

**COBTREE MANOR ESTATE  
CHARITY COMMITTEE**

**30 March 2017**

Is the final decision on the recommendations in this report to be made at this meeting?

**Yes**

**Contingency & Reserves Report**

<b>Final Decision-Maker</b>	Cobtree Manor Estate Charity Committee
<b>Lead Head of Service</b>	Director of Finance & Business Improvement
<b>Lead Officer and Report Author</b>	Paul Holland, Senior Finance Manager – Client Accountancy
<b>Classification</b>	Public
<b>Wards affected</b>	Boxley

**This report makes the following recommendations to this Committee:**

1. It is recommended that the Committee notes the contents of the report and agrees to receive a further report that identifies the allocation of reserves for specific purposes.

**This report relates to the following corporate priorities:**

- Keeping Maidstone Borough an attractive place for all – Ensuring that there are good leisure and cultural attractions.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Cobtree Manor Estate Charity Committee	30 <sup>th</sup> March 2017

# Contingency & Reserves Report

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 To establish what would be an appropriate level of reserves that the Cobtree Trust would need to maintain as a contingency against unforeseen and unexpected events, and to consider the factors that need to be taken into account when setting the level. The report also outlines the need for reserves to be set-aside for other purposes.
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## 2. INTRODUCTION AND BACKGROUND

- 2.1 In recent years the financial resources of the Trust have been under considerable pressure for a number of reasons, the principal ones being the reduction in the value of the golf course contract, and the opening of the new café/visitor centre, which has been operating at a loss to date.
- 2.2 The Trust has had sufficient funds held in reserve to meet all its financial obligations to date, and with a new golf course contract in place now, along with additional income from the contract at Kent Life and car parking charges at the Manor Park plans are in place that should enable the Trust to operate on a more secure financial basis going forward.
- 2.3 At the meeting of the Committee in August 2016 Members requested that a report be brought forward to consider what would be an acceptable minimum level of reserves to be held going forward, and this report sets out how this can be achieved taking all relevant factors into account.
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## 3. BACKGROUND

- 3.1 Historically the finances of the Trust have been sound, and have generated a healthy annual surplus based primarily around the golf course contract, which has been the largest single source of income. This comfortably covered the operating costs of the Manor Park, which had no significant income generating activities to offset its running costs. In addition the Trust receives around £45,000 per annum from Cobtree Charity Trust Ltd in the form of investment income from a will trust fund, and further income from its own investment holding.
- 3.2 However in recent years a number of factors have placed the finances of the Trust under pressure:
- The golf course contract value has been reduced, reflecting a decline in the popularity of the game, although the Cobtree course itself has continued to be popular in comparison to other local courses.

- The running costs of the park have been increased following the implementation of the master plan, which saw the opening of the new play area, and a substantial improvement to the infrastructure within the park. This has significantly increased visitor numbers and consequently the costs of maintaining the upkeep of the park.
  - The new visitor centre/café has opened, and as a result of a number of operational issues that have previously been reported to the Committee it has to date operated at a loss.
- 3.3 To date previously accumulated surpluses have been sufficient to cover the operating losses that the Estate has incurred in the last two years. However those surpluses are now running low and Members have expressed concern over this. It should be stressed that this does not represent a threat to the ongoing operation of the park. The Trust does have an investment of £1.1m in Charifund which could be utilised. However, this represents the permanent endowment fund that the Trust holds, and it should only be used as a last resort in the absence of any other funds.
- 3.4 The financial position of the Trust is now starting to improve, and whilst the current financial year will again be a difficult one the Trust has projected an improved position beyond this year. A new 20 year golf course contract comes into effect on 1<sup>st</sup> April 2017, which alongside the 10 year contract for the operation of the Kent Life attraction will provide a significant stable income stream alongside the investment income. In addition the introduction of car parking charges at the Manor Park has also provided significant income to offset the running costs at the park, and it is hoped that once the operational issues at the visitor centre/café are fully resolved it can at least break-even. It may generate a surplus going forward but this has not been factored into the projections.
- 3.5 This means that projections indicate that the Trust can anticipate generating an annual operating surplus from next year onwards, which can be utilised to increase the level of reserves held; to set aside funds for future capital works, such as the refurbishment of the play area; and to re-invest in the permanent endowment following the withdrawal of funds for the master plan. An indicative projection of the financial position is shown at **Appendix A**, and is discussed in more detail in section 5 of this report.

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#### **4. CHARITY COMMISSION GUIDANCE**

- 4.1 The Charity Commission document CC19 'Charity Reserves: Building Resilience' provides useful guidance and advice around the levels of reserves charities should hold. In particular it sets out some general principles and factors that need to be considered when setting levels of reserves.
- 4.2 Factors that need to be considered when deciding what reserves are required for include planning for unforeseen emergencies or commitments, a loss of a regular income source, longer term financial plans or shorter term budget issues. The likely impact of these factors then needs to be

considered in terms of deciding what an appropriate level of reserves would be, taking into account the likelihood and risk of them actually occurring. These should be tailored to the requirements and circumstances of individual charities, and the level of reserves set should be expressed as a target figure or range.

4.3 For Cobtree specifically it would mean considering the following possible scenarios and requirements:

- The contractors at the golf course or Kent Life failing to meet their obligations either operationally or financially, meaning that there could be a loss of income and/or additional expenditure.
- The closure of the visitor centre/café or the Manor Park, which could also mean a loss of income and/or additional expenditure. A significant drop in visitor numbers in general could have a similar impact.
- A significant reduction or loss of investment income, or rental income from the domestic properties on the estate.
- The requirement to re-invest in the endowment fund the sum withdrawn to fund the cost of the master plan.
- The need to set aside sums for capital replacement and any future capital expenditure.

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## 5. FINANCIAL PROJECTION

5.1 **Appendix A** is an indicative financial projection over the next ten years for the operational activities of the Trust. It shows that in broad terms the operations of the Trust can expect to show an annual surplus of £150,000 per annum from 2017/18 onwards. However, within this projection there are a number of areas that are more sensitive to external factors. These are primarily the trading areas – the car park and the visitor centre/café, and the investment income, both areas being vulnerable to external factors that might be beyond the control of the Trust.

5.2 The golf course and Kent Life contract payments are more certain as they are based on the terms of the respective contracts. There are no changes planned for the current operational model of the Manor Park, which makes it reasonable to assume that the park running costs will remain at current levels.

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## 6. LEVEL OF RESERVES REQUIRED

6.1 Reserves need to be held for three specific reasons:

- i. To establish sufficient funds for ongoing equipment replacement and capital expenditure.

- ii. To re-invest in the permanent endowment investment to replace the funds withdrawn to fund the master plan.
  - iii. To have sufficient funds in place to meet the costs of unexpected events.
- 6.2 Over the course of the next 10 years the projection at **Appendix A** shows that surpluses totalling £1.4m could be generated, which can all be set aside to cover the three areas identified at 6.1. In order to identify how this will be allocated it will be necessary to quantify (a) a programme of anticipated capital works and (b) any additional reserves needed to meet the costs of unexpected events. Whatever remains after this can be set aside to re-invest in the permanent endowment investment.
- 6.3 A draft five year capital programme is attached at **Appendix B** which indicates that around £0.4m will need to be allocated for a number of schemes. The most significant scheme is £0.3m to redesign and resurface the car park, and this is discussed further in the Cobtree Manor Estate Update Report elsewhere on this agenda.
- 6.4 With regard to (b), the Trust is projecting £150,000 of unrestricted reserves as at the end of 2016/17. This represents 13 months of annual net revenue, which is relatively high in relation to standard charity benchmarks. Accordingly, based on the financial projections we would not anticipate needing to add to unrestricted reserves, but this conclusion will obviously need to be monitored regularly in the light of actual performance.
- 6.5 This report is intended to provide Members with information to inform decisions about the level of reserves required to meet ongoing commitments and unexpected events. It is proposed that a further report be brought back to the next meeting of the Committee that more specifically recommends the amounts to be set aside for each of the three areas identified at 6.1.

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## **7. AVAILABLE OPTIONS**

- 7.1 Members could accept the recommendation, or they could propose alternative uses for the surpluses generated by the operational activities of the Estate.

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## **8. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 8.1 It is considered to be good financial practice for any organisation, particularly a charity to have a sufficient level of reserves, so it is recommended that any surpluses generated are set-aside as outlined at 6.1 to establish these reserves, subject to a further report that will set the levels of reserves within the three areas.
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## 9. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

9.1 The Committee had previously requested that this report be brought before them.

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## 10. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

10.1 Officers will submit a further report that recommends the sums that need to be set-aside for the areas identified.

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## 11. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	None	
<b>Risk Management</b>	Not having sufficient reserves potentially exposes the Trust to the risk of not being able to meet its financial obligations.	Senior Finance Manager - Client
<b>Financial</b>	Establishing a sufficient level of reserves will provide sufficient resources to mitigate against unforeseen or unexpected events.	Senior Finance Manager - Client
<b>Staffing</b>	None	
<b>Legal</b>	As the committee making decisions about the management of the Cobtree Manor Estate Trust, which is a charity, the committee must act in the best interests of the charity. This report sets out sound financial principles to ensure the charity continues to hold adequate reserves.	Interim Head of the Legal Partnership
<b>Equality Impact Needs Assessment</b>	None	
<b>Environmental/Sustainable Development</b>	None	
<b>Community Safety</b>	None	
<b>Human Rights Act</b>	None	

<b>Procurement</b>	None	
<b>Asset Management</b>	None	

## **12. REPORT APPENDICES**

The following documents are to be published with this report and form part of the report:

- **Appendix A:** 10 Year Financial Projection
  - **Appendix B:** Draft 5 Year Capital Programme
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## **13. BACKGROUND PAPERS**

None.