



# Princes Risborough Town Council



## PRINCES RISBOROUGH TOWN COUNCIL FINANCIAL RESERVES POLICY 2022/2023

### 1. Purpose

1.1 Princes Risborough Town Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves.

1.2 Sections 32, 43 and 50 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The level of reserves required will vary according to local circumstances, and will be influenced by their longer-term spending plans. It is the responsibility of the Responsible Financial Officer (RFO) and Councillors to determine the level of reserves and to ensure that there are procedures for their establishment and use.

1.3 The Good Councillors Guide to Finance and Transparency 2018 and the Joint Panel on Accountability and Governance (JPAG) 2022

1.4 suggests that a council should typically hold between 3- and 12-months Net Revenue Expenditure as a general (revenue) reserve. If the reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if it is too high then local electors have paid a tax which is not being used for the benefit of the local community.

### 2. Types of Reserves

2.1 Revenue Reserves can be categorised as “general” (held to cushion the impact of uneven cash flows or unexpected events) or “earmarked” (held for a specific purpose). General Reserves are funds which do not have any restrictions on their use.

2.2 Earmarked or “specific” Reserves can be held for several reasons. As the name suggests the Reserves comprise amounts which are “earmarked” for specific items of expenditure to meet known or predicted liabilities or projects. Specific Reserves can be used to “smooth” the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year. “Earmarked” reserves are typically held for four main reasons:

- a) Renewals – to plan and finance an effective programme of equipment replacement, planned property repair and maintenance or grounds maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets. Earmarked Reserves currently include, for instance, annual provisions towards Election costs and Town Regeneration.
- b) To carry forward an under-spend - some projects have ring-fenced budgets that may be under spent in a specific year such as the LED replacement project. Earmarked reserves are used as a mechanism to carry forward these resources.
- c) To indicate commitment to capital projects, such as the extension and improvements to the Community Centre.
- d) Other earmarked reserves - may be set up from time to time to meet known or predicted liabilities.

At 31<sup>st</sup> March 2022 Earmarked Reserves totalled £227431. A full list is shown in the Town



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Council minutes. Any decision to set up a reserve must be given by the Council.

2.3 Community Infrastructure Levy (CIL) Reserve represents the value of CIL funds passed over to the Council from the unitary authority, but which has yet to be spent on infrastructure items. Section 5.138A of the Governance & Accountability for Local Councils Practitioners Guide 2018 requires CIL funds to be kept in a separate reserve. At 31<sup>st</sup> March 2022 the CIL Reserve stood at £37,123.71

### **3. Monitoring and Reviewing Reserves**

3.1 General Reserves will be reviewed at each year end in conjunction with the year's surplus or deficit being added or subtracted.

3.2 . 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 spent in the previous year.

3.3 The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a level. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Financial Risk Assessment.

3.4 Any decision to transfer balances from the General Reserves must be reviewed by the Finance Committee and recommended to the Full Council for formal approval.

3.5 Expenditure from Reserves is subject to compliance with the Council's Financial Regulation in the normal way.

3.6 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.

3.7 Earmarked Reserves are established on a "needs" basis in line with anticipated requirements. Councillors review the levels and are asked to approve any additions and carry forward balances at the end of each financial year.

3.8 Reviewing the Council's Financial Risk Assessment is part of the annual budgeting by Committees and the year-end accounting procedures. Part of this process may identify planned and unplanned expenditure items and thereby indicate where specific additional reserves may need to be added to Earmarked Reserves

3.9 The CIL reserve is monitored monthly within the Council's Management Accounts. The Council must spend each tranche of CIL funds within five years of receipt. CIL Regulation 59C requires funds to be spent on the provision, improvement, replacement, operation or maintenance of infrastructure or anything else that is concerned with addressing the demands that developments place on an area.

### **4. Principles to Assess the Adequacy of Balances and Reserves**

4.1 Professional judgement is required in making any financial assessment and the RFO can only provide advice with the help and possible guidance from Councillors and other advisory sources.

4.2 Setting the budgets is the responsibility of the individual Committees in collaboration with the RFO, reviewed by the Finance Committee and a recommendation then made to full Council for ratification and formal approval. This forms the foundation of setting the precept.

4.3 In order to assess the adequacy of Reserves when setting the budget, both the RFO and the



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Committees should take account of the strategic, operational and financial risks facing the Committees / Council. The financial risks should be assessed in the context of the Council's overall approach to risk management. The RFO should ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control.

4.4 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 Council's financial management arrangements. In addition to the cash flow requirements of the Council the following factors should be considered:

- Inflation and interest rates – consider borrowings/debts and inflationary pressure on rental income, salaries, utilities and other contracts and purchase requirements;
- Estimates of the level and timing of future capital receipts
- The Town Council's capacity to manage in-year budget pressures, particularly where demand can lead to pressure
- Planned efficiency savings / productivity gains
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.
- The adequacy of the insurance arrangements to cover major unforeseen risks.
- Availability of other funding sources, e.g. Section 106 or CIL monies or grants for projects.

## **5. Governance concerning Financial Reserves**

5.1 The policy on Reserves will be reviewed annually following the Council's year end.

5.2 This will include a report from the RFO, prepared in collaboration with the Finance Committee, on the adequacy of the Reserves (Revenue, Earmarked and CIL) taking into account the forthcoming financial year and the Council's medium and long-term financial plans or projects.

5.3 The RFO in collaboration with the Finance Committee should review the levels of Earmarked Reserves held and make recommendations to Full Council on creation of additional Reserves as well as the extinction of redundant Earmarked Reserves as part of the approval of the year-end Financial Statements.

Approved at Finance Committee 31<sup>st</sup> May 2022. Ratified at Full Council 31<sup>st</sup> May 2022.