

Council's Reserves

Policy Development – Background Information

At its meeting in February 2008, the Finance and Procedure Committee considered a proposal to base its reserves policy on a risk based evaluation across four key areas:

- working capital
 - risks associated with a loss of Council's income
- buildings and premises
 - damage to, repair of and denial of access to Council's premises at 41 Harley Street
- a general contingency reserve
- regulatory reserve
 - legal costs associated with FTP, prosecutions, changes in legislation etc

The Committee considered what level of total reserves might be appropriate for each of these areas based on a risk evaluation. Each risk was assigned a weighting as to the *probability* of an event occurring and the *significance* of that event upon the financial position of the Council. A weighting of between 1 (lowest) and 5 (highest) was used for each criteria giving a maximum weighting of 25 and a lowest of 1.

Risks which scored at the highest level, say above 20, should be removed from reserves and become budgeted items since their weighted score should be considered a liability. Risks with lower scores would have the weighting applied to the gross level of risk.

For example:

A risk with a gross reserve of £100,000 with a weighting of 10 was assigned an adjusted reserve value of $£100,000 \times 10/25 = £40,000$.

Annex 1 shows the results of applying this formula across each of the risks identified. The adjusted reserve value for each of the four key areas is:

- working capital	£348,536
- buildings and premises	£29,000
- contingency reserve	£361,245
- regulatory reserve	<u>£970,000</u>
Total	£1,708,781

Council's reserves as at 31 March 2009 are reported in the latest financial statements at £1,912,870, which indicates that reserves held are slightly higher than the calculated level. However, this does include the change management provision of £280,000 which will be reversed in 2009-10 and take total reserves down to £1,632,870 by the end of the year, which then indicates that the reserves held currently are below the calculated level.

The Finance Group consisting of the Registrar/CEO, SMT, Financial Controller and Alan Tinger (GOC consultant) are responsible for reviewing the policy quarterly. The next review is due at the end of this month.