

Full Council Meeting 31 January 2019

Agenda Item CC1962/19

Council Policy on Holding and Managing Reserves

Introduction

This document is prepared to produce a published policy for managing the Council's reserves, based for the most part, on policies already in place but not formally codified. It results from a series of informal discussions after the production of the annual budget for 2018/19 and the annual accounts/annual report for 2017/18.

The text below briefly considers the law, sets out the different kinds of reserves that may be held by a local authority under that legislation and the assumptions that should guide the authority when establishing reserves. The appendix includes a lengthier discussion and a detailed analysis of the reserves balances at 31 March 2018.

Discussion

LEGISLATIVE BACKGROUND

In common with all local government authorities Croxley Green Parish Council is required to maintain adequate Financial Reserves.

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of Reserves needed for meeting estimated future expenditure when calculating the budget requirement. The Council follows the guidance on page 17 of the Department for Communities and Local Government's "The Good Councillors Guide to Finance and Transparency" to set the levels of reserves. The Council's accountants recommend General Reserves should be 50% of the Council's operating expenditure. It is the responsibility of the Responsible Finance Officer to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use.

TYPES OF RESERVES

General Reserves are funds that do not have any restrictions as to their use. These Reserves can be used to smooth the impact of uneven cashflows; mitigate against financial pressures outside of Council control; offset unbudgeted costs or can be held in case of unexpected events or emergencies.

Earmarked Reserves can be held for several purposes and are intended to be restricted to their agreed use. Further explanations of the purposes are included in the appendix. Earmarked Reserves will be established on a 'needs' basis, in line with anticipated requirements.

PROPOSED POLICIES FOR MANAGING RESERVES

Role of the Responsible Financial Officer (RFO)

The RFO manages all aspects of the Council's reserves.

The RFO decides to set a reserve based on known and/or agreed plans of the Council.

The RFO compiles and maintains a schedule of earmarked reserves which lists the various balances and the purpose for which they are held.

Role of the Parish Council

Reserves can only be authorised by the Parish Council.

Policies to create and manage Reserves

- Policy 1. The Council's Reserves will be reviewed in detail as part of the process for setting annual budgets. The Council's precept will be set after completion of the review.
- Policy 2. The list of policies and an analysis of the Council's reserves, including narrative descriptions, will be published each year, made available on the Council's website and included in summary form the annual report and the published accounts.
- Policy 3. New reserves may be created at any time although it is the Council's current practice mostly to create reserves at the end of each financial year. For each reserve held by the Council there will be a clear statement 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
 - a process and timescale for review of the reserve to ensure continuing relevance and adequacy.
- Policy 4. The Council will maintain a balance on General Reserves approximately equal to 50% of the annual expenditure for the previous financial year.
- Policy 5. Earmarked reserves for Capital projects can be created subject to being accompanied by an appropriate report in a standard format at the proper meeting. The plan will always include an assumption that the project will be started within ten years. Such reserves will be reviewed each year for achievability and for the proposed timescale. If the review concludes that the project has no reliable prospect of meeting the assumptions included in the initial plan the Council, on the recommendation of the RFO, will consider transferring the reserve to General Reserves.
- Policy 6. Earmarked reserves: Asset replacement (*policy adopted by Council 09/2018*)
- a) Assets of significant value are financed through lease purchase arrangements;
 - b) The expected useful life of those assets, when purchased new, is considered to be the duration of the lease plus:
 - a. two years where the lease is greater than four years and
 - b. one year for leases shorter than four years;Annual transfers to the asset replacement reserves will be made to smooth the impact on the income and expenditure account. The amount of the transfer will be increased annually, such that it amounts to the aggregate cost of replacement assets divided by the length of the replacement cycle for all assets; and
 - c) The annual transfers will be increased each year in line with the published price index for agricultural machinery
- Policy 7. Other Earmarked Reserves may be created for expenditure not detailed above.

Recommendation(s)

- That the Council adopts the policies set out in this paper.

Councillor Nigel Cole
17 January 2019

APPENDIX 1

FURTHER DISCUSSION

Principles for identifying the need for and the level of reserves

The level and nature of the Council's reserves should be consistent with meeting the Council's overall objectives:

- To encourage residents to express their views, aspirations, expectations and concerns about Croxley Green;
- To facilitate taking forward residents ideas in partnership with others as appropriate;
- To provide a professional, economic and effective service;
- To enable, assist and encourage other local organisations and agencies to provide, develop and extend their services;
- To encourage local businesses;
- To promote and represent the best interests of Croxley Green;
- To encourage the provision of recreational facilities within Croxley;
- To enhance the use of the natural environment available within the Parish.

TYPES OF RESERVES

Reserves are categorised as General or Earmarked.

General Reserves are funds that do not have any restrictions as to their use. These Reserves can be used to smooth the impact of uneven cashflows (for example in the highly unlikely circumstance that the principal authority is unable to pay the precept to the Council); offset the budget requirement, if necessary; mitigate against financial pressures outside of Council control (for example: Employer Pension Contribution or National Insurance rates); or can be held in case of unexpected events or emergencies.

Setting the level of general reserves is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. The Council must build and maintain sufficient reserves to cover the key risks it faces, as set out in its financial risk assessment.

The level of General Reserves to be held by the Council is currently targeted to be a minimum of 50% of the annual expenditure of the previous year.

In practice, however, in determining the precise level of reserves about this minimum, the Responsible Financial Officer will consider most if not all of the factors shown in the following table:

Budget assumptions	Financial standing and management
The impact of inflation and interest rates	The overall financial standing of the authority (e.g. level of borrowing, debt outstanding, Council tax collection rates)
The impact of demand-led pressures	The authority's capacity to manage in-year budget pressures
The impact of planned efficiency savings	The strength of the financial information and reporting arrangements
The financial risks inherent in any major contractual arrangements or major capital developments	The authority's virement and end-of-year procedures in relation to budget under/overspends at Council and committee level
The availability of other funds to deal with major contingencies and the adequacy of provisions	The adequacy of the authority's insurance arrangements to cover major unforeseen risks

The primary means of building General Reserves will be through annual surpluses of income over expenditure.

If, in extreme circumstances, the Council's General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its

Earmarked Reserves to fund the resultant gap. The fact that this statement includes 'unforeseen' implies that it is difficult to give examples of the circumstances in which such draw-down might take place.

Such a draw-down means diverting specific reserves from their intended purpose and contrary to the implied commitment given in setting the annual precept, to provide short-term resources. To the extent that Earmarked Reserves are used to meet short term funding gaps in this manner, they must be replenished in the following year.

Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance, sufficient to pay at least three to six month's salaries to staff, in General Reserves at all times.

Earmarked Reserves can be held for several reasons and are intended to be restricted to their agreed use.

Asset Replacements: to enable Council to plan and finance an effective programme of vehicle and equipment replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure over a number of years so that a sensible replacement programme can be achieved without the need to vary budgets.

Capital projects: to provide a fund for the future purchase of assets in line with the Council's strategic objectives

Carry forward of under spend: decisions made by Council to support projects or endeavours that cannot be fully spent in the budget year.

Other earmarked reserves may be set up from time to time to meet known or predicted liabilities.

These Reserves will be established on a 'needs' basis, in line with anticipated requirements. The Responsible Financial Officer decides to set a reserve based on known and/or agreed plans of the Council. Expenditure from Reserves can only be authorised by the Parish Council.

A schedule of earmarked reserves which lists the various earmarked reserves and the purpose for which they are held will be compiled and held by the Responsible Financial Officer.

Virements. More or less unique to public sector accounting, virements are the process of transferring money from one budget heading/line to another. Virements are used, most often, when a particular budget line is not going to be used or fully used and for which the original stated purpose has fallen away or been abandoned. The Council or committees of Council with delegated authority may, in those circumstances, approve transfer of the budget to a new or different heading.

Earmarked Reserves are not used to fund ongoing expenditure other than in circumstances outlined in the section on General Reserves, above.

COSTS AND BENEFITS OF HOLDING RESERVES

In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding Reserves in terms of the interest earned on unused funds. Investment income arising in this way is fed, in principle, into the budget strategy.

It is clear, however, that in an era of very low interest rates the earnings on reserves balances are limited.

APPENDIX 2- ANALYSIS OF RESERVES AT 31 MARCH 2018

	Balance	Description and comments
GENERAL RESERVES		
Annual surplus/(deficit)	158,148	Target: 50% of previous year's total expenditure
EARMARKED RESERVES		
Capital Projects		
Capital Fund	45,320	Council offices building replacement
Depot extension fund	3,000	Fees to draw up detailed plans for intended extension
Development of play areas	12,000	Future improvement to Barton/Baldwin play areas currently owned and managed by TRDC
	60,320	
Community Infrastructure Levy		
CIL Fund	8,908	Following public consultation, options are being considered for spending this balance
	8,908	
Asset replacement		
Vehicle replacement	52,248	A paper (CC1901/18) was discussed and agreed by the Council in September 2018 to set out the planned use of these balances.
Equipment replacement	44,380	
	96,628	
Other earmarked reserves		
Multi Sports Court	20,339	CGPC to contribute one third of cost of any vandalism, colour coating and re-surfacing repairs
Neighbourhood Plan development	1,800	Anticipated cost of completing preparation of the Plan, specifically printing hard copy.
Elections	20,810	Accumulated over four years and due to be utilised in 2019 after the quadrennial elections. Estimated as TRDC unable to forecast total costs. Also to fund poll on casual vacancies
Stones Orchard	3,429	Intended to create fund for mid term developments such as re-hedging and tree replacementn
Local Travel Map	1,000	Intended to subsidise production of a map by a local business of enterprise.
Commemorative plaques	1,460	To mark historic links to people and ancient trees on The Green and in Stone's Orchard
Defibrillator Maintenance	250	There should be an annual maintenance contract for the defibrillators; balance not needed
Fly Tipping The Green/Stone's	630	To smooth the unpredictable charge to revenue account from fly tipping
Pond refurbishment	1,680	Little Green Ponds; work complete in 2018/19
Street trees	1,500	Relates to funding offer in 2017/18 by District Cllr S Drury, reverses against spend in 2018/19
Defibrillators	1,500	Relates to funding offer in 2017/18 by District Cllr S Drury, reverses against spend in 2018/19
	54,398	
Total earmarked reserves	220,254	
Total reserves	378,402	