



# Penrith Town Council

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## RESERVES POLICY 2020/21

### PURPOSE

The Town Council maintains two types of reserves, for differing reasons:

- a General Reserve (the General Fund working balance), which provides working capital and a buffer against financial risks; and
- earmarked reserves to meet known, planned or predicted spending requirements which have been identified specifically.

The Council acknowledges that there is a balance to be struck between holding excessive reserves raised from public monies and retaining a prudent level of funds. It will therefore take advice from its Responsible Finance Officer on the adequacy and appropriateness of its reserves, primarily when setting its revenue budget.

### 1. GENERAL RESERVE

This reserve represents the balance on the Council's revenue account, i.e. the account which records all its financial transactions. Unless allocated for a specific purpose, revenue budget underspendings and windfalls are added to the working balance, while overspendings are taken from the balance.

The balance provides working capital to assist the Council's cash flow and acts as a buffer against unexpected events or expenditure. The optimum level for the working balance is determined by an assessment of the Council's potential exposure to financial risks, together with a judgement of the extent to which earmarked reserves can support its cash flow on a temporary basis.

The long-term target for the reserve is to accumulate a balance equivalent to 50% of net revenue expenditure. This is to be achieved by regular annual contributions from the revenue account. The level of contributions will be determined annually, taking account of the impact on council taxpayers and the availability of earmarked reserves.

Although the Council is a relatively new organisation, it has matured quickly and has managed its risks competently. In the short term, it is appropriate to retain a lower general reserve on the strength of the Devolution Reserve until a full programme of devolution has been completed.

## **2. EARMARKED RESERVES**

Other than any funds governed by legal conditions, the earmarking of reserves is at the discretion of the Council and monies can be moved from one to another if required. Reserves do not generally accrue interest on the investment of their funds.

In order to avoid future over-commitment, the day to day operational costs of running the Council are to be met from the revenue budget and reserves shall not be used to fund recurring expenditure.

- **Devolution Reserve:** This reserve is credited with the difference (while positive) between the council tax income equivalent to the special expenses previously levied in Penrith and the net cost of the assets transferred from Eden DC. The reserve will provide a cushion against the full cost of those assets being higher than expected, renovation and/or improvements. As significant grant payments subsidise the cost in the initial years, the risk is considerably reduced and there is no expectation that the reserve will be used significantly in that period.
- **Acquisitions Reserve:** This reserve supports a scheme of delegation for land and property, which created an allocation of £50,000 for a Capital Programme to support the activities associated with buying, surveying, legal fees, investing and managing land and property. The intention is to use these resources in the short term after which the reserve will be discontinued.

### **3. ESTABLISHMENT AND USE OF RESERVES**

The Annex to this policy provides further details of the Council's current reserves with a target range for each one.

The establishment or closing of an earmarked reserve requires a formal decision of Council. Similarly the approval of Council is required for all contributions and transfers to reserves, and all use of reserves to fund expenditure.

#### **Review**

This policy will be subject to annual review.

## CURRENT RESERVES

Reserve	Purpose	Target level
<b>General Reserves</b>		
General Reserve (General Fund Working Balance)	<ul style="list-style-type: none"> <li>• Provision of working capital.</li> <li>• Buffer against uneven cash flows, inflationary pressures, sharp budgetary changes, unexpected events or emergencies.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessed on the basis of financial risks to the Council.</li> <li>• Long-term target to be 50% of revenue expenditure at 31 March 2024 and thereafter.</li> <li>• Minimum level: £100,000</li> <li>• Range: £100,000 to £260,000</li> </ul>
<b>Earmarked Reserves</b>		
Devolution Reserve	<ul style="list-style-type: none"> <li>• Accumulation of funds in the early years of devolved asset transfers when grant income from Eden DC is available.</li> <li>• Cushion against the longer-term full costs of devolved assets being higher than expected, renovation and/or improvements.</li> </ul>	<ul style="list-style-type: none"> <li>• Based on the allocation of the difference (while positive) between the income equivalent to the special expenses previously levied in Penrith via council tax and the net cost of devolved assets transferred from Eden DC</li> <li>• Typical Range: £nil to £156,000</li> </ul>
Acquisitions Reserve	<ul style="list-style-type: none"> <li>• To support the activities associated with buying, surveying, legal fees, investing and managing land and proper.</li> </ul>	<ul style="list-style-type: none"> <li>• The Reserve was established with a single contribution; it is anticipated that regular contributions will not be required and that the resources will be expended in the short to medium term.</li> <li>• Range: £nil to £50,000</li> </ul>

**DATE OF APPROVAL: 27 January 2020**

