

## RESERVES POLICY REVIEW

**Summary:** To review the Board's financial reserves policy.

### Recommendations:

- (a) That the reserves policy and strategy set out below and in Appendix 'A' be reviewed; and
- (b) that the Board should aim to maintain its useable reserves in the range of £110,000 to £130,000.

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### Background

1. The Executive Committee last reviewed the Board's reserves policy and strategy at its November 2018 meeting. The Board approved these in December 2018.
2. Reserves are amounts of money held for three main purposes:
  - a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
  - a contingency to cushion the impact of unexpected events or emergencies
  - a means of building up or holding funds to meet known or predicted liabilities.
3. The Board has retained reserves at each year end and recorded these in the balance sheet. The total reserves at 31<sup>st</sup> March 2018 were £138,202. The External Auditor has not raised any concerns over the level of reserves in their periodic review.
4. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Guidance Note on Local Authority Reserves and Balances (LAAP Bulletin 99 – July 2014 which provides guidance on good practice for local authorities. As with most other financial matters, similar guidance is not available specifically for Conservation Boards. To be consistent with the Board's earlier adoption of the CIPFA Accounting Code of Practice and its guidance on accounting principles, Bulletin 99 has been interpreted to the Board's circumstances, supported by the principles outlined in other formal guidance issued by the Joint Panel on Accountability and Governance.
5. The Bulletin sets out the following key principles:
  - it is the responsibility of the local authority and its finance director to maintain a sound financial position;

- it is the responsibility of the finance director to advise the local authority about the level of reserves that it should hold and to ensure that there are clear protocols in place for their establishment and use;
  - external auditors have a responsibility to review arrangements in place to ensure that financial standing is soundly based;
  - reserves should not be held without a clear purpose.
6. Neither CIPFA nor the external auditors provide formal guidance on the minimum level of reserves that should be held, on the basis that this should be determined by the authority taking into account local circumstances. As a result, practices vary widely. When determining the level of reserves, the Board should take account of the strategic, operational and financial risks facing the organisation.

### **The Board's Position**

7. To comply with the guidance, the Board needs a reserves policy and protocols for each of its reserves, 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.
8. A refreshed policy and protocols for the Board's reserves are set out in **Appendix 'A'** to this report.
9. Key considerations regarding the Board's financial position in relation to its reserves are:
- **Cash flow:** The Board has managed cash flow effectively to date. Risks of a shortfall in financing have been addressed by agreeing with funding partners wherever possible for grant payments to be made in advance of the expenditure to which they relate. Defra and the Local Authorities pay at least quarterly in advance, or via a single sum at the start of the financial year. Defra in particular have run an efficient and timely payments system to date, are the Board's main funder, and have recently arranged to pay 50% of the year's funding at the start of the year.
  - **Contingency:** The Board needs a contingency to cushion against unexpected events. By their nature unexpected costs are difficult to predict, so it is prudent to have sufficient reserves to withstand a significant event.
  - **Earmarked funds:** The Board identifies funds that are planned for use on specific purposes or projects.

### **Reserve thresholds**

10. An analysis of the Board's reserve funds is attached at Appendix B, based on the current draft Statement of Accounts for 2018/19.
11. The analysis distinguishes between "Earmarked Reserves" and "Restricted Funds". Earmarked Reserves are those which the Board has identified for specific projects or purposes, and where the use of those funds is entirely at the Board's discretion (for example the Lottery Match Funding). The only constraint on these funds is to honour individual commitments which the Board may have agreed, but which have not yet been paid out. Restricted Funds on the other hand are those whose use is restricted by external factors, outside the Board's direct influence (for example Glorious Grasslands).
12. To date the Board has sought to maintain a minimum total reserve equivalent to approximately one quarter of the income from its main funder, Defra; and a maximum total reserve of approximately 15% of total expenditure.
13. The aim was to provide sufficient cash flow support in case the main grant is late for any reason, and to provide a sensible contingency against unexpected events.
14. At the last review, these criteria suggested a range of £110,000 to £130,000, which the Board adopted. Based on the accounts for 2018/19, the same criteria suggest that the Board would aim to maintain its reserves in the range of £103,000 to £142,000.
15. Since these limits are very broadly comparable between years, it is recommended for consistency and comparability purposes that the current thresholds of £110,000 and £130,000 should remain unchanged, but should be reviewed again in May 2020, or earlier if the Board's circumstances should change significantly.
16. It should however be noted that the Board's total reserves as recorded in its current draft Statement of Accounts for 2018/19 were - at £256,607 - significantly in excess of the upper threshold. This has arisen from a large proportion of grant income being received towards the end of the financial year, which will be spent over subsequent years. This included for example grant of £97k from the Esmee Fairbairn Foundation, whilst in April 2019 £501k was received from Network Rail. Further investment options are being considered to maximise the Board's return on this position.
17. At the same time, reserves which are entirely at the Board's discretion amount to £69,490 (calculated by deducting the Agency deficit of £257,690 from the General Fund of £303,045, and adding the Earmarked Reserves of £24,135). The £69,490 figure will be supplemented by top-slicing 10% of the Network Rail contribution, for staff costs, which would add approximately £25,000 in 2019/20 and result in a total "useable" reserve of £94,490 (compared with the target of £110,000).

**Supporting Paper(s):**

**Appendix 'A'** - Policy and Protocols on Financial Reserves

**Appendix 'B'** - Table of Financial Reserves (Draft Figures)