

Malmesbury Town Council Reserves Policy

Report for Town Council Meeting Agenda Item <>: To agree a new Reserves Policy

1. Background:

1.1 A key feature of Malmesbury Town Council's (MTC's) reported financial performance for 2017-18 against its budget was the growth in its reserves. It was therefore decided to include the development of a Reserves Policy into the work of the previously established Business Plan Working Group and to add the Chairs of Committees and Mayor and Deputy Mayor to the Working Group.

1.2 The specific objective of the Working Group was to develop a Reserves Policy for recommendation to MTC, which can be used as a key input to the development of future budgets and plans, including, if appropriate, the development of the MTC budget for 2019-20.

2. Activity Undertaken:

2.1 The Working Group has looked at the development and level of current reserves and established a proposed framework for the appropriate categorisation and calculation of reserves taking account of the current circumstances of MTC. It has then made preliminary calculations of the appropriate level of reserves by category and the effect this approach will also have for future budget setting and management. These conclusions have now been reviewed with the Town Clerk. Apart from identifying some small changes to the asset register and project list, which affect the result of some of the Working Group's preliminary calculations, the Town Clerk has welcomed and endorsed the framework, methodology and basis of calculations put forward by the Working Group. A further Working Group meeting took place in early January to review draft Reserve Policy proposals and agreed refinements were applied. This updated draft Reserves Policy was agreed at Policy and Resources Committee on 6th February 2019 and is now presented for consideration and ratification by Full Council.

3. Proposed MTC Reserves Policy:

3.1 Based on 2. it is proposed that MTC adopts a more structured approach to the calculation and management of its reserves as laid out in 3.2 to 3.4.8. This will become MTC's Reserves Policy.

3.2 In this Policy, reserves will be earmarked against particular items of future expenditure or contingency.

3.3 It is important to note that adopting this Policy does not take away the discretion of MTC to reallocate earmarked funding or manage its reserves as appropriate to new or changed circumstances. The only reserve that is required to be spent in a prescribed manner is the designated Cloister Garden reserve.

3.4 Taking 3.1, 3.2 and 3.3 into account it is proposed:

3.4.1 MTC will calculate its appropriate level of reserves in accordance with the reserve headings and working assumptions shown in Attachment 2, subject, of course to appropriate future review and development. In summary MTC will initially adopt the following reserve categories: Cash Flow, Emergencies and Contingencies, Capital Replacement Allocations, and Project Allocations.

3.4.2 The calculation of Capital Replacement Allocations in reserves, and the calculation of the total annual Capital Replacement Funding required from each year's income, will be in accordance with the Asset Register listings and associated statements of asset life and replacement values as shown in Attachment 3, as reviewed and up dated from time to time after the review in 3.4.3. (A simplified

version of this Asset Register, with assumed statements of asset life and replacement values, is shown in Attachment 4).¹

3.4.3 If this Reserves Policy is agreed **and before** the starting values of these Capital Replacement Allocations and the starting amount of annual Capital Replacement Funding are finalised and applied, the Working Group will check and reasonably verify or amend the asset list, asset values, replacement costs and asset lifetimes attached to assets in Attachments 3 and 4. In this context it is also noted that:

3.4.3.1 The recording of asset values, likely replacement costs and expected asset lifetimes are important reference points and determinants of MTC's financial management.

3.4.3.2 Replacement costs and expected asset lifetimes may change in future as further information becomes available.²

3.4.3.3 New assets will be added as required and excess replacement funding will be avoided.³

3.4.3.4 Allocations of available S106/ CIL funds will be determined, taking account of allocations already agreed.⁴

3.4.3.5 It may be appropriate and prudent to add an allowance for contingency expenditure in project cost calculations. The current working assumption is that a 10% contingency allowance is added to the projects for which reserves will be earmarked.

3.4.4 MTC will apply more rigorous monitoring and reporting to project implementation. The creation of a rolling list of projects for which reserves have been generated in accordance with this proposal will help the responsible committees and P&R with this task. The list of current approved projects for which funding has so far been assessed to be held in reserves, as at the start of the FY 2018/19, is shown in Attachment 1 to this report. This list will be maintained and updated by the Town Clerk, with an overview given at each P&R meeting with the financial report. In addition, each Committee managing one or more incomplete project will be tasked with establishing a standing project review agenda item.

3.4.5 The allocation and the subsequent movements in S106/CIL funds, is recorded and reported to P&R by the Town Clerk.

¹ **Note re 3.4.2: Capital Replacement Allocations** are the amounts we have earmarked in our reserves towards the cost of replacing or refurbishing our assets. Our estimates, before checking, are shown in Attachment 3 and 4. **Capital Replacement Funding** is the amount MTC must spend each year out of its total annual income to make sure it can pay for its assets to be kept in good order. **Assets** are such things as play parks, the Town Hall and equipment such as the van, the cinema projector and computers.

² **Note re 3.4.3.2:** For example: We might have budgeted that some play equipment will last 5 years and cost £3,000 to replace. We will therefore be allocating £600 of our income a year towards its replacement cost. But three years in our assessment might that it will last 10 years but it will cost £4,000 to replace. We can then reduce the amount we earmark each year to £315 a year.

³ **Note re 3.4.3.3:** For example: If the vehicle is depreciated over 7 years but does not need replacing after 7 years, we will continue to use it and if the depreciated amount earmarked in reserves is equal to the estimated replacement value we will not add to this earmarked amount.

⁴ **Note re 3.4.3.4:** In FY 2017/18 Malmesbury Town Council received £24,000 S106 funds connected with the Filands Park transfer and £72,997 CIL funds from building developments. These monies are recorded as part of MTC reserves. These funds can be allocated by Malmesbury Town Council in accordance with specific criteria. Allocations as at Jan 2019 are recorded in the Table in Attachment 1.

3.4.6 The level and categorisation of reserves is kept under close scrutiny by P&R based on reports produced by the Town Clerk and action is taken to manage reserves in a timely and effective manner.⁵

3.4.7 The proposed budget numbers for FY 2019/20, when agreed, are reviewed against the application of this Reserves Policy, if adopted, and consideration may be given to making adjustments to the proposed budget for FY 2019/20 before it is finalised and approved.

3.4.8 That the reserves policy categories and allocations are incorporated in MTC's financial management and reporting systems with effect from FY 2019/20.

4. Financial Implications:

4.1 If MTC adopts this Reserves Policy and the calculations of the appropriate level of reserves by category are also adopted then:

4.1.1 MTC would have had, at the start of the current financial year (FY 2018/19) but taking account of expenditure decisions in the current year up to January 2019, an unallocated reserve of £83,430 (based on reported figures as at Jan 2019 – Attachment 2). It should also have allocated £79,110 from current year (FY 2018/19) income (Attachment 3 and 4) towards Capital Replacement Funding.

4.1.2 If all current projects were complete by the start of FY 2019/20 and this policy is adopted, an additional £8,823 would be required to be allocated from FY 2019/20 income towards Capital Replacement Funding.

4.2 The reserve and income and expenditure situation at the end of FY 2018-19 will need to be assessed before any actions can be taken in relation to the identified level of over reserve.

4.3 An annual replacement value for each new project still to be implemented will need to be calculated for inclusion in future Income and Expenditure budgets. There may be further budget decisions required concerning the utilisation of reserves and the allocations of Income and Expenditure budgets as a consequence of these assessments.

4.4 Future new capital spending proposals for which approval is being sought should include:

4.4.1 An estimate of the life expectancy of the asset being purchased and the consequent annual replacement value for inclusion in Income and Expenditure budgets.

4.4.2 A realistic estimate of likely additional annual maintenance costs.

4.5 MTC will achieve a better understanding of:

4.5.1 How financial decisions will impact on its balance of Income and Expenditure and level of Reserves, including earmarked reserves, and

4.5.2 How it should develop precept levels and the relevance or requirement to explore other financing options.

5. Operational Implications:

5.1 The Town Clerk and staff will maintain and report on MTC's financial performance as identified above, (3.4 to 3.6), so that reserves and capital refurbishment and replacement can be managed in accordance with the Reserves Policy. This will include regular review and updating of the asset register. It has previously been confirmed that this can be reasonably achieved using the current accounting system.

⁵ **Note re 3.4.6:** Reserves are income that has been put aside to help MTC to manage a whole range of possible events. For example, we will be earmarking some reserves to cover paying for emergency repairs to the Town Hall and we will pay an amount of income towards this each year based on our past experience and a reasonable assessment of what is required. But if, say, we discovered the Town Hall roof unexpectedly needed replacing we may have to find more money to pay for repairing it. This could come from delaying or stopping other expenditure, or a future increase in precept to pay for the repairs, or taking a loan to spread the cost over repairs over a number of years.

Attachment 1: Current Approved Project List as at April 2018, updated to decisions taken by 31 January 2018:

	Approved Previous Years but not commenced	Approved 2017/18 but not commenced in 2017/18	Notes/ Updates
Cloister Gardens	£1,500		Designated Reserve
Street Furniture	£4,918		
Playground	£3,750		
Town Hall Bar	£10,000		
Whychurch Road Pavement		£8,000	Completed 2018/19 £8,000 paid. Allocated from CIL
Burnham Road Pavement		£2,700	Completed 2018/19 £1,612 paid. Allocated from CIL
Bristol Street/Triangle Junction Improvement Works Project		£25,000 (Increased to this figure at P&R Sept 2018)	
TIC Refit		£5,000	
MTC Website Update		£3,000	
Cinema – Soundproof projector		£1,500	
Stage Doors Fees		£2,000	
Town Hall heating		£7,000	
Town Hall sound and light		£30,000 (Increased from £15,000 at Council Dec 2018)	£15,000 allocated from CIL
Facility project scoping fees		£5,000	

Filands Community Park?		£35,000 (TBC)	£24,000 S106 payment received from WC in FY 2017/18
Adult Gym		£15,000	
Flood Safety Project (Grant)		£6,725	Project funds spent in 2018/19
Total	£20,168	£145,475	
Cumulative Total		£165,643	
Adjustments		-£1,088	Burnham Road Pavement underspend
Latest Total – As at Jan 2019		£164,555	

Project Reserve – 10% contingency for <u>approved</u> project cost overruns. (New project proposals to include contingency).		£16,455	As proposed by Working Group – January 2019
Total Project Reserve		£181,010	

Note: Deleted – P&R December 2018

Cemetery – Environmental Improvement		£2,500	
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NOTE on S106 and CIL funds:

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