

## **RESERVES POLICY**

Updated on the 16 January 2023  
Next review by the 31 January 2024

### **Introduction**

- 1.1 Chesham Town Council (the 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. The reserves held by the Council are used to manage this risk and ensure funds are available to discharge the council's obligations to staff and suppliers.
- 1.2 Whilst there is no statutory minimum (or maximum) level of reserves, the Council has no power to hold revenue reserves other than those for reasonable working capital needs or specific earmarked purposes. Whenever the Council's year-end general reserve is higher than the annual precept, an explanation should be provided to the auditor.
- 1.3 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 (NRE)**. NRE is the difference between the Council's budgeted total operating income from fees/charges and total expenditure. For an authority of this Council's size, it states that the lower end (three months, or 25%) is appropriate. The amount of general reserve should be risk assessed and approved by the Council.
- 1.4 Earmarked reserves, which are set aside for specific purposes or projects, should be realistic and approved by the Council. Council should be carefully not to hold funds in reserves for a project for too many years, without any realistic chance of progressing swiftly.
- 1.5 The Responsible Financial Officer (RFO) will advise the Finance Committee on the level of reserves, at each committee meeting. The Finance Committee will be responsible for reviewing the reserves as presented by the RFO. The Council's internal and external auditors will review the Council's reserves and their justification annually.
- 1.6 This policy sets out the level of reserves the Council shall hold in general reserve and earmarked reserve and will explain why this is. The Council will review this policy as part of the budget setting process each year. This policy will need to be approved at Council each January, at the same time as the precept is agreed.

### **General Reserve**

- 2.1 The general reserve is not ringfenced (earmarked) for any specific expenditure. Its purpose is to smooth the impact of uneven cashflow or cover unexpected and emergency expenditure. It is not intended to fund on-going expenditure. The general reserve will be replenished as part of the budget process for the next financial year, where it has been utilised for unexpected and emergency expenditure purposes in a given year. The Council will hold a general reserve of at least 25% of NRE but no more than 50% of NRE.
- 2.2 Any surplus budget at the end of a financial year shall be transferred to the general fund, unless agreed otherwise by the Council, to be placed in an earmarked reserve for an individual project.

## Earmarked Reserves

- 3.1 The Council shall also retain a series of earmarked reserve budgets for specific future projects. The amount committed to each budget will be confirmed annually during the budget setting cycle, following scrutiny by the appropriate Committee and confirmed by Council at its January precept setting meeting.
- 3.2 The specific earmarked reserve budgets the Council should consider are as follows:
- a) Capital Receipt Reserve  
Capital receipts are subject to statutory restrictions requiring they only be used for capital expenditure. In accordance with financial regulations the Council will hold a capital receipts reserve to ensure capital receipts are separately accounted for. When a call on this reserve is made for a capital project, this shall be discussed with the Council accountant, and then agreed by Council.
  - b) A Reserve for an Individual Project  
The Council shall identify a list of individual projects it will undertake. Where required an earmarked reserve will be created for these projects. It is important that any reserve created is likely to be required in the **near** future. The ear marked reserve shall be created from the precept or from existing general reserves.
  - c) CIL Receipts Reserve  
CIL Receipts are subject to statutory restrictions requiring they only be used for certain kinds of expenditure. In accordance with financial regulations the Council will hold a CIL Receipts Reserve to ensure CIL receipts are separately accounted for.

## Other Reserves Budgets

- 4.1 Capital Financing Account Reserve  
This account represents revenue and capital resources applied to finance capital expenditure or for the repayment of external loans. It also includes the reversal of depreciation to ensure it does not impact upon the amount to be met from precept. It does not represent a reserve that the Council can use to support future expenditure.
- 4.2 Revaluation Reserve  
This reserve recognises the change in the value of fixed assets held on the balance sheet since recognition of the asset. This account does not represent funds that can be expended by the Council, but does show the change in the value of fixed assets held.