

Report to Resources Committee

3 May 2016



Title: TGHC Reserves Policy
Report of: Head of Corporate Services

Purpose of Report

1. To make a recommendation to the Board to approve a TGHC Reserves Policy.

Background

2. TGHC reserves are currently reported as part of the year end closedown process in the Directors Report and Financial Statements from our external auditors, KPMG.
3. A TGHC Reserves Policy has been developed in order to consider how the funds of the Company are being held and how they are being used in order to identify those resources that are freely available to spend.
4. The TGHC Reserves Policy has been agreed as part of the joint finance meetings with Gateshead Council and in consideration of Gateshead Council's Reserves Policy.

Summary

5. The TGHC Reserves Policy is attached at Appendix 1.
6. The Policy has been established in compliance with the Companies Act 2006 and UK GAAP and in consideration of the Housing SORP and Charities SORP.
7. The Policy details the Housing Company's approach to establishing a reserves policy, the level of reserves that are required and how both the Policy and level of reserves will be monitored and reported.
8. TGHC aims to maintain its general reserve at a minimum of 3% of the overall budget. This equates to c. £1.076m in relation to the 2015/16 Management and Supervision Fee (£14.484m) and Repairs and Maintenance Fee (£21.374m).
9. The general reserve on the TGHC balance sheet at the end of 2014/15 stood at £1.066m.

10. TGHC will maintain earmarked reserves for specific purposes, which are consistent in achieving its key priorities or mitigating specifically identified risks, as and when appropriate. At the end of 2014/15, TGHC did not have any earmarked reserves.
11. The level of reserves and the reserves policy will be reported to Resources Committee for approval and subsequently to the TGHC Board on an annual basis, as part of the final accounts process.

Link to values

12. This links to the following Housing Company values:

- Fair
- Customer focused
- Open and honest
- Accountable
- Innovative

Impact on tenants

13. Appropriate financial monitoring and use of reserves will ensure resources are directed to achieving key priorities or mitigating risks.

Risk Management Implications

14. This policy will form a key part in ensuring that the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.

Financial Implications

15. There are no financial implications arising directly from this report.

Equality and Diversity Implications

16. There are no equality and diversity implications arising from this report.

Value for Money Implications

17. The Policy will continue to embed the culture of VFM to enable the best use of resources in delivering services to our customers.

Health Implications

18. There are no health implications arising from this report.

Environmental Implications

19. There are no environmental implications arising from this report.

Consultation carried out

20. Consultation on the proposed TGHC Reserves Policy has been carried out with the appropriate officers within Gateshead Council.

Recommendation

21. The committee is asked to recommend to the Board approval of the TGHC Reserves Policy.

The Gateshead Housing Company's Reserves Policy

1. DEFINITION OF RESERVES

- 1.1 Reserves are part of a Company's unrestricted funds that are freely available to fund its general operations and purpose. They are not subject to commitments, planned expenditure or other restrictions.
- 1.2 A reserves policy needs to consider how the funds of a Company are being held and how they are being used in order to identify those resources that are freely available to spend.

2. BACKGROUND

- 2.1 This reserves policy will help The Gateshead Housing Company (TGHC) to:

- Properly manage its resources and plan for the future
- Provide assurance that finances are being managed appropriately
- Give a potential indicator of future funding needs
- Explain and formally report its approach to stakeholders

2.2 General Reserves

- 2.2.1 The purpose of the TGHC General Reserve is to ensure stability within the organisation by funding working capital, feasibility, management of risk, unexpected expenditure (unplanned events or project overrun) and shortfalls in income, where these are:

- Relatively minor
- Required quickly
- One-off or short term (of less than one year)

- 2.2.2 Where there is a significant, permanent or longer term change in requirements (particularly in relation to correspondingly reduced HRA income collection), it is expected that this will be funded by the HRA and agreed as part of management fee discussions with Gateshead Council. Examples of these include (although not exhaustive):

- Pay Awards
- Fee increases
- Price inflation increases
- Legislative changes e.g. welfare reform and universal credit
- Budget pressures
- Increased demand due to socio-economic change
- Additional statutory levies

- Permanent staffing requirements

2.2.3 Financial risks and budget pressures for TGHC are monitored continuously. They are reported to the Council on a monthly basis and to Resources Committee and the TGHC Board on a quarterly basis, as part of the management accounts monitoring process. This enables proactive consideration of how to mitigate any identified risks, how to appropriately fund where required and allows for any impact to be planned in to the HRA 30 Year Business Plan on a longer term basis.

2.2.4 Where feasible and without placing TGHC's financial position at risk, it is expected that the general reserve will fund the cost of any required redundancy payments. Where redundancy payments are unable to be funded via the reserve, they will continue to be funded from the HRA as in previous years.

2.3 Earmarked Reserves

2.3.1 TGHC may, where necessary, need to maintain earmarked reserves for specific purposes, which are consistent with achieving its key objectives. Each reserve will have an identified purpose to which appropriate funds will be allocated to potentially mitigate the identified risk.

3. ESTABLISHING A RESERVES POLICY

3.1 In establishing a reserves policy, TGHC must comply with the Companies Act 2006 and UK GAAP, with consideration of the Housing SORP and the Charities SORP.

3.2 Budgets and future plans are also considered, with particular focus on any uncertainty over future income, or the risk of unexpected calls on the Company's funds. Regard is given to the need for TGHC to hold reserves in order to:

- Ensure future solvency and stability
- Mitigate the potential future risk of meeting liabilities
- Ensure future activities are sustainable
- Provide capacity to manage any unforeseen financial difficulties
- Mitigate against any potential fall in income
- Mitigate against any inability to control costs
- Take advantage of any future changes or opportunities

4. LEVEL OF RESERVES

4.1 The level of reserves required is set to reflect the particular circumstances of the Company and its principal risks and uncertainties. These are outlined on an annual basis as part of the Strategic Report within the TGHC

Financial Statements. For the 2015/16 Financial Year, these have been identified as:

- Failure to focus on the customer
- Failure to manage the Company's finances and demonstrate value for money
- Failure to manage organisational capacity
- Failure to deliver on new projects
- Failure to deliver effective asset management
- Failure to effectively manage business continuity
- Failure to manage effective corporate governance
- Failure to maintain an effective reputation
- Adverse impact of welfare reform legislation
- Adverse impact of right to buy

4.2 The overall level of resource available to TGHC is finite and the reserves need to be maintained at a prudent level to protect current and future TGHC services. The reserves should provide the Company with adequate financial stability and the means for it to meet its objectives in the medium term.

4.3 The level of reserves has been set by considering:

- Existing budgets and forecasts
- Existing funds and reserves
- Future income streams
- Likely future expenditure
- Past operational and other trends
- The likely effects of changes on all stakeholders
- The major risks facing the Company
- Future needs, contingencies and risks, and the potential consequences for the Company in not being able to meet them.

4.4 TGHC aims to maintain its general reserve at a minimum of 3% of the overall budget. This is to cover any unforeseen major expenditure or potential requirements in relation to the mitigation of risks and uncertainties, as determined by the Financial Statements. This is also in line with the Council's current policy in relation to general reserves.

4.5 TGHC will maintain earmarked reserves for specific purposes, which are consistent in achieving its key priorities or mitigating specifically identified risks, as and when appropriate. TGHC does not currently have any earmarked reserves.

5. MONITORING AND REVIEW OF THE RESERVES POLICY AND RESERVES

- 5.1 Reserves are held to help the company operate effectively. The reserves policy and the level of reserves will be held under review and monitored throughout the year as part of the normal management accounts monitoring process.
- 5.2 Board and Committee members have responsibility for the proper stewardship of the financial affairs of the Company and will need to consider the following in relation to the reserves:
- The purpose for which the reserve is held remains appropriate
 - The level of the reserve is appropriate to meet potential future liabilities, in line with the Company's Reserve Policy and aligned to the Strategic Risk Register
 - Procedures are in place for the management and control of the reserve
 - There is an ongoing process and timescale for future reviews to ensure relevance and adequacy
 - Appropriate steps are being taken to maintain the reserves at an agreed level
 - The reserves policy is being regularly reviewed
 - If the level of reserves exceeds those that are reasonably required, the deployment of resources to further the Company's objectives in conjunction with those of the HRA/Council are considered
- 5.3 The balance on the general reserve will be reviewed at the end of each financial year as part of the final accounts process by the Head of Corporate Services and the Company's external auditors. The reserves will then be outlined in the statutory accounts produced at the year end.
- 5.4 The level of reserves and the reserves policy will be reported to Resources Committee for approval and subsequently to the TGHC Board on an annual basis, as part of the final accounts process.
- 5.5 Earmarked reserves may be reviewed on a more frequent basis, as required, due to their level of associated risk.
- 5.6 Where funding is required to be spent from reserves or where significant changes to a reserve are identified, these will be agreed with the Council, reported to the relevant Committee, and subsequently to the TGHC Board, as and when required.