or predicted liabilities
- Renewals (10 and 30 year maintenance plans) – to enable services to plan and finance an effective programme infrastructure replacement and 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. (also see item 6)
- Depreciation Fund - An equipment and tools Depreciation Fund will be maintained to accumulate funds to be used for repairs, replacement and improvements to the moveable assets held by the Council, e.g. vehicles and equipment. An annual transfer will be made to this fund at Council's discretion, based on the annual depreciation figure shown on the Asset Register
- insurance reserve to enable the Council to meet excesses of claims not covered by insurance

3.9. Earmarked reserves are established on a 'needs' basis, in line with anticipated requirements. Any decision to set up a reserve must be approved by the Council. Expenditure from reserves can only be authorised by full Council.

3.10. Reserves should not be held to fund on-going 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.

3.11. Edenbridge Town Council has over the years set aside for reserves for a number of specific reasons as well as maintaining a General Reserve.

3.12. In addition, and in recent years the Council has received Community Infrastructure Levy ("CIL") payments and maintains a specific reserve for this.

4. Procedures

4.1. The Responsible Finance Officer has a duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget Requirement.

4.2. A report of the general and earmarked reserves will be published annually with the end-of-year accounts together with any explanation of significant variances. If the amount of reserves at the year-end are higher than the annual precept then the council must advise the external auditor of why this level of reserves is required.

4.3. Funds received from sale of land including receipts from sales of rights of way across Council owned land, are to be held in a restricted capital fund to be used for the clearance of debt or a capital project, (LGA2003 s11). Interest can be used for revenue projects.

4.4. Capital gifts of money accepted with no restrictions will be presumed to be for local purposes for the benefit of the residents of the parish or any part of it and must be invested (at Council's discretion) until spent. Gifts received with restrictions will be specifically identified within the reserve fund and used for their stated purpose at the discretion of the Council.

4.5. A review of the allocation of monies to and within the Earmarked and Reserve Funds will be undertaken following the completion of the End of Year accounts, usually at July Finance Committee meeting, and further reviews may be proposed by the other Committees, or the Forward Planning Steering Group, and will be undertaken subsequent to ratification by the full Council.

4.6. The Forward Planning Steering Group will identify areas where it may be prudent to set aside funds to meet substantial commitments.

5. Community Infrastructure Levy Fund (CIL)

5.1. The Town Council receives CIL contributions (from the larger developments in and around Edenbridge) paid via the District Council. These are reported as Council Funds, but strictly are held for the benefit of the community at large and are available to any qualifying infrastructure project whether Council led or by another local organisation.

5.2. The CIL funds do not form part of the Council's general and earmarked reserves.

5.3. The CIL Committee, comprising all Councilors, meets twice a year to consider eligible applications and allocates funds according to published guidelines.

5.4. The CIL Fund reflects the CIL contributions received less payments to approved projects plus interest on CIL cash and investments (held as separately identified assets in the Council balance sheet). Interest received on the CIL cash and investments is recited to the CIL Fund.

6. Building and Open Space Maintenance Reserve (Earmarked reserves)

- 6.1. Ten and Thirty Year rolling maintenance plans are operated for the Council's buildings and open spaces and are used for repairs and improvements to the Estate. Annual transfers will be made based in line with their average requirements with balancing funds held in earmarked reserves.
- 6.2. Major projects within these maintenance plans may be eligible for CIL Funding and the Council applies to the CIL Board when considered appropriate. The long term maintenance plans do not presume the availability of CIL funds.
- 6.3. The Council's Forward Planning Steering Group considers the financial implications of these plans and any CIL funding on an annual basis and recommend changes to the annual amounts, either to increase or decrease, to reflect both actual expenditure incurred and revisions to the long-term projections of spend.
- 6.4. The 10 and 30-year maintenance plans are periodically reviewed, at least every three years.
- 6.5. Whilst future spend is identified within ten and thirty year rolling plans the reserve is aggregated at the end of each financial year.

7. Governance and managing risk

- 7.1. Banking risks are partly mitigated by the maintenance of current accounts with two high street banks (Lloyds and Barclays) with both typically holding balances to support three months of expenditure.
- 7.2. A review of the level of reserve to be held will be made as part of the Annual Budgeting process and following the completion of appropriate risk assessments by the Clerk and RFO.
- 7.3. Other funds for specific purposes may be established and maintained at Council's discretion which may be proposed by the Finance Committee or Forward Planning Steering Group or by other committees at any time and implemented subsequent to ratification by the full Council.
- 7.4. Transfers in and out of the Capital and Reserve Funds as specific spending occurs will be authorised by the Finance Committee and effected subsequent to meetings of the said committee.
- 7.5. The Council will have the opportunity to review the levels of Reserves held in accordance with the Town Council's Financial Regulations and make recommendations for the creation of additional Specific Reserves as part of the Annual budgeting process. Decisions on the level of reserves to be held will be made as part of the Annual Budgeting process and following the completion of appropriate risk assessments by the RFO and Finance and Governance Committee.
- 7.6. This policy should be reviewed in light of:
 - (a) changes in legislation;
 - (b) in response to significant changes in the Council's activities;
 - (c) at the request of Council; or
 - (d) every five years.