Agenda Item 13

RESERVES

Joint Report of Chief Officer and Treasurer

1. Recommendations:

That members:

1.1 Consider the Reserves Projection along with the projected funding shortfalls outlined below;

1.2 Consider the Reserves Policy outlined below and recommend its approval for inclusion within the Standing Orders to the Authority;

1.3 Recommend to the Authority that the General Reserve is held at no less than 25% of the revenue budget;

1.4 Recommend to the Authority that purchase and lease options are explored for each asset required, to ensure value for money and financial stability over the medium term.

2. Background

Devon and Severn Inshore Fisheries and Conservation Authority has never had a reserve policy with the exception of an historic reserve for the replacement of the vessel Drumbeat.

At the Finance and General Purposes (F&GP) Committee Meeting on 5th December 2013 a request was made for the details of the policy with regards to the balance levels on the General Reserve.

As part of the Outturn Report and Statement of Accounts 2013/14 presented at the 23rd June 2014 Finance and General Purposes Committee Meeting an item on levels of reserves held was included. It advised that Devon and Severn Inshore Fisheries and Conservation Authority does not have powers to borrow and as such the General Reserve was primarily for the replacement of Fixed Assets and Plant and Equipment with the remainder consisting of a Risk Management element totalling 25% of annual budget.

At the Finance & General Purposes Committee Meeting held on 12th November 2014, concerns over the level of the General Reserve were expressed. It was advised that a paper would be presented again to the F&GP Committee at the December quarterly meeting.

At the meeting in December it was considered that the draft policy paper submitted on the General Reserve account needed to be more robust and contain more in-depth detail. It was proposed that a working group be formed to construct a policy document that would be put to the Committee for consideration and subsequent recommendation by the main Authority.

At the meeting on 20th March 2015 it was advised that a draft document had been drafted and would be presented to the meeting in June for discussion and approval.

Cllr Jim Knight, David Rowe, Mike Williams, the Chief Officers and a DCC Finance representative formed the working group and produced this paper.

3. Reserves projection

Under the Marine and Coastal Access Act 2009 S179 (3) an Inshore Fisheries and Conservation Authority has no power to borrow money. A local authority can borrow to finance capital expenditure but an IFCA has to ensure that it has reserves in place to finance the replacement of its assets. The practices of setting reserve levels in local authorities are not comparable with those in an IFCA. Should there be a failure of reserve policy an IFCA can only resort to obtaining additional finance by placing a demand upon its funding bodies; it cannot bridge any shortfall by borrowing money. Should the IFCA be unable, due to a failure of reserve policy, to discharge its statutory functions then where these functions relate to obligations under EU environment directives infraction proceedings could be brought by the EU Commission. The financial sanctions for such infractions can be very high and under UK localism legislation the cost of these sanctions would fall upon those local authorities funding the IFCA. The context surrounding the setting of a reserve policy thus differs significantly between an IFCA and a local authority and financial prudence dictates that an IFCA's the reserve policy should be characterised by a considerably higher measure of financial precaution.

In the specific context of D&SIFCA there is expected to be a substantial increase in research vessel use in terms of survey work within marine protected areas and, as a result of the new byelaws, research work will be required to demonstrate the effectiveness of new management measures. The Authority will need to replace its vessels before March 2018 and Appendix A shows the effect of an outright purchase funded from reserves.

The reserves projection includes planned spend to replace fixed assets as well as the income from disposing of the old assets.

The reserves projection includes a £10,000 contribution to reserves every year from 2016/17.

The reserves projection also included a total risk management element of £175,400 representing 25% of the annual budget. This includes:

a. A cash flow buffer in place of overdraft - £40,000. As the IFCA does not have powers to borrow it will need to retain an amount to ensure it does not go overdrawn.

b. A risk buffer in place of loan funding - £135,400. As the IFCA does not have powers to borrow it is considered prudent to allocate money towards areas of risk for which unexpected costs might be incurred in future. The following attempts to provide an indication of the types of risks and costs that might be incurred, but is by no means exhaustive.

c.

Examples of Risks

	£
Pay award - 1% difference	5,000
Officers travel mileage 2,000 miles extra	2,000
Extra Bye-law x 2	5,000
Equipment failure - 4 Engines	45,000
Breakdown costs - Boats	40,000
Breakdown costs - Cars	2,000
Insurance Excess - Vehicles	1,000
Hire of boat to cover breakdown periods - 15 days	3,150
IT Equipment replacement costs	3,000
Temp staff cover for long term sickness	15,000
Additional specialist legal advice	2,000
In-year budget overspend	50,000

The analysis clearly shows that current levels of reserves will not be sufficient to cover a risk assessed minimum balance and the anticipated costs of asset purchases. The projections show a funding shortfall of almost £270,000 by the end of 2017/18.

Projecting reserves into 2034/35 identifies the following shortfalls in funding.

Year	Funding Shortfall
2017/18	267,675
2020/21	28,000
2021/22	33,500
2022/23	33,500
2024/25	77,000
2025/26	32,000
2026/27	37,500
2027/28	200,000
2030/31	36,000
2031/32	37,500
2032/33	533,500

Several options are available to fund a replacement asset

a) Each asset could be funded by additional contributions from member authorities with the costs split in the proportion as the Levies paid by member authorities.

b) Alternative acquisition methods such as leasing or hire purchase could be considered. Whilst the costs are likely to be similar to purchasing the asset outright in the long term, they will be spread over a long period of time.

c) EU grants could be applied for as and when they become available. This might offset some of the cost of asset replacement, but is likely to require match funding and won't always be available.

d) Additional transfers could be made to the Capital Reserve/Capital Programme in anticipation of future spend.

e) A combination of the above could be used.

4. Reserves Policy

It is recommended that the following reserves policy be included as part of the Standing Orders.

<u>Reserves</u>

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.

Tim Robbins	**Mary Davis**
Chief Officer	**Treasurer**

1st June 2015

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Appendix A

General Reserve

	2014/15	2015/16	2016/17	2017/18
	£	£	£	£
General Reserve Opening Balance	(520,149)	(540,485)	(377,725)	(347,725)
Total Risk Management - 25% of annual budget*	175,400	175,400	175,400	175,400
Net General Reserve Opening balance	(344,749)	(365,085)	(202,325)	(172,325)
Overspend /(Underspend)	(20,336)			
Drumbeat - Replacement cost (New RIB) **		132,760		
Transfer to Capital Reserve/Capital Programme		30,000	30,000	172,325
Net General Reserve Closing Balance excluding Risk Management (See below)	**(365,085)**	**(202,325)**	**(172,325)**	**0**
*** Breakdown of Risk Management - 25% of annual budget**				
Cash flow buffer in place of overdraft	40,000	40,000	40,000	40,000
Risk buffer in place of loan funding	135,400	135,400	135,400	135,400
Total Risk Management 25% of annual budget	**175,400**	**175,400**	**175,400**	**175,400**

Capital Reserve/Capital Programme

	2014/15	2015/16	2016/17	2017/18
	£	£	£	£
Capital Receipt Opening Balance	(167,240)	(167,240)	0	0
Drumbeat - Replacement cost (New RIB) **		167,240		
Tornado RIB - Replacement cost				190,000
Tornado RIB - Sale income				(10,000)
Blackjack - Replacement cost				320,000
Blackjack - Sale income				(50,000)
Mitsubushi Lancer WG60 FTC - Replacement cost		20,000		
Mitsubushi Lancer WG60 FTC - Sale income		(5,000)		
Mitsubushi L200 WG60 FTA - Replacement cost		20,000		
Mitsubushi L200 WG60 FTA - Sale income		(5,000)		
Mitsubishi Colt - WJ12 PWV - Replacement Cost			10,000	
Mitsubishi Colt - WJ12 PWV - Sale Income			(3,000)	
Camera 1 - Replacement cost			26,000	
Camera 1 - Sale income			(5,000)	
Camera 2 - Replacement cost			14,000	
Camera 2 - Sale income			(2,000)	
Annual Contribution			(10,000)	(10,000)
Transfer from General Reserve		(30,000)	(30,000)	(172,325)
Capital Receipt Closing Balance	**(167,240)**	**0**	**0**	**267,675**
Total Reserves Closing Balance	**(532,325)**	**(202,325)**	**(172,325)**	**267,675**

** Drumbeat - Total Replacement cost (New RIB)		300,000		