

Medium Term Financial Strategy and appropriate levels of General Reserves and Earmarked Provisions.

Agenda Item 15.d

PURPOSE OF REPORT

1. To inform the Council of the budgeted and likely cash balances as at 31st March 2018, 2019 and 2020.
2. To enable the Council to consider an appropriate level of General Reserves and the need for any 'Earmarked Reserves'.

RECOMMENDATIONS:

It is recommended that the Council agrees in principle that:-

- i. it would be prudent to hold £5,000 minimum within the General Reserve; being a Working Balance of £3,000 (equating to approximately six months running costs), and a Contingency of at least £2,000 to cushion the impact of unexpected events or emergencies [see paragraphs 10 to 14], and,
- ii. where the level of General Reserves allows... ie where the cash balance EXCEEDS the £5,000 target figure at (i above), the Council agrees to the establishment of THREE 'Earmarked Reserves' being:-
 - a. for the Council's proportion of costs for the **Repair and Maintenance of the Unadopted Roads at the Village Green** (already established),
 - b. a specific **Locum Clerk Cost Reserve** which covers the cost of hiring a temporary replacement clerk for between 3 and 6 months; estimated at £2,000 [see paragraph 19], and .
 - c. a **Legal Reserve** [see paragraphs 17/18].

A possible 'budget scenario' for the three years 2017/18 through to 2019/20 shows the most likely cash balances and General Reserves as at 31st March in each of those three years [see paragraphs 9 and 20].

BACKGROUND

3. Attached at **Appendix A** is the Medium Term Financial Strategy for the three years 2017/18 through to 2019/20 that was presented to the May 2017 meeting of the Parish Council amended for the decisions that were taken at that meeting. The relevant section of those Minutes are reproduced below.

Minutes from May 2017 meeting

"In advance of the meeting, the Clerk had prepared and circulated, including posting it on the Hannington PC website, a report that provided a Revised Budget 2107/18 and a Medium Term Three Year Financial Strategy 2107-2020 amended for:-

- i. *the **ACTUAL cash balance 31st March 2017** now standing at £6,206 (as per the Final Accounts 2016-17),*
- ii. *the decision taken at the December 2016 meeting regarding a resources strategy based on the **Precept** requests for the three years 2017-2020 i.e. an increase from £5,397 to £6,703,*
- iii. *the decisions taken at the 21st February meeting to include three allowances: £500 in each of 2016/17 and 2017/18 for **repairs to FP7106a** (subsequently amended to only TWO years... see (iv below); £1,500 in each of 2017/18, 2018/19 and 2019/20 for '**as yet unknown***

items of one-off expenditure', and £700 to be transferred in each of the three years from the General Fund to the specific Provision for the Repairs and Maintenance of Unadopted Roads,

- iv. noting the subsequent decisions at the 28th February meeting with regard to FP7106a, Berthas Lane... and therefore changing the 21st Feb decision by retaining £500 in each of only the first TWO years for 'general repairs to footpaths' rather than the THREE years,*
- v. two other material changes to the Budget being an increase of £377 in the **VAT recoverable in 2017/18** due to the expenditure incurred on the purchase of IT equipment i.e. an increase from £445 to £822 (actual), and £400 further costs (staff costs and minor IT equipment) to be incurred in 2017/18 on finalizing the **creation and implementation of the Hannington PC website**; in compliance with the Transparency Code, and*
- vi. two further potential issues potentially affecting the Budget 2017/18. The suggested **cessation of the annual donation of £250 to churchyard**. This amount had been retained in the financial statements attached as no decision had yet been made by the Parish Council, and, an estimate of £200 in 2017/18 for the **repair and maintenance of the Parish Council noticeboards**. This issue was discussed at the Annual Parish Meeting in April and so the MTFS include this provision. See Minute 6 above, for the decision of the Parish Council."*

4. The above decisions are highlighted on **Appendix A** by being **emboldened in red**.

5. The original projection of the cash balances as at 31st March were as follows:-

	31 March 2017	31 March 2018	31 March 2019	31 March 2020
Cash balance	6206	6907	7386	7864
Less Earmarked reserve for Unadopted Roads	1000	1700	2400	3100
General Fund	5206	5207	4986	4764

6. Taking into account the decisions in May, the projected cash balances and General Fund Reserves are now as follows (See Appendix A):

TABLE A

	31 March 2017	31 March 2018	31 March 2019	31 March 2020
Cash balance	6206	7030	7759	8487
Less Earmarked Reserve for Unadopted Roads	1000	1700	2400	3100
General Fund Reserve	5206	5330	5359	5387

7. However, half way through the current financial year, the indications are that the year end balances could be far higher; perhaps as much as £1,800 in 2017/18 alone. This is due to:-
- i. of the £1,500 allocated to 'annual one-off items', only £400 has yet been identified for 'repainting of Wellhead'; leaving £1,100 potentially underspent, and
 - ii. there is reasonable doubt that the £500 allocated to 'general repairs to footpaths' will be required. This is because (a) the repairs to FP7106a were undertaken by Tim May, at no cost to the Council, and (b) the Council has yet to utilise £1,000 from the Lengthsman Scheme.

iii. It should also be noted that the provision of £200 for 'maintenance of Noticeboards' might be undertaken within the Lengthsman Scheme.

8. Taking into account just the first two elements, and extrapolating a similar 'underspend' scenario in the two subsequent years, **the year end General Reserve could be as high as £6,900 by the end of this year and £9,500 by 31st March 2020 (see Summary Table B below and Appendix B).**

TABLE B

	31 March 2017	31 March 2018	31 March 2019	31 March 2020
Cash balance	6206	8630	10859	12587
Less Earmarked Reserve for Unadopted Roads	1000	1700	2400	3100
General Fund Reserve	5206	6930	8459	9487

9. However, a more realistic scenario is somewhere between Table A and Table B

	31 March 2017	31 March 2018	31 March 2019	31 March 2020
Cash balance	6206	7900	9300	10600
Less Earmarked Reserve for Unadopted Roads	1000	1700	2400	3100
General Fund Reserve	5206	6200	6900	7500

What is an appropriate Cash Balance/General Reserve?

10. A question included by the Government in the Annual Return, a document completed by the Chairman and submitted to the external auditor is:-

<p>QUESTION: Does the Council formally consider and approve the level of reserves (General and Earmarked Funds) to be carried forward to the next financial year? (Such consideration should be minuted formally).</p>	<p>ANSWER in 2016/17 Accounts. YES. The Budget Report 2017-18 was supported with projections for the next two years 2018-19 and 2019-20 to make a three year Medium Term Financial Strategy. All the financial statements and Budget Forecasts include a projection of year end cash balances. To ensure the level of balances was given due consideration when agreeing the Budget 2017-18 and the Precept for that year, the Clerk included a section in the Budget report entitled "Comment on level of balances" paras 10 – 13 drawing particular attention to the Parish Council should be aware of the Government's concerns regarding excessive increases when considering the level of precept it is going to submit to BDBC.</p>
---	---

GUIDANCE

11. The role of the external auditor, *"Whilst it is primarily the responsibility of the local authority and its chief financial officer to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about going concern. Even where as part of their wider role auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general."*
12. CIPFA and the Local Authority Accounting Panel consider that *"local authorities should establish reserves including the level of those reserves based on the advice of their chief finance officers. Authorities should make their own judgements on such matters taking into account all the relevant local circumstances. Such circumstances vary. A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate **but are also necessary** [Clerk's Comment ie it should not be excessive]. There is a broad range within which authorities might reasonably operate depending on their particular circumstances."*

TYPES OF RESERVE

13. Further Guidance; *"When reviewing their medium term financial plans and preparing their annual budgets local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:*

- i. a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of General Reserves;*
- ii. a contingency to cushion the impact of unexpected events or emergencies – this also forms part of General Reserves;*
- iii. a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund."*

Clerk's advice regarding level of General Reserve (i and ii above)

14. With running expenses in a year being in the range of £5,500 to £4,500, and the first half of the Precept being paid in April/May it would be prudent to hold around £5,000 within the General Reserve:-
- i. a Working Balance of £3,000 being approximately six months running costs, and*
 - ii. a Contingency of at least £2,000 to cushion the impact of unexpected events or emergencies; bearing in mind the previous costs of the re-roofing of the Wellhead (£1,700 2014/15).*

Earmarked Reserves

15. The Council has already agreed to the establishment of one Earmarked Reserve for 'the repair and maintenance of the Parish Council's responsibility for unadopted roads'. This Earmarked Reserve was set up with £1,000 in 2016/17 and is expected to be increased by £700 in each subsequent year. Provision for this is taken into account in the Three Year Medium Term Financial Strategy.

Guidance from CPALC

16. As Best Practice, Councils should consider provision for the following:-

- i. A small general reserve to cover unforeseen events [Clerk's comment: see para 14... suggested at £5,000];
- ii. An election reserve to cover the costs of a contested election [Clerk's comment: not appropriate];
- iii. A legal reserve to cover incidental or unforeseen legal costs [see para 17 below];
- iv. A maintenance reserve be sufficient to cover remedial repairs, urgent maintenance and emergency damage whilst the insurance situation is assessed;
- v. As best practice the council's risk assessment should review the frequency with which casual vacancies have occurred and then ensure that the election reserve is adequate [Clerk's comment: not appropriate];
- vi. **If a council does not have any legal reserve** best practice is to assess *the* situation as part of the risk assessment process and transfer an amount to the legal reserve each year until there is an adequate reserve [Clerk's comment: see paragraphs 17/18]; and
- vii. **It is best practice to have a specific locum clerk cost reserve which covers the cost of hiring a temporary replacement clerk for between 3 and 6 months** [Clerk's comment: see para 19].

17. Further information was provided by CPALC with regards a "Legal Reserve" ...

- Insurance and membership of a County Association of Local Councils is not an adequate substitute for competent legal advice when it is needed
- This is especially the case regarding land, property and employment
- Failure to get good advice in these instances can be very expensive
- Legal costs are not proportionate to the size of the council
- Legal costs may be the same irrespective of the size of the council
- An adequate legal reserve may be proportionately larger for a small council as opposed to that for a large town council
- Deciding on an appropriate amount for the legal reserve is very difficult
- Town and parish council decisions are not immune from judicial review
- It may cost tens of thousands of pounds to be represented at such a review or an employment tribunal
- Councils may also wish to have legal representation at planning inquiries. yet the failure to provide for the costs may deprive the council and its electors of an adequate voice
- If a council does not have any legal reserve. best practice is to assess the situation as part of the risk assessment process and transfer an amount to the legal reserve each year until there is an adequate reserve.

18. The Council incurred £1,240 in 2016/17 for the legal costs for the re-registration of the village green. It would not be excessive to provide for say £1,500 (built up over FOUR years).

19. Further information was provided by CPALC with regards a "Locum Clerk Cost

Reserve"

- Clerks are human. they get ill. die. leave suddenly and so forth. The Council has already experienced problems with recruiting a Clerk, and they are certainly NOT alone;
- A council MUST have a proper officer, an untrained Councillor acting as clerk effectively deprives the community of an elected representative
- The loss or prolonged unavailability of the clerk should be considered in detail on the council's risk assessment;
- It is best practice to have a specific locum clerk cost reserve which covers the cost of hiring a temporary replacement for between 3 and 6 months. This would warrant a reserve of between £1,000 and £1,500 at base rates, but could be material higher if the Council had to pay for a 'locum' say £25 per hour x five hours x 16 weeks (4 months)e.g. locum for 4 months = £2,000 (built up over FOUR years) .

20. Potential impact on General Reserve of the above assuming 'minimal spend over the three years on one-off capital etc'.

TABLE C

	31 March 2017	31 March 2018	31 March 2019	31 March 2020
Cash balance	6206	7900	9300	10600
Less Earmarked Reserve for Unadopted Roads	1000	1700	2400	3100
Less Earmarked Reserve for 'Legal costs'		400	800	1200
Less Earmarked Reserve for 'Locum Clerk'		500	1000	1500
General Fund Reserve	5206	5300	5100	4800

Chris Pottinger,

Clerk, Hannington Parish Council

1st September 2017