

# HENLEY-ON-THAMES TOWN COUNCIL



## RESERVES POLICY

Version ID	Description of change	Version sponsor	Policy Owner	Creation date	Approval date	Next review date
0.1	Initial draft	Town Clerk	FSM Committee	06/05/2020	n/a	n/a
0.2	Amendment to original point 4.6.5, and renumbering original section 4.6 to 4.7	Town Clerk	FSM Committee	n/a	26 May 2020	May 2021

## **SCOPE OF THE POLICY**

- 1.1 Henley on Thames 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.

## **WHAT AND WHO IS COVERED BY THE POLICY**

- 2.1 The policy covers all capital and revenue reserves, whether they are general reserves or reserves held, or earmarked, for a specific purpose.
- 2.2 It does not include reserves that comprise elements of past revaluations. The Council has over the years built up a Capital Adjustment Reserve and Revaluation Reserve. These have arisen primarily out of revaluations of Council properties before and after 31<sup>st</sup> March 2009 respectively, and are not available for use as they are not backed up by available resources. Only at the point of sale of a Council asset would its value be removed from one of these accounts and the disposal proceeds would become Usable Receipts and added to the UCRR.

## **LEGAL FRAMEWORK**

- 3.1 Sections 32 and 43 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 informed by their longer-term spending plans. There is no specified minimum or maximum level of reserves that an authority should hold. 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.

## **POLICY STATEMENT**

### **4.1 Recommended level of reserves**

- 4.1.1 Whilst there is no legal level of reserves that an authority should hold, the Good Councillors Guide to Finance and Transparency 2017 suggests that a council should typically hold between 3 and 12 months 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. In the case of the Henley Town Council expenditure is around £1,500,000 per year, giving suggested range of £375,000 and £1,500,000.
- 4.1.2 Taking overall reserves (ie capital and revenue reserves), the Council's internal auditor suggests a limit of double the income for any year. As income is also around £1,500,000 per year this would be a limit of £3,000,000.

4.1.3 In both of the above cases there is an acknowledgement that levels required will vary according to specific circumstances, see 4.2 below.

## **4.2 Principles to assess the adequacy of reserve balances**

4.2.1 A considerable degree of professional judgement is required in making any financial assessment. The RFO and Councillors should look to other advisory sources if practical and reasonable.

4.2.2 Setting the budgets is the responsibility of the individual Committees in collaboration with the RFO, reviewed by the FSM Committee and a recommendation then made to full Council for ratification and formal approval.

4.2.3 The RFO and the 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.

4.2.4 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 and any Corporate or Business Plan in existence.

4.2.5 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 such as grants.

4.2.6 Balancing the annual budget by drawing on “General” or “Emergency” Reserves (ie planning a budget deficit) must be viewed as a legitimate short-term option only. Such reserves must not be deployed to finance recurrent expenditure.

### 4.3 Revenue reserves

4.3.1 Applying the principles set out above, Councillors currently consider that the revenue reserve should stand at a median figure of around £1,000,000 for the following reasons:

- Up to £500,000 should be held as a general revenue reserve to cushion cash flows or for unexpected events;
- Up to a further £500,000 should be held to cover potential upcoming revenue expenditure on riverbank repairs, building maintenance costs on the Council's properties including its various listed buildings, and matters (including legal fees) associated with safeguarding the Council's assets to benefit the local community and its residents. This figure should be adjusted in the light of knowledge obtained via the quinquennial planned maintenance survey of all Council property, and other information as and when it becomes known, so the figure of £500,000 could vary.

### 4.4 Earmarked reserves

4.4.1 Earmarked 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. They can also 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. These 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.

4.4.2 "Earmarked" reserves are typically held for four main reasons:

- a) To plan and finance an effective programme of equipment renewal or 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 a replacement Rhinoturf at Jubilee Park, playground equipment, election costs and IT equipment upgrades.
- b) To carry forward an under-spend. Some projects have ring-fenced budgets that may be under or over spent in a specific year such as Christmas Festivities or Britain in Bloom. Earmarked reserves are used as a mechanism to carry forward the accumulated net underspend to date for a specific purpose.
- c) To indicate commitment to future projects, such as improvements to access at the Cemetery, signposting projects, riverbank repairs, the First Chapel refurbishment, enhancements to the town hall offices, and re-paving around the Leichlingen Pavilion.
- d) Other earmarked reserves - may be set up from time to time to meet known or predicted liabilities such as projects within the Council's transport strategy remit.

4.4.3 In addition and separately to the above earmarked reserves the Council must maintain a reserve for CIL funds received from the District Council. The balance on the reserve will be CIL funds received from the District Council for expenditure on infrastructure items, less allowable expenditure already undertaken. Section 5.138A of the Governance & Accountability for Local Councils Practitioners Guide 2018 requires CIL funds to be kept in a separate reserve. Receipts into this reserve must be spent within five years. 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 development place on an area.

#### **4.5 Capital reserves**

4.5.1 The Council maintains a Usable Capital Receipts Reserve (UCRR) which represents capital receipts less expenditure over past years that may be used to finance capital expenditure in future years. The Council faces possible significant expenditure including the 353-357 Reading Road project and finding a replacement depot for the parks staff. Such expenditure is limited to the value in this reserve.

#### **4.6 Transfers between reserves**

4.6.1 If there are excess revenue reserves at any year end (ie the balance rises significantly above £1,000,000) a transfer may be made to the UCRR if approved at Full Council.

4.6.2 Transfers may not be made from capital reserves to general reserves. Capital reserves may only be used against future capital expenditure.

#### **4.7 Monitoring and reviewing reserves**

4.7.1 The Council should review all reserves at the end of the financial year.

4.7.2 The Council should consider an annual transfer at the year end from the revenue reserve to the UCRR equal to the figure for net gains made on share transactions during the year. Such gains must initially be included in the income and expenditure account to comply with The Governance & Accountability for Local Councils Practitioners Guide 2018 however as such gains are not budgeted and are windfall, or non-operational, by nature this would mean that the revenue reserves remain an accumulation of operational surpluses and deficits. However consideration of this year end transfer should take account of the revenue reserve balance and foreseeable requirements.

4.7.3 Councillors should review the levels of earmarked reserves on a line by line basis and are asked to approve any additions and carry forward balances at the end of each financial year.

4.7.4 The CIL reserve should be reviewed monthly as part of the general review of management accounts and to ensure that receipts are spent within the five year time limit.

- 4.7.5 The UCCR balance should be reviewed at each year end.
- 4.7.6 In addition to monitoring the reserves the Council should also review this Policy at the end of each financial year.