Reserves Policy of Tring Town Council

1. Legislative/Regulatory Framework

1.1 The requirement for financial reserves is acknowledged in statute.

1.2 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the Responsible Finance Officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

1.3 Furthermore, sections 26 and 27 of the Local Government Act 2003 set out the requirements regarding the determination of minimum levels of controlled reserves (i.e. currently unallocated balances), and actions required should they fall below such minimum levels.

1.4 A key element contained within the Use of Resources assessment criteria is Financial Standing; the authority must be able to demonstrate that "The Council monitors and maintains its level of reserves and balances within the range determined by its agreed policy".

2. Role of the Responsible Financial Officer[1]

2.1 Within the existing statutory and regulatory framework, it is the responsibility of the Responsible Finance Officer (at Tring Town Council this is the Clerk) to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

2.2 For clarity, within the legislation the minimum level of any reserve is not quantified, and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget. However guidance can be obtained from NALC and SLCC on what is generally acceptable.

3. Purpose of Reserves

3.1 Reserves at Tring Town Council can be held for four main purposes:

- A **Business Reserve Account –** this is the account where the precept and other revenues for a financial year are listed, to go out as expenditure in the current year
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – in Tring we call this the **General Reserve**
- A contingency to cushion the impact of unexpected events or emergencies – in Tring we call this the **Contingency Reserve**
- A means of building up funds or of reallocating specific funds from one year to the next- referred to as **Earmarked Reserves**, to meet known or predicted liabilities or for projects (current or pending)

[1] A Town or Parish Council must appoint a Responsible Financial Officer (Local Government Act 1972 s151) who has the responsibility for the proper administration of financial affairs.

3.2 For each Earmarked Reserve held there should be a clear protocol setting out:

- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy with a procedure to close and/or reallocate any earmarked reserve when deemed appropriate

4. Principles to Assess Adequacy

4.1 Setting the level of reserves and balances is just one of several related decisions in the formulation of a financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

Budget Assumptions

- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures
- The treatment of planned efficiency savings/gains
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
- The availability of other funds to deal with major contingencies and the adequacy of provisions

Financial Standing and Management

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)
- The authority's track record in budget and financial management
- The authority's capacity to manage in-year budget pressures
- The strength of the financial information and reporting arrangements
- The authority's virement and end of year procedures in relation to budget under/over spends
- The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

4.2 The minimum level of Contingency and General Reserves which is considered appropriate for the Council is reviewed annually as part of the budget process.

4.3 A review of the level of Earmarked Reserves is undertaken generally as part of the annual budget preparation and as part of the closure of accounts process.

4.4 External auditors normally recommend the use of a risk based approach when setting the level of reserves. As far as reasonably practical this approach is used, although for many reserves the balance is being held to meet a specific budgeted need, or alternatively future spending needs can be restricted to tie in with monies available. For others, whilst the risk of financial liabilities arising is acknowledged, it may be impossible to assess accurately (or quantify) the financial risks involved, and the balances of such reserves are determined initially based on informed judgement. Their future levels will be further reviewed as more information becomes available.

5. Reporting Framework

5.1 The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Clerk.

5.2 The Council's annual budget report includes a statement showing the estimated opening general fund balances for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. A statement is also included commenting on the adequacy of general balances and provisions in respect of the forthcoming financial year.

5.3 Similarly, a statement is also included, as part of the budget report, identifying Earmarked Reserves, the opening balances for the year, planned additions/withdrawals and the estimated closing balance.

6. Current reserve Criteria

6.1 The **Business Reserve** should consist of the precept and all other revenues as received

6.2 The **Contingency Reserve** should currently have a minimum of 2 months revenue including the precept

6.3 The **Earmarked Reserves** should be specified for particular projects and carry-overs

6.4 The **General Reserve** should normally be around six months precept

In addition, as a principle of good business, the Council's total Assets (including buildings and land) should never be less than the Council's total Liabilities (including long term loans).

The Council will carry out a risk assessment annually to determine the level of the Contingency Reserve.

7. Community Infrastructure Levy (CIL)[2]

7.1 The Community Infrastructure Levy (CIL) is a way of securing contributions from developers towards infrastructure provision through the planning system. A proportion of revenue received by the local authority will be passed directly to those Parish and Town Councils where development has taken place. This will be 15% (If covered by a Neighbourhood Plan this will rise to 25%).

7.2 Dacorum Borough Council pay the funds owed half yearly.

7.3 Parish councils have greater discretion on what they can spend CIL on than principal councils. Principal authorities can only spend their share on infrastructure type projects; parish councils share can be spent on a much wider range of things; as the guidance states "anything else that is concerned with addressing the demands that development places on an area".

'Infrastructure' is a broadly defined in the Town and Country Planning Act 2008.

[2] Part 11 of the Planning Act 2008 (c. 29) ("the Act") provides for the imposition of a charge to be known as Community Infrastructure Levy (*CIL*). UK Statutory Instrument: The Community Infrastructure Levy Regulations 2010 No. 948. This has been amended in 2013, 2014 and 2015.

There are typically three broad categories of infrastructure:

- Physical infrastructure - highways, transport links, cycleways, energy supply, water, flood alleviation, waste management
- social infrastructure - education, health, social care, emergency services, art and culture, sports halls, community halls
- green infrastructure - parks, woodlands, play areas, public open space

CIL monies may be used to provide match funding with other income streams. CIL can be used collaboratively with community interest companies or other providers to make the most efficient use of funding to benefit the community.

7.4 CIL funds have to be separately accounted for (**satisfied by having an earmarked reserve)** and spent within five years of receipt. Exceptions may be made if can be shown that the CIL income has been allocated to a particular project for which they are accumulating funds before spending.

Reviewed and approved at the Council meeting on 22nd November 2021.

To be reviewed in one year.