

Sevenoaks Town Council
Finance & General Purposes Committee – 17th January 2022

Reserves Policy 2022/23

Introduction

The Town Council is required by statute to maintain financial reserves sufficient to meet the needs of the organisation and in addition has statutory limitations on how it spends certain receipts which it must ensure are accounted for separately to the council's general funds.

Whilst there is no statutory minimum (or maximum) level of reserves, the council should only hold revenue reserves for reasonable working capital needs or specific earmarked purposes.

The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide, which sets out the 'proper practices' for how the council must maintain its accounts, recommends that the minimum level of general reserves should be between three and twelve months of net revenue expenditure. Net revenue expenditure is defined as precept, less amounts included in precept for loan repayment, capital projects & transfers to reserves. For an authority of the council's size, it states that the lower end (three months, or 25%) is appropriate.

The council's Internal and External Auditors review the council's reserves and their justification annually.

This policy sets out how the council will manage its reserves and is separate to the council's Investments Policy which sets out how the council will hold its reserves.

General Reserve

The general reserve is not ringfenced (earmarked) for any specific expenditure, but is intended to cover the following working capital needs:

- to smooth the impact of uneven cashflow
- cover unexpected/emergency expenditure
- act in an agile manner

The general reserve will be replenished as part of the budget process in any year where it has been utilised for unexpected/emergency expenditure.

The council is increasing its general reserve by £20,000 a year as part of the medium-term plan, working towards a general reserves fund of 6 months of precept.

Earmarked Reserves

The council may establish ringfenced (earmarked) reserves for any reason where it reasonably believes it may incur expenditure in the future. The council's current earmarked reserves are detailed at the end of this policy.

Consideration of Short-term Financial Risks

To assess the adequacy of the general reserve, the Council has considered the strategic, operational, and financial risks faced. The short-term risks that the Town Council faces, with reference to its current plans include:

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Lower than expected income

- 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 successful grant applications. Conversely if 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, café income, and letting and hiring income, particularly from new facilities such as Bat & Ball centre, Business Hub and Bat & Ball Station. 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.
- calculations for Band D and non-collection allowances giving a lower than expected precept base.
- COVID measures restricting ability to hold a council meeting and set a precept. The precept was set earlier than usual in 2021, and emergency measures put in place.
- Other risks – eg Coronavirus has had a significant impact on income for this year and last.

Higher than expected costs due to:

- Inflation increases, in particular the energy sector;
- unexpected professional fees;
- shortage of staff resources;
- Other risks – eg Coronavirus has resulted in higher expenditure to allow the council to adapt to opening in a COVID safe way

Consideration of Longer-term Financial Risks

Longer term financial risks faced by the Council include:

- 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 December 2021, the General and Earmarked reserves held are as follows:

General Funds	£	
Revenue Reserves	458,611	
Earmarked/Designated Funds		
Youth Council Reserve	1,370	Youth council unspent budget rolled forward for future projects
Council Offices Reserve	1,548	To cover Council Offices maintenance works not covered in annual budget
Pension Reserve	2,814	For unexpected Pension related costs
Rolling Capital Prog Revenue Reserve	30,433	For major maintenance and other non-annual work on outside services & leisure facilities
Street Lighting Reserve	4,270	For major work on streetlighting - eg upgrades
Stag Winding Up Reserve	8,000	To cover potential costs should the Stag theatre be wound up, increased by £1K pa
Planning Fees Reserve	12,500	To cover future planning fees
Youth Activities Reserve	769	To cover future Youth activities
STP Activities Reserve	538	Town team unspent budget rolled forward for future projects
Non-annual commitments reserve	5,824	To cover known non-annual commitments, eg elections.
Staff training reserve	2,890	To cover additional training (spend on training was low in 2020/21 due to COVID restrictions)
Capital Receipts Quaker Hall	29,231	Capital reserve - legally restricted to capital expenditure only
Capital Receipts Reserve	524,739	Capital reserve - legally restricted to capital expenditure only
Bat & Ball Station Management & Maintenance reserve	279,804	Part of HLF grant, to underwrite Bat & Ball station during initial years of opening
CIL Earmarked Reserve	311,510	Subject to statutory restrictions. Only be used for infrastructure related expenditure
No 8 bus Reserve	78,808	Funding to be spent on Number 8 bus
QH Allotments Key Reserves	4,115	Key deposits
Mayor's Charity Reserve	656	Charity funds raised by prior Mayors
	1,299,819	
	<u>1,758,430</u>	

Recommendation:

1. That Members consider and adopt the Reserves Policy for financial year 2022/23 with the emphasis on continuing to build revenue reserves up to a level of 6 months of precept, as part of the medium-term plan.