



Penrith Town Council

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RESERVES POLICY 2021/22

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.

General reserve

This reserve represents the balance on the Council's revenue account, ie 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, acts as a buffer against unexpected events or expenditure and provides funds for opportunities to be pursued. 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 medium-term target for the reserve is to accumulate a balance equivalent to 35% of net revenue expenditure by 31 March 2025. This is to be achieved by regular annual adjustments to/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.

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.

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

General Reserve (General Fund Working Balance)

Purpose

- Provision of working capital.
- Buffer against uneven cash flows, inflationary pressures, sharp budgetary changes, unexpected events or emergencies.
- Ability to pursue opportunities when identified.

Target level

- Assessed primarily on the basis of financial risks to the Council.
- Medium-term target to be 35% of net revenue expenditure at 31 March 2025 and thereafter.
- Minimum level: £150,000
- Range: £150,000 to £220,000

Earmarked Reserves

Devolution Reserve

Purpose

- Accumulation of funds in the early years of devolved asset transfers from Eden DC when grant income from that council is available.
- Cushion against the longer-term full costs of devolved assets being higher than expected, renovation and/or improvements.

Target level

- 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
- Typical Range: £nil to £190,000

Acquisitions Reserve

Purpose

- To support the activities associated with buying, surveying, legal fees, investing and managing land and proper.

Target Level

- 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.
- Range: £nil to £50,000

DATE OF APPROVAL: 25/01/2021

REVIEW: ANNUAL