

RESERVES POLICY

Summary: To review the Board's Financial Reserves Policy.

Recommendations:

(a) The Executive Committee recommends approval of the reserves policy and strategy set out below and in Appendix 'A';

(b) The Board should continue its current policy of aiming for a total level of Useable Funds in the range of £110,000 to £130,000.

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Key Issues

1. Regulatory guidance requires the Board to monitor the level of its Reserves.
2. Whilst the Board has to date performed well in this respect, it will remain important to monitor the level and use of Reserve Funds throughout the year.

Background

3. The Board approved its reserves policy at the Meeting in December 2018. The Executive Committee reviewed it again, and actual reserve levels, in May 2019.
4. Reserves are amounts of money held for three main purposes:
 - a working balance to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing;
 - a contingency to cushion the impact of unexpected events or emergencies; and
 - a means of building up or holding funds to meet known or predicted liabilities.
5. 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. 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. More recent general guidance has been issued by the Joint Panel on Accountability and Governance (JPAG), and by the external auditor.
6. LAAP Bulletin 99 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.
7. CIPFA and JPAG stress that the total level of reserves should be determined locally, taking into account an organisation's particular 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

8. 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.
9. A refreshed policy for the Board's reserves is set out in **Appendix 'A'**.
10. Key considerations regarding the Board's 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 and are the Board's main funder.
 - **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 Reserves:** The Board identifies funds that are planned for use on specific purposes or projects.
11. An analysis of the Board's Total Reserves as at 31st March 2019 is attached at **Appendix 'B'**, based on the current draft Statement of Accounts for 2018/19.

12. The analysis distinguishes between “Restricted Funds” and “Useable Funds” (which includes “Earmarked Reserves”). Restricted Funds are those whose use is restricted by external factors, outside the Board’s direct influence (for example the Glorious Grasslands Fund). Earmarked Reserves on the other hand are those which the Board has itself identified for specific projects or purposes, and which the Board can allocate entirely at its own discretion (for example the Lottery Match Funding). The only external constraint on the use of Earmarked Reserves is to honour individual commitments which the Board may have agreed, but which have not yet been paid out.

Minimum Level of Useable Funds

13. Interpreting JPAG guidance to the Board’s circumstances would suggest that the Board should aim for a lower limit of £114,000 for Useable Funds.
14. To date the Board has sought to maintain a minimum level equivalent to approximately one quarter of the income from its main funder (Defra), and a maximum level of approximately 15% of total expenditure. Previously these criteria have suggested a range of £110,000 to £130,000, which the Board adopted. Based on the latest annual accounts for 2018/19, the same criteria suggest a range of £103,000 to £142,000.
15. Since these limits are very broadly similar, it is recommended for consistency and comparability purposes that the current thresholds of £110,000 and £130,000 should remain unaltered, but should be reviewed again in May 2020, or earlier if the Board’s circumstances change significantly.
16. Following the write-off of the Agency deficit against the General Fund, the Board’s level of Useable Funds will be £121,000 (including the top-slicing for organisational costs from the Network Rail contribution).

Maximum Level of Total Reserves

17. JPAG guidance does not offer a target for the level of Total Reserves, but external audit have recently suggested that they may seek further details if the Board’s Total Reserves were to exceed £908,000.
18. At 31st March 2019, the Board’s actual Total Reserves were £265,000, which remains well within external audit parameters. The Board’s current level arose in 2018/19 from the receipt of a large proportion of grant income towards the end of the financial year, which has been treated as Restricted Funds to be spent in subsequent years. Examples include £97,000 from the Esmee Fairbairn Foundation, whilst in April 2019 £501,000 was received from Network Rail. Further temporary investment options are being considered to maximise the Board’s return on this position.

Supporting Papers:

Appendix 'A' - Policy on Financial Reserves

Appendix 'B' - Table of Financial Reserves