BRIEFING NOTE – for consideration by Council at its meeting on 23 January 2020

Analysis of Reserves Position

Background

To support the Council's decision regarding the setting of the budget and precept for 2020/21, a detailed analysis of the reserves position has been carried out.

This has reviewed both the earmarked and general reserves position, and in particular focused on the period since receipt of s.106 money in relation to Hurst Meadows.

This was from two separate s.106 agreements as below:

- Highfield Drive – first amount received 21 July 2017
- Little Park – first amount received 9 January 2018

The agreed principle for Hurst Meadows was that all costs should be paid for from s.106 monies, and this was reinforced at the Finance & Governance meeting held on Thursday 10th October 2019 where it was noted:

F19/0469.2 *It was agreed that in future all Hurst Meadows income and expenditure would be broken out for reporting purposes from the Parish Council budget and that a separate cost centre report supporting ledger reports would be produced for review. This was to ensure that both set up costs and running costs were clearly attributed to the s.106 monies received for Hurst Meadows and that there was no cross subsidy at this stage from the Council precept.*

In the financial years 2017/18 to 2019/20 inclusive, provision was made in the budget to draw down an agreed sum annually from both the Highfield Drive and Little Park s.106 agreements to contribute to the ongoing maintenance at Hurst Meadows. To date, none of these drawdowns have taken place through the Council's RBS accounting system.

Historic Position

2016/17

As at the end of the 2016/17 financial year, the Council's agreed reserves position was as below:

Balance Sheet Detail	**31/03/2017**
General Reserve	£88,406
Maintenance Van & Equipment	£3,750
Community Affairs	£4,268
Street Lighting	£72,410
Total Reserves Held	**£168,834**

This was prior to receipt of any s.106 monies for Hurst Meadows, and is undisputed.

2017/18

Income for Hurst Meadows received during the 2017/18 financial year:

- Highfield Drive s.106 £113,009
- Little Park s.106 £74,092

Expenditure allocated to Hurst Meadows for the 2017/18 financial year:

- Highfield Drive s.106 £14,223
- Little Park s.106 £732

Unspent s.106 remaining for Hurst Meadows for the 2017/18 financial year:

- Highfield Drive s.106 £98,786
- Little Park s.106 £73,360

However, at the end of the 2017/18 financial year, the Council's reserves position was stated as:

Balance Sheet Detail	**31/03/2018**
General Reserve	£200,752
Maintenance Van & Equipment	£4,500
Community Affairs	£4,268
Street Lighting	£30,392
Total Reserves Held	**£239,912**

At this time, no separate earmarked reserve for either the Highfield Drive or Little Park s.106 funds were established. The significant increase in the general reserve (from £88,406 to £200,752) during the financial year, suggests that the funds were included within this description.

2018/19

Income for Hurst Meadows received during the 2018/19 financial year:

- Highfield Drive s.106 £60
- Little Park s.106 £73,741

Expenditure allocated to Hurst Meadows for the 2017/18 financial year:

- Highfield Drive s.106 £8,045
- Little Park s.106 £30,316

Unspent s.106 remaining for Hurst Meadows for the 2017/18 financial year:

- Highfield Drive s.106 £90,801
- Little Park s.106 £116,785

On 31 March 2019, journal entries were made on the RBS accounting system to establish earmarked reserves called **Little Park, Hurst Meadows** and **Highfield Dr, Hurst Meadows**. Sums were manually transferred into these earmarked reserves resulting in the Council's reserves position at the end of the 2018/19 financial year being stated as:

Balance Sheet Detail	**31/03/2019**
General Reserve	£89,720
Maintenance Van & Equipment	£5,250
Community Affairs	£0
Street Lighting	£0
Little Park, Hurst Meadows	£82,843
Highfield Dr, Hurst Meadows	£80,181
Total Reserves Held	**£257,994**

The amounts in the Hurst Meadows earmarked reserves do not equal the unspent s.106 balances as established through analysis of the income and expenditure (Little Park -£33,942, Highfield Drive -£10,620).

If the amounts in the earmarked reserves for Hurst Meadows had matched the income and expenditure at that time, the general reserve would have been £45,158.

2019/20 (as at 10 January 2020)

Due to changes made to the cost codes from 1 April 2019, the descriptions used on RBS and stated below are different from previous years, but still relate to income and expenditure for Hurst Meadows.
There are further s.106 monies due from the Little Park agreement, which have been applied for. The minimum amount due is £210,346.24 (to be adjusted for inflationary increases and any overdue interest).
Expenditure during this financial year has not been directly allocated to either of the specific s.106 agreements.

Income for Hurst Meadows received during the 2019/20 financial year:

- Hurst Meadows £230

Expenditure allocated to Hurst Meadows for the 2019/20 financial year:

- HM Maintenance & Repairs £13,024
- Hurst Meadows Capex £4,833
- Committed to contract £8,155

Unspent s.106 remaining for Hurst Meadows for the 2017/18 financial year:

- Combined total £181,804

The two individual earmarked reserves amount to £163,024. This is £18,780 less than the calculated figure using the income and expenditure analysis.

Recommended actions

Based on the information above (and assuming no further income and/or expenditure before 31 March), the following actions are recommended to clearly establish the current position and agree the drawdown process moving forwards.

Actions:

- A new earmarked reserve is established named **Hurst Meadows.**
- The following earmarked reserves are closed - Little Park, Hurst Meadows (£82,843) and Highfield Dr, Hurst Meadows (£80,181), with the balances transferring to the new Hurst Meadows earmarked reserve.
- An amount of £18,780 is transferred from the general reserve to the new Hurst Meadows earmarked reserve to bring the balance to the calculated figure of £184,747.
- Practice is established to draw down the amounts included in the budget from the Hurst Meadows earmarked reserve at the start of each financial year. Amounts can be transferred back onto the earmarked reserve at the year-end if they remain unspent.

Effect on general reserve

If these recommendations are carried out, the Council's general reserve will reduce to £70,940. As detailed in the briefing note *Budget and Precept 2020/21 – basic parameters*, it has been established that there are items of expenditure which will impact on the general reserve as below:

- £20,000 expenditure for Court Bushes from 2018/19
- £2,500 accrual for services charged in 2018/19
- £3,170 of grants agreed by the Community Affairs committee in March 2019
- £8,000 for cemetery wall repairs

The budget for 2019/20 was set to provide an excess of income over expenditure of £11,171. If the rest of the budget works out as planned, the projected reserves position at the financial year end is:

Balance Sheet Detail	**31/03/2020**
General Reserve	£48,441
Maintenance Van & Equipment	£5,250
Hurst Meadows	£184,747
Millenium Garden	£10,000
Total Reserves Held	**£248,438**

This would represent a general reserve of 19.2% of the projected precept of £252,021 for 2020/21. General guidance recommends 3-6 months of revenue expenditure or 50% of precept, as adjusted for local conditions.

Risk of low general reserve

The projected 2020/21 balanced budget is:

Total expenditure	£386,968
Precept income	£252,021
Council generated income	£134,947

Council generated income of £134,947 represents £34.9% of the total income and is made up of:

Hurst Meadows EMR	£52,000 *
Village Centre income	£12,195 *
MSDC Support Grant	£6,200 *
Millenium Garden EMR	£1,000 *
Subtotal	£71,395 *
Court Bushes income	£34,387
Chantry Stables income	£10,260
Cemetery income	£8,600
Children & Family income	£2,400
Allotments income	£2,000
Parking Disc income	£1,600
Tennis Club income	£1,500
Bowls Club income	£1,000
Bank interest	£900
Dog bag income	£800
War Grave income	£105
Subtotal	£63,552

The items marked with an asterisk* are either drawdown amounts from the Council's own earmarked reserves or cross charged to the Village Centre, and are therefore guaranteed.
The remaining items represent income sources which are dependent on invoicing and could therefore potentially be at risk. The invoiced amount of £63,552 represents 16.4% of the Council's total income for the year.

With a lower than recommended general reserve of £48,441, the Council should continue to be mindful of the risk to income, and endeavor to increase the general reserve through pursuing expenditure cost savings and prudent use of any future unrestricted windfall income.

Andy Beams
CLERK TO THE COUNCIL
17 January 2020