



# Penrith Town Council

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## RESERVES POLICY

### 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 underspending 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 reducing to 30% of expenditure from 01 April 2026 onwards. This is to be achieved by regular annual contributions from the revenue account, where necessary. The level of contributions will be determined annually, taking account of the impact on council taxpayers and the availability of earmarked reserves.

## 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. The reserve will provide a cushion against the full cost of those assets being higher than expected, renovation and/or improvements.
- **Elections Reserve:** This reserve supports the costs in the future of Parish Council Elections and any one off by election costs and recharges. An allocation of £30,000 met from underspends in the 2022-23 financial year, and thereafter a contribution of £5,000 per annum over the full term of the MTFP.

## 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.

**LAST REVIEW: January 2024**

**Review: ANNUAL**

## CURRENT RESERVES

| Reserve   | Purpose   | Target level   |
|---|---|--|
| <b>General Reserves</b>                           |   |  |
| General Reserve<br>(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> <li>• Ability to pursue opportunities when identified.</li> </ul> | <ul style="list-style-type: none"> <li>• Assessed primarily on the basis of financial risks to the Council.</li> <li>• Medium-term target to be 35% of net revenue expenditure at 31 March 2025 and 30% thereafter.</li> <li>• Minimum level: £150,000</li> <li>• Range: £150,000 to £300,000</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.</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: £50,000 to £260,000</li> </ul> |
| Elections Reserve                                 | <ul style="list-style-type: none"> <li>• To meet the costs of Parish Council Elections in 2027 and any one off by elections and general election recharges.</li> </ul>  | <ul style="list-style-type: none"> <li>• £30,000 met from underspends in 2022-23 financial year.</li> <li>• A contribution of £5,000 per annum over the full term of the Medium Term Financial Plan, 31 March 2028.</li> <li>• Range: £30,000 to £60,000</li> </ul>  |

**DATE OF APPROVAL: January 2024**

**REVIEW: ANNUAL**