**RESERVES POLICY REVIEW**

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

**Executive Committee Recommendations:**

**(a) That the reserves policy and strategy set out below and in Appendix A be approved;**

**(b) that the reserves policy be set at £130,000.**

**Officer Ref:** Martin Lane, Director (01451 862000)

**Background**

1. The Executive Committee reviewed the Board’s reserves policy and strategy at its November 2018 meeting.
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.

1. The Board has retained reserves at each year end and recorded these in the balance sheet. The total reserves at 31st March 2018 were £141,202. The External Auditor has not raised any concerns over reserves in their audit.
2. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Guidance Note on Local Authority Reserves and Balances (LAAP Bulletin 99 – July 2014, replacing the earlier Bulletin 55) to provide guidance on good practice to local authority finance directors. 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 55 and now Bulletin 99 have been interpreted to the Board’s circumstances.
3. 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.

1. Neither CIPFA nor the Audit Commission provide guidance on the minimum level of reserves that should be held, because this should be determined by the authority taking into account local circumstances. 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**

1. 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.

1. A refreshed policy and protocols for the Board’s current reserves are set out in **Appendix A** to this report.
2. The key risks to the Board’s financial position in relation to the purposes of 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 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 funds: The Board identifies funds that are planned for use on specific purposes or projects.

**Recommended reserve figures**

1. To date the Board has sought to maintain a reserve equivalent to approximately one quarter’s income from its main funder, which is Defra. This resulted in the Board adopting a reserve fund of between £150,000 and £180,000.
2. This was to provide sufficient cash flow support in case the main grant is late for any reason, and it would provide a sensible contingency against unexpected events. The Board also agreed that total reserves should not amount to more than 15% of the total expenditure without approval.
3. When agreeing its earlier reserves policy the Board’s turnover was regularly in excess of £1m a year. In the 2004-2007 period this was significantly in excess of £1m, having secured an early Landscape Partnership programme, funded by the Heritage Lottery Fund, (HLF) and an investment arising from a new National Grid gas pipeline through the AONB.
4. One quarter of the main Defra grant is currently £110,092, since the main grant in 2017/18 was 440,367. The 15% of total expenditure figure equates to £130,625 based on a total expenditure figure of £870,830 in 2017/18.
5. If the Board applies the same reasoning that has served the Board well to date, it should consider a revised reserves policy of £110,000 or £130,000. It is therefore recommended that the reserves policy be £130,000.
6. As noted earlier, the Board’s total reserves as recorded in its Statement of Accounts at the end of 2017/18 were £141,202, which is currently in excess of this figure.
7. This report and its recommendation have been reviewed by the Board’s finance officer and internal auditor.

**Supporting Paper:**

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