

## Reserves Policy

1. On 23rd January 2017 Council resolved to establish policy on the setting of reserves.
2. Broadly speaking, the setting of the level of operational reserves is an outcome of the risk management activity of the council.
3. In the absence of clear risk management activity council was advised, and thereafter resolved to set its level of operational reserves as follows:

2017-18	50% of budget
2018-19	40% of budget
2019-20	30% of budget
2020-21	25% of budget

4. Council is now in a position, as a result of proposals to change its financial regulations, to review whether its reserves policy should continue as above.
5. The impact of changes to the Financial Regulations will not be felt until the 2018-19 budget cycle. Broadly speaking, the Responsible Financial Officer intends to propose moving the date for setting the precept requirement to a point after the amount likely to be received as a portion of the Schedule 3 surplus from the Freemen of Berwick upon Tweed is known.
6. Without wishing to repeat the explanation endlessly, each year's budget and update to the Medium Term Financial Plan depends in part on knowing the likely out-turn for the existing financial year. As approximately a third of council income comes from the schedule 3 surplus variations the surplus can have a significant impact on outturn.
7. If this is agreed it will be a prudent way of managing the risk of in year variances and in turn reducing the level of reserves that are required to be held.
8. One further way of reducing the requirement for a general operating reserve is if the council has confidence in its specific reserves that can be used to manage the replacement cost of existing equipment and assets. Whilst this is analogous to the concept of depreciation as used by organizations with a duty to maintain and report on a balance sheet it is not the same, since it is a matter of good practice, not a duty.
9. A short history lesson is required here. The accounting regimes for parish and town councils diverged from those of larger authorities after the passage of the 1989 Local Government and Housing Act, and the powers under which local councils can make provision for the cost of replacing assets were repealed for larger authorities.

10. Those powers were created by Schedule 13 of the Local Government Act 1972, at s.16(1)(b) (copy attached). The powers were repealed for other authorities by the 1989 act, but at commencement, by the The Local Government and Housing Act 1989 (Commencement No. 5 and Transitional Provisions) Order 1990 these powers were saved for parish and town councils by section 1(a) of the order, referring to section 39(1)(a) to (j) of the 1989 Act.
11. The usual way of operating the kind of renewal and repairs fund envisaged by the act is that the costs of maintaining the fund at the necessary level are treated as a charge upon the revenue budget of the council. (In this regard the use of the modern term 'revenue budget' is faintly anachronistic, but it will suffice).
12. Berwick Town Council does not seem to have operated in this way, and the creation of reserves for specific purposes, sometimes referred to as allocated reserves, has seemed to come about after the setting of the level of expenditure for the following year in a haphazard fashion.
13. It is proposed that committee recommend to council that it adopt for the 2019-20 budget cycle a policy of requiring officers to prepare a scheme for a repair and renewals fund to cover such items of equipment as may need replacement within a lifecycle of 15 years.
14. A transitional approach will be required, in order to minimize the impact of these changes upon the precept requirement, and committee will need to consider further reports on this if council adopts this proposal.

#### Recommendations

1. That committee approve the approach to reserve management set out in this report,
2. That committee recommend to council the establishment of a repairs and renewal fund, and
3. Subject to council approving recommendation 2, that committee agree to receive proposed financial regulations concerning the creation of a reserves and renewals fund, and the process for transitioning to such arrangements, at its next meeting.

*Funds of local authorities*

Sch. 13

15.—(1) A local authority may in accordance with a scheme made by them establish and operate a loan fund for defraying any expenditure which the authority are authorised by or under any enactment to meet out of moneys borrowed by them and for the repayment or redemption of debt.

(2) A scheme made by a local authority under this section may be varied or revoked by a subsequent scheme made by them.

16.—(1) Subject to the provisions of this Part of this Schedule, a local authority may establish either or both of the following funds, that is to say—

- (a) a capital fund, to be used for defraying any expenditure of the authority to which capital is properly applicable or in providing money for repayment of loans (but not in making any annual payment required to be made in respect of loans);
- (b) a renewal and repairs fund, to be used for the purpose of defraying expenditure to be incurred from time to time in repairing, maintaining, replacing and renewing any buildings, works, plant, equipment or articles belonging to the authority.

(2) It is hereby declared that the reference to the authority in sub-paragraph (1)(b) above, in the case of a county council, includes a reference to a police authority which is a committee of that council.

(3) A fund established by a local authority under this paragraph shall not be used to meet, directly or indirectly, any expenditure incurred by the authority for the purposes of an undertaking of the authority, being a transport, water, district heating, harbour, dock, pier or ferry undertaking or a market or civic restaurant, except that such a fund may be used by the Greater London Council so to meet any expenditure incurred by them for the purpose of a civic restaurant.

(4) Pending the application of any such fund as aforesaid for the purposes authorised by this paragraph, the money in the fund shall (unless applied in any other manner authorised by or under any enactment) be invested in statutory securities.

(5) A local authority may close any fund established by them under any other enactment for a purpose for which a fund may be established under this paragraph and transfer any final balance standing to the credit of the former fund to any other fund established by them under this paragraph.

(6) In this paragraph “statutory securities” means any security in which trustees are for the time being authorised by law to invest trust moneys.

17.—(1) Subject to the provisions of this paragraph, a local authority by whom a capital fund is established under paragraph 16 above may pay into that fund—

- (a) any sums derived from the sale of any property of the local authority, not being property held by them for