Henley-on-Thames
Town Council

HENLEY ON THAMES TOWN COUNCIL FINANCIAL RESERVES POLICY 2018/19

1. Purpose

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.

1.2 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.

1.3 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.

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). In view of Council expenditure approaching £1.5m and a precept of around £500k per year, the RFO recommends that this reserve should stand at a median figure of around £1m. Of this, a sum of £500k should be held as a general revenue reserve to cushion cash flows or for unexpected events, and a further £500k 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. At 31st March 2018 Revenue Reserves stood at £1,076,795.

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 a replacement Rhinoturf at Jubilee Park, a new server, election costs and repairs to tarmac on certain areas of Council land.

b) To carry forward an under-spend - some projects have ring-fenced budgets that may be under spent in a specific year such as Christmas Festivities or Britain in Bloom. Earmarked reserves are used as a mechanism to carry forward these resources.

c) To indicate commitment to capital projects, such as improvements to the Council's recreational facilities including its four play areas, improvements to access at the Cemetery, signposting projects, enhancements within 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.

At 31st March 2018 Earmarked Reserves totalled £1,011,538. A full list is shown in the monthly management accounts and the year end Unaudited Financial Statements.

2.3 Community Investment Levy (CIL) Reserve represents the value of CIL funds passed over to the Council from the District Council, 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 31st March 2018 the CIL Reserve stood at £40,756.

2.4. Usable Capital Receipts Reserves represent capital receipts available to finance capital expenditure in future years. The Council faces possible significant expenditure on projects such as a depot for the park services department, replacement changing rooms for sports clubs, transport strategy and air quality issues, possible refurbishment or replacement of the facility for the 60+ age group and other expenditure that may arise to ensure it is able to maintain or enhance services and benefits for the residents. At 31st March 2018 the Usable Capital Receipts Reserve stood at £2,104,900.

3. Monitoring and Reviewing Reserves

3.1 General Revenue Reserves will be reviewed at each year end in conjunction with the year's surplus or deficit being added or subtracted. The Council must at all times keep a minimum balance sufficient to pay two month's salaries to staff and associated expenses e.g. National Insurance and Tax contributions. For 2018/19 two months' salaries would amount to around £130k.

3.2 As part of the review Councillors will be asked to consider a transfer of all or part of the value of net gains on share sales from the General Revenue Reserve to the Usable Capital Receipts Reserves. Such gains must be included in the income and expenditure account to comply with The Governance & Accountability for Local Councils Practitioners Guide 2018, however it is the RFO's suggestion that as such gains are not budgeted they should subsequently be transferred out of Revenue Reserves and into the Reserve for expenditure of a capex nature unless there is a good reason. Should net losses arise, the loss would remain the net loss value would remain in General Revenue Reserves.

3.3 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.

3.4 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 development place on an area.

3.5 Usable Capital Receipts Reserves will also be reviewed at each year end for justification and reasonableness. Capital Reserves cannot be transferred to Revenue Reserves.

3.6 Any decision to transfer balances from the Revenue Reserves must be reviewed by the Finance Strategy and Management (FSM) Committee and recommended to Full Council for formal approval.

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

3.8 Revenue Reserves should not be held to fund ongoing expenditure.

3.9 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

3.10 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 31st March 2007 respectively, and are not available for use as they are not backed up by available resources. There would be transfers from these reserves and into the Usable Capital Receipts Reserve at such time as a revalued asset is sold. At this point the disposal proceeds would become Usable Receipts.

4. Principles to Assess the Adequacy of Balances and Reserves

4.1 A considerable degree of professional judgement is required in making any financial assessment and the RFO can only be expected to 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 FSM 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 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.

4.5 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.

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 FSM Committee, on the adequacy of the Reserves (Revenue, Earmarked, CIL and Capital) 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 FSM 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 FSM Committee 24th July 2018. Ratified at Full Council 4th September 2018.