

Reserves Policy 2020/21

Background

Sevenoaks Town Council (STC) is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires local precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum or maximum level of reserves that an authority should hold.

In an Audit Commission document 'Interpreting the accounts' published in September 2014, the Audit Commission defined the useable reserves of a council as 'the money it is retaining to fund future spending commitments and to meet unpredictable variations in spending'.

The Commission defined useable reserves as including:

- the balance of the council's general fund;
- earmarked general fund reserves; and
- useable capital receipts.

With regard to the levels of reserves which a council decides to hold, the Commission states that the following issues should be considered:

Elected members are responsible for ensuring that their council's reserves are appropriate for local circumstances, and are accountable to taxpayers for the decisions they make.'

'Councils face ongoing financial challenges as they adapt to deliver services at lower cost in response to rising demand, in some cases, and reductions in funding. As we have reported previously, the cost and risks associated with service transformation, and uncertainty about future funding, have resulted in some councils increasing reserves, while others have been using reserves to make up shortfalls between their funding and spending plans.

All councils should continue to ensure that their reserves remain adequate for planned future needs and contingencies without placing undue constraints on current expenditure. Councils with very high levels of reserves relative to their spending should review the purposes for which these are held to ensure they are still required. The purposes for holding reserves, particularly where these are increasing, should be clearly communicated through the annual accounts.'

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Sevenoaks Town Council Policy

The current policy of Sevenoaks Town Council is to work towards a general reserves fund equal to at least 6 months of the current precept.

Any decision to set up reserves or spend from reserves must be made by Council

Reserves must not be held for on-going expenditure because this would be unsustainable.

To the extent that reserves are used to meet short term funding gaps, the aim should be to replenish in the following year or as soon as possible thereafter

Earmarked reserves that have been used to meet specific liability would not need to be replenished having served the purpose for which they were established.

Reviewing the Council's Financial Risk Assessment forms part of the budgeting and year end accounting procedures and identifies planned expenditure (and an allocation for contingency towards unplanned expenditure) thereby indicating the appropriate level of Reserves required for the coming financial year.

General reserves fund

The general reserves are funds which do not have any restrictions as to their use. These reserves cushion the impact of uneven cashflows, offset budget requirements (if necessary), fund short-term financial risks (see below), and unexpected or exceptional events. The reserve also enables the Town Council to act in an agile manner as opportunities occur.

The primary means of building general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been used up in the previous year.

Earmarked reserves

Earmarked reserves are created and held for specific ring-fenced purposes or to help smooth out medium and long term financial risks and spending plans.

They can also be held as carry forward of underspend. As is the case where the Council commits expenditure to specific projects but is unable to spend the budget in the year. Reserves in this instance are used as a mechanism to carry forward budgeted resources e.g. Rolling Capital Projects, Youth activities reserves, Markets, STP.

Consideration of Short-term Financial Risks

In order to assess the adequacy of the general reserve, the Council must take account of the strategic, operational and financial risks faced. The level of the reserve for the forthcoming year must be based upon a risk assessment of the Council's income and expenditure and take into account any contingencies that may be required.

The short-term risks that the Town Council faces, with particular reference to its current plans include:

Lower than expected income

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- Grant income - In previous years the net expenditure of the Town Council has been slightly lower than the precept, with the result that the Council has been able to boost the level of the general reserve fund. Since net expenditure is stated after deducting revenue grants received from third parties, the savings partly reflect unbudgeted grant. Conversely if budgeted grant income were not received for any reason then a surplus of net expenditure over precept could result, with the balance being funded by the general reserves fund.
- Other income - the revenue estimates forming the basis of the precept includes predicted income from a range of sources, such as cemetery income, letting and hiring income, new facilities such as Bat & Ball station café and room hires. It is difficult to predict with accuracy (particularly, for new venues such as the Bat & Ball station). If income received were to fall below the budgeted level, then the balance could be funded from general reserves.

Higher than expected costs

Due to:

- Inflation increases;
- capital overspend. The general reserves fund can be used to fund capital costs as well as to cover short term revenue funding requirements. It would therefore cover any unexpected costs associated with the Council's Community Investment Plan in the unlikely event that alternative sources of funding do not meet requirements or that the timing of receipts do not match expenditure.
- uninsured events which are not adequately provided for such as major streetlighting repairs, conversion, replacement and removal on certain streets;
- unexpected professional fees (although these will be mainly charged against the capital receipts fund);
- increased costs of running properties and facilities. For example, under the Council's current capital commitments, any excess running costs for new facilities that cannot be funded out of the precept or grants will be charged against revenue reserves;
- shortage of staff resources. The costs of additional staff recruited to cope with increased workload could be treated as capital transaction costs insofar as they are deemed to relate to additional work created by significant capital plans, otherwise additional costs not covered by the precept would be charged against revenue reserves;

Consideration of Longer-term Financial Risks

Longer term financial risks faced by the Council include:

- Funding the Council's capital projects and the uncertainties therein;
- Funding the deficit in the Local Government Pension Scheme;
- Funding for expenditure that arises once every 2-5 years e.g elections
- Funding the repairs or replacement of assets;
- Changes to legislation e.g. uncertainties created by the income to be generated from CIL

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Current Level of Financial Reserves

As at November 2019, the level of earmarked reserves was £4.381m and the level of revenue reserves was £232K. The council in 2019/20 borrowed £1.4m to enable it deliver on the refurbishment of the Bat & Bat Community Centre as promised to the community. This is in addition to allocating earmarked reserves as required for planned expenditure on various projects.

The Council should consider the opportunity cost of holding reserves which enables it to manage unforeseen pressures against current strategic plans. Given the increase in operational activity, the current level of general reserves will need to be built up as part of the Council's medium-term strategy review from 2020-21. The budget recommendation includes a transfer of £20,000 to revenue reserves however this is offset by a transfer of £26,000 from revenue reserves to balance the 2020-21 budget being to offset the financial impact of the loss of Community Centre income once refurbishment of the centre. The overall impact is a net transfer from revenue reserves of £6,000.

| Sevenoaks Town Council | | | | |
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| Earmarked and Designated Funds as at 30th November 2019 | | | | |
| Represented by: | | | | |
| Pension Reserve | | | | 2,814 |
| Rolling Capital Prog Revenue Reserve | | | | 40,419 |
| Street Lighting Reserve | | | | 7,737 |
| Community Centre Reserve | | | | 16,398 |
| Stag Winding Up Reserve | | | | 7,000 |
| Planning Fees Reserve | | | | 12,500 |
| Youth Activities Reserve | | | | 1,500 |
| Contingency Provision Reserve | | | | 120,196 |
| Pension Deficit Reserve | | | | - |
| Capital Receipts Reserve | | | | 961,000 |
| CIL Earmarked Reserve | | | | 1,745,593 |
| No 8 bus Reserve | | | | 48,660 |
| QH Allotments Key Reserves | | | | 4,715 |
| BV Allotments Key Reserves | | | | 100 |
| PWLB Loan Repayable | | | | 1,399,510 |
| Mayor's Charity Reserve | | | | 13,800 |
| | | | | |
| Revenue Reserve | | | | 232,431 |
| | | | | 4,614,374 |

Recommendation:

1. That Members consider and adopt the Reserves Policy for financial year 2020/21 with the emphasis on building revenue reserves as part of the medium term strategy review