

Revenue Reserves Policy
November 2024

1. Purpose of this Policy

- 1.1 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure.
- 1.2 It is the 'Chief Finance Officer's', (Finance Director), duty to report on robustness of estimates and adequacy of reserves (under Section 25 of the Local Government Act 2003) when the authority is considering its budget requirement.
- 1.3 However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Chief Financial Officer (CFO) to advise the Council about the level of reserves and to ensure that there are procedures for their creation, maintenance and use.
- 1.4 Torbay Council will hold reserves for the following main purposes:
 - Earmarked funds to meet known or predicted time limited spend or improvement projects;
 - Funds earmarked for statutory reasons (e.g. Elections and Insurance);
 - Funds being held on behalf of partner organisations and/or ring-fenced activity (e.g. Public Health, Harbours and Adult Social Care);
 - Holding of specific grant funding in advance of drawing down spend;
 - A General Reserve, (or Working Balance), to help cushion the impact of uneven cash flows, provide contingency, and avoid any unnecessary temporary borrowing.
- 1.5 This policy on the establishment, maintenance and adequacy of reserves and balances is reviewed annually.

2. General Fund Reserves

- 2.1 The use of general fund reserves is not restricted. They can be used to smooth the impact of uneven cash flows, offset the budget requirement, or can be used to respond to unexpected events or emergencies.
- 2.2 In line with CIPFA advice, it is recommended that the Council maintains its General Fund Reserve, (or 'Working Balance'), at 5% of the net revenue budget at the commencement of any given financial year. If any of the General Fund reserve is drawn down in any given year, replenishment should be provided for in the next annual budget setting process.
- 2.3 As the Council budget increases year on year, the objective is that the General Fund Reserve should also grow on a proportionate basis to remain at the desired level of at least 5%.

Comprehensive Spending Review Reserve

- 2.4 In addition to the General Fund Reserve the Council, for a number of years, has maintained a Comprehensive Spending Review (CSR) Reserve. Whereas this reserve acts as a 'buffer' for the General Fund, primarily, the CSR is utilised as an 'invest to save' reserve committing one off resources, based on clear business cases, to deliver on-going, sustainable financial savings (for example, transformational activities such as the automation of processes).
- 2.5 Wherever possible, the Council will strive to maintain a CSR Reserve of £3m at the commencement of each financial year in order to consider one-off investment plans which can 'smooth' and manage the Council's revenue budget over the medium to long term.

Financial Risks faced by the Council

- 2.6 Revenue budgets are set to reflect known and anticipated service demands and costs. However, there are a number of financial risks that the Council do not 'budget' for, but keep under constant review and scrutiny.
- 2.7 The major financial risks faced by the Council as at December 2024 include:
- Delivery of the Dedicated School Grant (DSG) 'Safety Valve' Improvement Plan (addressing a £12m legacy DSG deficit);
 - With Health colleagues, delivering the required transformation programme for Adult Social Care which is aimed at reducing annual spend by at least £15m. In March 2024 the Council entered a new, five year contract with the Integrated Care Organisation which will run from March 2025. Current annual spend against this contract is significantly more than the budget available;
 - High, and escalating, cost of Children Social Care placements and the potential impact of legislation that will require the Council to subscribe to a 'Regional Care Co-operative';
 - The high and rising costs, over and above budget levels, of tackling the housing crisis – supporting local residents through the 'cost of living crisis' and addressing homelessness across the Bay;
 - The viability and volatility of numerous capital investment projects that the Council is striving to deliver and the associated risk of abortive revenue costs for any potential undeliverable schemes;
 - Security and uncertainty regarding future revenue income streams. With a dwindling Revenue Support Grant from Government, emphasis is placed firmly on generating income through local sources but there is a significant risk that service demand, costs and pressure will outweigh our ability to raise additional income over the medium term

through extra Council Tax, Business Rates and/or local Fees and Charges (such as Planning and Car Parking)

- 2.8 At any point of time, any such risk could materialise which would significantly impact on the Council's ability to maintain a balanced revenue budget hence the requirement to maintain adequate and reasonable General Fund and CSR Reserves.

3. Procedure and Governance

- 3.1 The Council's Chief Finance Officer, (Section 151 Officer), holds responsibility for creating and reviewing a reserve with a requirement for regular reporting (at least annually) to Cabinet and Council. When instigating a new reserve, the following will always be considered:

- The reason for / purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control;
- A process and timetable for a review of the reserve to ensure continuing relevance and adequacy.

- 3.2 A statement of all significant reserves held, with their anticipated balance at financial year end will be produced annually as part of the Council's budget setting papers. This statement will represent formal sign off from the Council's Section 151 Officer regarding the adequacy of reserves held and confirming that all reserves have been reviewed.

- 3.3 Any drawdown exceeding £100k, within year, from an earmarked reserve, or General Fund reserve, will require the Section 151 Officer to issue a formal 'Record of Decision' with the drawdown subsequently reported within the next scheduled budget monitoring report presented to Cabinet (and Council).

- 3.4 Any new reserve(s) exceeding £100k, created from approved budgeted funds, also requires the Section 151 Officer to issue a formal 'Record of Decision' (ROD). However, any reserve(s) created in year as a result of receiving new grant funding will be incorporated and reported in the next scheduled monitoring report to Committee without the need for a ROD.

- 3.5 The Section 151 Officer will maintain a detailed schedule of all reserves, as required, forming part of the statutory accounts process.

Principles applied to the holding of Reserves

- 3.6 The Council will adopt the following principles with regards to the holding of reserves:
- All Reserves must have a clearly defined purpose with evidence supporting its requirement and desired value of holding;

- The Council's Section 151 Officer maintains overall responsibility and management of the Council's reserves – but each specific earmarked reserve must have a designated Senior Officer who will maintain regular overview of the reserve's required drawdown and on-going adequacy;
 - Where possible, the Council will rationalise and simplify the holding of Reserves, holding a fewer number of strategic reserves supported by a clear rationale and purpose;
 - Reserves will be reviewed annually as part of the budget setting process. There will be specific challenge of the on-going need for any reserve that has not had financial movement in excess of two consecutive financial years;
 - Where reserves are identified as no longer needed, if feasible and allowable, (e.g. specific grant requirements), remaining funds will be absorbed back within the Council's General Fund and/or CSR Reserve;
 - Reserves can only be used to fund 'one-off', unforeseen, costs and not offset, or underpin, any on-going revenue service delivery or pressure;
 - Similarly, reserves will not be used to offset any future year Medium Term Resource Plan pressures (unless there are clear action plans to address any funding gaps and the reserve is used to smooth any implementation of such plans)
- 3.7 Reserves can be used to 'pump prime' and/or provide limited capacity to deliver future year efficiencies (invest to save) subject to the approval (from the Section 151 Officer), of a supporting business case.

4. Earmarked (Specific) Reserves

- 4.1 For statutory purposes, there is only the need to maintain a single revenue reserve, the 'General Fund' Reserve. However, the Chartered Institute of Public Finance and Accountancy, (CIPFA) Code of Practice states that when reviewing medium-term financial plans and preparing annual budgets, local authorities should consider the establishment of sub reserves (known as earmarked reserves).
- 4.2 Earmarked reserves may be reported separately but remain legally part of the General Fund. Separate reporting of earmarked reserves has no financial reporting or legislative necessity though they are used extensively by local authorities and as such the Code requires separate disclosure of material earmarked reserves.

4.3 The main 'earmarked reserves' that are held by the Council are detailed below:

(a) Collection Fund

For NNDR the Council bears a 49% share of the risk and reward of changes in the level of National Non-Domestic Rate income. In year changes in yield and collection of National Non-Domestic Rate will result in a Collection Fund surplus or deficit which will impact on the following financial year. The Council holds a Collection Fund reserve to help smooth the volatility of income. Estimates of future year surpluses or deficits are included in the Budget Setting process and reflected in the Medium-Term Resource Plan. Any shortfall incurred in a given year is made good through the Collection Fund Reserve with a corresponding adjustment made to the budgeted income levels in the following financial year.

Collection Fund income, (Council Tax and NNDR), has been volatile in recent years and is likely to continue to be volatile in future years both from changes in NNDR reliefs and from the collectability of the taxes due to the cost of living crisis and economic circumstances.

(b) Adult Social Care (ASC);

Under the existing Adult Social Care contract with the Integrated Care Organisation, (ICO), the Council has maintained an element of the Council Tax precept in order to invest in transformation activity and improve future sustainability of the service. From April 2025, the entire ASC precept will be passported to the ICO in compliance with the new, five year, Section 75 contract. The ASC reserve will be used to fund a number of 'invest to save' proposals and improvement activities, as agreed with Health, including targeted support for learning disabilities, increased capacity for the reablement service, improved governance and commissioning of services and capital investments to enable the building of extra care units.

In addition to the core ASC reserves as maintained and managed by the Council, there is also a designated Section 256 reserve which is passported Health funding held by the Council in advance of required drawdown.

(c) Childrens Social Care

As part of the 2022/23 budget, to mitigate against volatility of cost and demand for placements, an earmarked reserve was established with an initial level of £1.0m. Additional revenue was added to the base in 2023/24 and 2024/25 which has helped to partially stabilise budgets. However, the difficult provider market, with the associated high cost of placements, continues to be a regional and national issue and pending legislation, which could lead to a Regional Care Co-operative, provides another significant financial risk on the service moving forwards.

The main objective of this reserve is to focus on relevant 'invest to save' opportunities for the service whereby investment in one-off transformational activity can seek to drive efficiencies in relation to future on-going spend.

(d) Schools and Private Finance Initiative

The Council holds a revenue reserve which represents the end of year delegated Schools budget share balances across the Bay's Schools. Although this features within the Council's Reserve analysis, any drawdown, or top up, within this reserve is wholly reliant on, and managed by, the Schools.

In addition, the Council needs to account for the remaining time limited costs that will be incurred (above set revenue budget) for the Private Finance Initiative, (PFI), funding which expires in 2027.

(e) Reserves linked to specific funding streams

There are a number of reserves whereby the Council is required to hold funding, and account for spend, specific to the funding's required purpose. Two such reserves are the **Harbours Reserve** where a separate ring-fenced budget is maintained, reporting into the Harbour Committee, and the **Public Health Reserve** against which the Council has to evidence spend linked to identified public health outcomes, which has to be evidenced through annual reporting.

(f) Capital Reserves

This Capital reserve is maintained to cover the risk of higher construction costs, contractor instability and higher borrowing costs in relation to projects within the approved capital programme. For some projects, there is also a risk of abortive revenue costs in relation to projects that do not proceed to completion.

Capital funding is received for Highways capital investment works which can often be spread over more than one financial year. A reserve is maintained which holds the government funding received prior to drawdown of spend.

A separate, IT (Capital) Replacement Reserve, is also maintained to meet the costs of priority driven replacements, and required upgrades, to the Council's ICT infrastructure. Annual charges are made to the revenue account with subsequent drawdowns from the accumulated funding subject to business case approval.

(g) Investment Reserve

The Council has invested over £235m in investment property and capital loans. Following on from HM Treasury updated guidance, the Council is no longer able to purchase such assets, but it retains its previous investments.

The Investment Reserve mitigates any variations in income or costs associated with Investment Fund properties such as voids and rent-free periods. The reserve was created, and is maintained, through financial contributions through top-slicing the rental income received.

Variations in rent, either from market conditions, voids or rent-free periods are regularly monitored to ensure any potential issues are mitigated in advance. Annual valuations of Commercial Assets are undertaken and included in Treasury Management reports to Audit Committee and Council.

Alongside the Investment Reserve, the Council also maintains a specific 'retail reserve' in terms of the operations and required investment in Fleet Walk.

(h) Developer Contributions

Section 106 and Community Infrastructure Levy are funds received from developers towards the cost of providing the required infrastructure linked to the delivery of specific developments. A reserve is maintained which holds the funds prior to approved drawdown and spend.

(i) Service Transformation / Re-design

This is a specific reserve targeted at delivering significant re-design / efficiencies through different ways of working. Recent drawdowns have included the move to an integrated Customer Relationship Management system and funding transitional costs incurred through the integration of Torbay Development Agency and TorVista Homes back into the Council.

(j) Events Reserve (including Torbay airshow)

Major cultural events have previously been funded, at the rate of approximately £250k per annum, through the creation, and drawdown, of specific reserve funding. As reported in the January 2024 Reserves paper, a further top up of the Events Reserve was provided through the 2024/25 budget setting process. The Council continues to explore a different blend of commercial opportunities alongside public sector financial support to reduce the reliance on reserve funding over the medium term.

Provisions

4.4 In addition to earmarked and general reserves the Council also holds provisions, where appropriate, for issues where the Council has a potential liability which is likely to result in a payment but the amount and timing of the potential payment is uncertain. The council also holds provisions where there is a risk of future claims being made in areas such as insurance and NNDR appeals.

5. 2025/26 Review of Reserves

5.1 Adopting the principles as detailed in this Policy, the Finance Director (Section 151 Officer) has undertaken a thorough review of all reserves held by the Council as at December 2024. This review has resulted in the following action:

- Any reserve showing no financial movement over a period of two years or more, without a clear future spend commitment, has been absorbed into the General Fund Reserve or Comprehensive Spending Review Reserve;
- The General Fund Reserve has been retained at a relevant level to represent 5% of the Council's indicative 2025/26 Revenue budget;
- The balance of the Comprehensive Spending Review Reserve has been retained at its recommended level of £3m;
- The Collection Fund has been thoroughly reviewed regarding the likelihood of future liabilities, (such as NNDR appeals), with a corresponding adjustment made;
- Known significant liabilities have been addressed, and accounted for within the proposed levels as detailed in Appendix 1

5.2 The 2023/24 revenue out-turn report was approved by Council in July 2024. The year end position was a surplus of £678k with the approved recommendations being to:

- a) transfer £400k into an earmarked reserve to be used to pump prime emerging capital projects through funding initial feasibility and development work and
- b) transfer £278k into the 'Operation Brighter Bay' reserve to invest further into this important initiative. Subsequently, in August 2024, there has been a drawdown of £100k to purchase a new street sweeping machine for SWISCo as detailed in a published Record of Decision (ROD)

5.3 As part of this years' review the Chief Finance Officer is aiming to create three new earmarked reserves:

- a) £300k to account for the remaining estimated costs of preparing the conclusion and smooth exit of the Schools Private Finance Initiative (PFI) which will expire in 2027. Such costs include condition surveys of the buildings and specialist legal and Human

Resources support to manage the transfer. We will fund this one-off reserve through any surplus holding, (above £3m), within the Comprehensive Funding Reserve – reviewing the overall reserve holding position at the end of the 2024/25 financial year as part of the out-turn;

- b) £300k to create an **Estates Reserve Fund**. This will operate in the same manner as the existing Commercial Investment Reserve, but will apply to the income generating assets that the Council holds within the Bay. The total annual income generated from such assets amounts to circa £6m per annum – hence maintaining a reserve level of 5% is relevant in terms of managing any peaks and troughs in income trends through events such as lease renewals and void premises over and above budget levels. Funding for this reserve is proposed within the 2025/26 revenue budget;
- c) £500k to create a **Capital Repairs Fund**. Whereas the Council has maintained a relatively modest revenue budget for Repairs and Maintenance of the estate, there is currently no provision for any major repairs required for significant spend items such as roof repairs or boiler replacements. The Council's entire estate holding consists of 2,328 separate assets with condition surveys indicating that the overall quality of assets declining with a growing backlog maintenance requirement. Funding for this reserve will be partially created through the 2025/26 revenue budget proposal to increase Repairs and Maintenance by £400k. Alongside this, the Estates team will review the Council's existing holdings with a view to bringing forward a list of, (non-income generating), assets for potential disposal with at least part of the proceeds being reinvested to address the backlog maintenance.

5.4 The Council's Reserve Statement, as at November 2024, accounting for the information contained within this paper, is detailed in Appendix 1. A number of reserve transactions were actioned in 2024/25 to align to the approved 2024/25 Reserves Statement. These include movement between, and establishment of new, reserves which are reflected in the Appendix.

5.5 With all relevant actions taken, and with the principles detailed in this paper consistently applied, as the Council's Section 151 Officer, I assess the retained reserve levels to be adequate.

Appendices

Appendix 1: Council Reserve Statement as at November 2024

Report clearance:	This Policy has been reviewed and approved by:	Date:
Director of Finance	Malcolm Coe	15 November 2024

Torbay Council Reserves Statement

Reserves	Balance as at at 1/4/24	Balance as at at 1/4/25	Balance as at at 1/4/26	Balance as at at 1/4/27	Balance as at at 1/4/28
	£'000	£'000	£'000	£'000	£'000
General Reserves					
General Fund Reserve	-6,454	-7,600	-7,600	-7,600	-7,600
Comprehensive Spending Review	-2,642	-3,200	-3,200	-3,200	-3,200
	-9,095	-10,800	-10,800	-10,800	-10,800
Earmarked Reserves					
Collection Fund	-5,281	-3,500	-3,500	-3,500	-3,500
Adult Social Care (Revenue)	-6,150	-2,500	-1,600	-1,000	-500
Adult Social Care (Health Funding)	-8,419	0	0	0	0
Childrens Services	-902	-700	-500	-500	-500
School Related Reserves	-3,570	-3,000	-3,000	-3,000	-3,000
(Schools) Private Finance Initiative	512	-2,700	-1,800	-900	0
Harbours (Ring-Fenced)	-1,311	-1,000	-700	-700	-700
Public Health(Ring-Fenced)	-3,245	-2,800	-2,000	-1,700	-1,300
Other Ring-fenced funding held	-493	-300	-200	-200	-200
Capital Funding Reserve	-2,727	-2,200	-1,700	-1,500	-1,500
ICT Replacement	-291	-500	-300	0	0
Investment (Commercial Assets)	-4,365	-3,500	-3,500	-3,500	-3,500
Estate Reserve Fund	-254	-300	-300	-300	-300
Developer Contributions	-1,015	-1,750	-1,750	-1,750	-1,750
Insurance Reserve / Provision	-3,445	-3,500	-3,500	-3,500	-3,500
Transformation / Service Re-design	-1,144	-1,000	-850	-700	-500
TorVista - Loan Write off Costs & 23/24 Costs	0	-1,500	0	0	0
TDA / TorVista transition	0	-50	0	0	0
Torbay Events	0	-750	-500	-250	0
Housing Support Services	-1,320	-1,100	-1,100	-800	-500
Highways	-957	-850	-450	-450	-450
Service Carry Forwards	-8,370	-3,000	-3,000	-3,000	-3,000
Treasury Management 2024/25 (Oldway)	0	-1,000	-700	-400	0
Grants Received Not Yet Spent	-7,628	-5,000	-4,000	-4,000	-4,000
Other Earmarked (Under 500k)	-3,107	-2,250	-1,250	-1,250	-1,250
Major Repairs and Maintenance reserve	0	-500	-500	-500	-500
Total (Earmarked Reserves)	-63,482	-45,250	-36,700	-33,400	-30,450
Total (All Reserves Held)	-72,577	-56,050	-47,500	-44,200	-41,250