

Council Meeting 14 January 2013

Agenda Item 10 b) – Report on KPC Reserves

Report - prepared by Martin Lee

Background

In October 2012, review of the two main projects – Traffic Calming and The Pavilion – raised concern, as it appeared possible that reserves had been inadvertently used to pay day-to-day costs.

A summary extracted from the annual accounts showed that receipts exceeded payments, leaving some £7,000 over for Traffic Calming and some £55,000 over for the Pavilion. In each case, receipts had come from the Public Works Loan Board (“PWLB”) where a condition of the loans is that funds may only be used for the purposes set out – in other words, they are “ring-fenced”.

That being the case, those funds should be in a bank available for future use against the set purposes. In fact, a lesser sum is available.

Advice

KPC approached the Sussex Association of Local Councils (“SALC”) seeking confidential advice on how to proceed. SALC’s advice was to invite Mulberry & Co, accountants to perform a “handover” audit (commonly done whenever a new clerk takes up post) to confirm the facts and recommend appropriate action.

On 13 December 2012, Mulberry & Co provided KPC with its findings, confirming the values and recommending a number of changes to procedures and practices. Confirmed: **“no evidence of error or fraud in any of my reviews”**.

Action

KPC set about following the advice given, in particular, to reconcile all reserves and to establish a system of regular review for the future. It split the reserves between “working” reserves and “capital” reserves (being those ring-fenced by loan terms).

Reconciliation of all reserves totals to a requirement of £98,131. However, the bank accounts presently hold a combined total of only £83,309; nearly £15,000 short.

Next steps

The shortfall arises because capital funds were used to pay for day-to-day costs, meaning that the precept in past years was artificially held down. That must be replaced as quickly as possible. It can only be raised from the precept.

Options

KPC will clearly need to debate the options, if any, available to it. For example, the £10,000 successful grant application for new play equipment would have fallen to those reserves; a ten-year planned maintenance structure for the tennis courts also shows a lower reserves requirement.

KPC will consider whether to reallocate reserves so that previous precept funds may be used to cover the shortfall. In effect, using working reserves to re-instate the capital reserves, without increasing future precept calls.