

Review of the Authority's Reserves Policy

Purpose

The report set out the findings from the review of the Authority's Reserve Policy undertaken by the Authority's Governance Working Group (GWG)

Actions

Members are asked to:

Consider and agree to the proposed changes to the existing Reserves Policy as set out in the report and the recommendations.

Background

The Authority's current reserves policy was adopted at the Full Authority meeting held on 24th September 2015. The most relevant extract is set out below, the entire paper presented to the Full Authority is provided separately for information.

Reserves

Unlike many other entities the ICFA is restricted in its ability to raise funding as it does not have powers to borrow. As such it is considered prudent to put money into reserves towards:

- 1. Unavoidable, known, large items of future expenditure and*
- 2. Areas of risk for which cost might be incurred in future*

This provides for a smoothing of expenditure year on year and reduces the exposure of the member authorities to unexpected and unbudgeted financial risks.

The level of reserves should be reviewed annually to ensure all unavoidable, known, large items of future expenditure and items of risk have been accurately accounted for and updated to reflect the most recent price information.

The risk management element of the reserve should not fall below 25% of the annual budget in any financial year.

On vesting, the Authority received the assets from the former Devon Sea Fisheries Committee which included considerable Reserves of:

General Reserves £461,829.90 and

Capital Receipt Reserves £122,753.79

The Authority's Reserves currently stand at:

General Reserves £532,166 and

Capital Receipt Reserves £52,028

Overall Reserves have reduced by a total of £389.69 since 2010/11. However, the figures show that the Capital Receipts Reserves has reduced by £70,726.17 and General Reserves increased by £70,336.40. The Capital Receipts Reserves were bolstered by £174,081.22 due to the sale of the Authority's main patrol vessel, Drumbeat of Devon in 2013/14 but were reduced by

purchasing and refitting the Authority's research vessel BlackJack the following year and subsequent payments towards the purchase of the Authority's patrol vessel David Rowe (EMFF support for 90% of costs). In addition the purchase of fleet vehicles rather than continuing with lease arrangements and contributions to the IVMS Projects have reduced the Capital Reserves further. The overall expenditure from the Capital Receipts Reserves has been £244,807.39 over the ten year period.

Year	Capital Reserves
2010/11	122,753.79
2011/12	107,639.66
2012/13	146,740.00
2013/14	296,835.01
2014/15	170,065.54
2015/16	170,065.54
2016/17	170,065.54
2017/18	170,065.54
2018/19	79,197.34
2019/20	52,027.62

During the same ten year period, the General Reserves have seen an increase of £70,336.40, resulting in underspends in the Revenue Budget. In 2015, the reserves paper recommended adding £10,000 per year from 2016/17 onwards to the reserves, this did not happen due to the underspend in subsequent years, and the level of overall Reserves. If the contribution to Reserves had been added to the Revenue Budget in subsequent years, the number of years where an underspend had occurred would be much lower (~£40,00).

1. Current Work

The GWG, with the support of Devon County Council's (DCC) Finance Officers, has reviewed the current Reserves Policy.

Risks identified in the 2015 paper to the Authority remain broadly relevant and the move to owning all its major assets increases the risk to the Authority such as those associated with mechanical breakdown not covered by warranty or uninsured damage. In addition, the GWG felt that additional contingencies to cover periods of unexpected delays in cashflow should be considered. Such cashflow issues may arise from overrunning external funded projects where the Authority's upfront costs are recovered on completion of the project or delays in administration of levies or other awarded grants. Legal costs in recent years have been significantly higher than in the first few years and are likely to increase further as and when the Authority renew its arrangements with the firm of solicitors of its choice. The Authority reviews and publishes its Risk Assessment of Volatile Budgets annually when considering setting the Revenue Budget.

In discussions with DCC Finance Officer the GWG has reviewed the risk assessment that led to the agreement to hold a minimum of 25% of the annual budget in any financial year and agrees that it adequately covers:

'Unavoidable, known, large items of future expenditure and areas of risk for which cost might be incurred in future'.

The GWG will be developing the Authority's five-year strategy which will require the draw down from available reserves to deliver the work. The use of reserves is not a solution in the medium to long term for D&S IFCA's funding difficulties. It is likely that diminishing levels of reserves will not fully support such a strategy for the whole term, Part of the Strategy will also look to identify

what is required in terms of a capital asset replacement programme. The Fisheries Act heralds further change in the national approach to fisheries and conservation management so the future is uncertain, and some decisions cannot be made at this time. For this reason and for good governance the GWG believe that the Authority's Reserves Policy and Risk Registry should be reviewed annually.

The GWG will also look to introduce Schemes of Delegation, so that roles and responsibilities can be more clearly defined, and the Authority's business can be undertaken more effectively. Until such times that the Schemes of Delegation are in place it is recommended that any use of reserves is initially considered by the GWG, considered by the F&GPSC and formally considered by the Full Authority. It is envisaged that most of the proposed use of reserves will be set out in the Annual Plan presented to the Full Authority at its meetings in March each year.

Recommendations

That the total Reserves fund should not fall below 25% of Revenue Budget in any financial year.

That the Risk Assessment of Volatile Budgets and Reserves Policy is reviewed annually.

That Reserves can only be used following agreement by the Full Authority.

That a new Capital Asset Replacement programme is put in place by 2022/23.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

List of Background Papers

Minutes from the Full Authority Meeting 24th September 2015

Reserves Policy Paper presented to Full Authority on 24th September 2015