

EAST GRINSTEAD TOWN COUNCIL

POLICY ON GENERAL REVENUE RESERVES

This is all about managing the risks. The risk of not enough cash to run the Council early in the new financial year; and the risk of holding funds when they are not justified giving rise to increased Fidelity Guarantee Premiums and controls, and the risk of loss due to inappropriate investment. The experience of some Councils, but not East Grinstead, in respect of BCCI is an example here.

Council determines the level of General Revenue Reserves on the advice of the Town Clerk and RFO. Members are always advised of reserves during the annual budget and precept setting time. This is best practice.

Minimum reserves are considered to be of the order of 3 months expenditure net of normal "trading" income. This will get the Town Council through to the arrival of the first half of the precept on 30 April and overcome any unforeseen circumstances that may arise between the time of the budget setting exercise and receipt of the first half of the precept. As policy this level of reserves is below that which the Town Council would seek to maintain on grounds of prudent financial management.

Generally speaking a prudent level of reserves would be about six to eight months net spend. Anything much above that would require a formal resolution of justification explaining why such a significant level of reserves is necessary. If, for example, there is a Project which is grant-aided but the grant is only paid some weeks after submission of paid invoices there will obviously be a requirement for working capital - that has to be funded from General Revenue Reserve and may be short-term. In such cases a cash-flow forecast should show the justification required. There is also a worst-case scenario based on an expensive insurance claim that may require significant initial outlay pending recovery from the insurers. Such circumstances can be experienced and need to be factored.

Ultimately there is no golden rule other than commonsense and prudent management. The importance of having an effective audit trail and clearly defined written policies is acknowledged.

Chris Rolley
Town Clerk
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