



Meeting: Council On: 3rd February 2016

Wards Affected: All

Report Title: Review of Reserves 2016/17

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1. Purpose

- 1.1 The Council holds a number of reserves as part of its approach to maintaining a sound financial position, protecting the Council to some degree from volatility in the risk in its budget going forward. The requirement for financial reserves is linked to legislation such as the Local Government Act 1992 which requires Councils to “have regard” to the level of reserves needed to meet future expenditure when calculating a budget. Part of sound financial management is to assess the adequacy of these reserves and release those reserves no longer required.

2. Proposed Decision

- 2.1 That the transfer of £1,435,000 identified from a number of individual earmarked reserves (see paragraph A2.9) to the following reserves be approved:
- a) £500,000 to a new “Invest for Income” reserve to fund initiatives that lead to increased income to the Council to support future year revenue budgets (in accordance with the Corporate Peer Challenge (CPC) action plan);
 - b) £50,000 to a new Capacity Building reserve to support training and development of staff and members (in accordance with the CPC action plan); and
 - c) Balance of £885,000 to the Comprehensive Spending Review reserve to support 2016/17 and future year budget pressures such as exit packages for staff, transitional funding (if required) and a contingency for any in year 2016/17 budget variances.
- 2.2 That it be noted that, at this point in time, Children's Services are unlikely to be able to repay £3.4m in the short term to earmarked reserves, as identified in the Children's Services Recovery Plan (October 2014).
- 2.3 That the future repayment of the earmarked reserves of £3.4m as per the Children's Services Recovery Plan (October 2014 version) and the £1.5m repayment to the PFI reserve be included in future year Annual Strategic Agreements with the Integrated Care Organisation (ICO) and in the ICO business plan for the proposed Children's Services transfer to the ICO.
- 2.4 That the significant financial pressures facing the Council in future years be noted and that, as a principle, the allocation of additional funds, as required, to the Comprehensive Spending Review Reserve in each budget process to maintain an ongoing minimum balance in the reserve of £1m be agreed.

3. Reasons for Decision

- 3.1 A Review of Reserves is a key part of the Council's budget setting process. Consideration of reserve levels is linked to legislation for budget setting contained in both the Local Government Acts of 1992 (section 31A & 42A) and 2003 (section 25) and linked to section 114 of the Local Government Finance Act 1988.
- 3.2 The Council has had unprecedented financial challenges from reduced funding levels over the past few years and is facing a further £21m reduction in its Revenue Support Grant from 2015/16 to 2019/20, in

addition to any future expenditure pressures. The Council is also facing significant financial pressures from Children's social care which is estimated to result in a £2.8m overspend in 2015/16, and to a lesser extent from Adult Social Care.

- 3.3 As part of the Children's Services 5 Year Cost Reduction Plan approved by Council in October 2014, it was recommended that Council approve the transfer of £3.4m from a number of reserves to fund planned spend within Children's Services, with the service repaying the reserve in 2017/18 & 2018/19. The Review of Reserves report stated last year that "It is important that these reserves are repaid or there will be additional budget pressures for other services within the Council". The Children's Services recovery plan, in the light of the current financial position and the recent Ofsted inspection, is being revisited. After the plan is revised and appropriately challenged, the impact on council reserves will be incorporated into future versions of this report and the medium term resource plan. At this stage the planned reductions in the use of reserves, as per the October 2014 Plan for 2016/17 of £1.2m and a further £1.1m in 2017/18 have been included, however at this stage it is considered unlikely that Children's Services will be able to make any repayment in the next few years.
- 3.4 As part of the 2014/15 Review of Reserves the Council approved "the transfer of £1.5m from the PFI Sinking Fund to Children's Services on an "invest to save" basis. Children's Services to repay the reserve in future years". Members are reminded that if the reserve is not repaid then it will be necessary for Children's Services to fund the future costs of the PFI school contract.
- 3.5 This report is highly influenced by the significant financial risks facing the Council both from current financial pressures within Children's social care (safeguarding and wellbeing) and the substantial budget reductions predicted for future years. There is a risk that, without mitigation, in future years the Council will not have enough identified reserves to support any one off expenditure required to meet any in year budget shortfalls, costs for restructuring due to budget reductions, the approved Children's Services Cost Reduction Plan and any delays in implementing savings.
- 3.6 Due to the significant financial risks facing the Council in 2016/17 and future years it is essential that the Council's reserves provide a sufficient contingency to meet this increasing risk and to ensure a robust budget. It is recommended that a minimum of £1.5m is held within the CSR reserve as a contingency for 2016/17 in year pressures. This is in addition to the general fund balance. A sum will be added per annum to this reserve to replenish the balance to a minimum of £1m each year from 2017/18 onwards and this will be included in future financial planning.
- 3.7 To support the Council's response to finding additional budget reductions over the period of the Spending Review 2015 it is recommended that a separate "invest for income" reserve of £500,000 is established to invest in income opportunities, to be used, for example, to introduce new income streams and increase commercial activities. Allocation of this reserve to be authorised by the Chief Finance Officer, in consultation with the Executive Director of Operations and Finance, based on the business case presented. This reserve is separate to any proposed capacity building or service transformation reserve.
- 3.8 One of the Corporate Peer Challenge recommendations was to "Review and invest in the training and development needs of senior members and officers". To support this it is proposed to place £50,000 into a new 'capacity building' reserve to support training and development of staff and members. (CPC action plan)
- 3.9 Members are again reminded of the advice previously given by the Chief Finance Officer, that reserves should not be used for supporting ongoing recurring expenditure. Use in that way is not financially sustainable as reserves can only be spent once.

4. Mayor's Response to the Overview and Scrutiny Board

- 4.1 The Overview and Scrutiny Board has made a recommendation to me in relation to the Review of Reserves. I have considered that recommendation but the governance of reserves is covered by Financial Regulations 8.10. In this case, the purpose of the reserve is stated in 3.7 above and the level of reserve will be reported annually to the Overview and Scrutiny Board.

For more detailed information on this proposal please refer to the supporting information attached.

Martin Phillips
Chief Finance Officer

Supporting information

A1. Introduction

A1.1 A Review of Reserves is part of the Council's annual budget process.

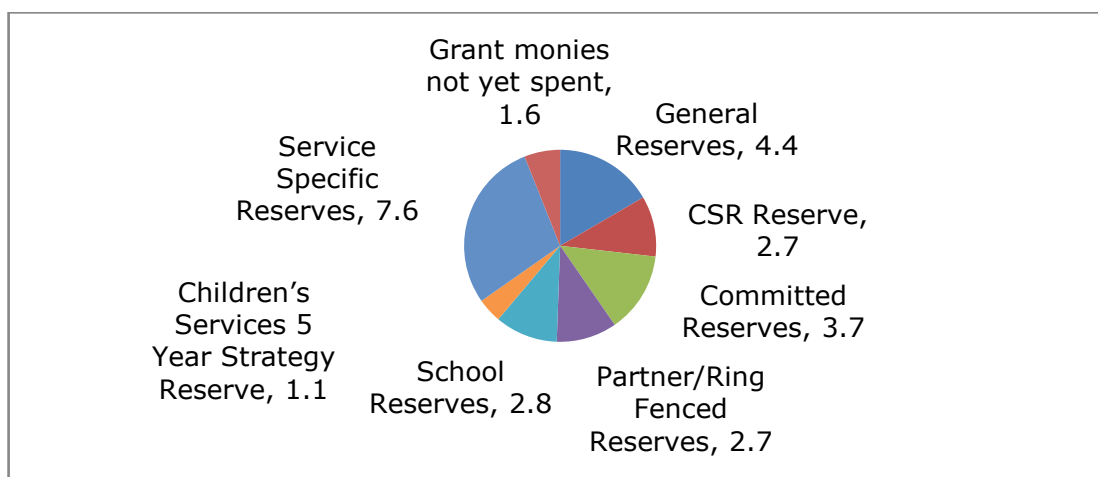
A2 Review of Reserves 2016/17

A2.1 Overview

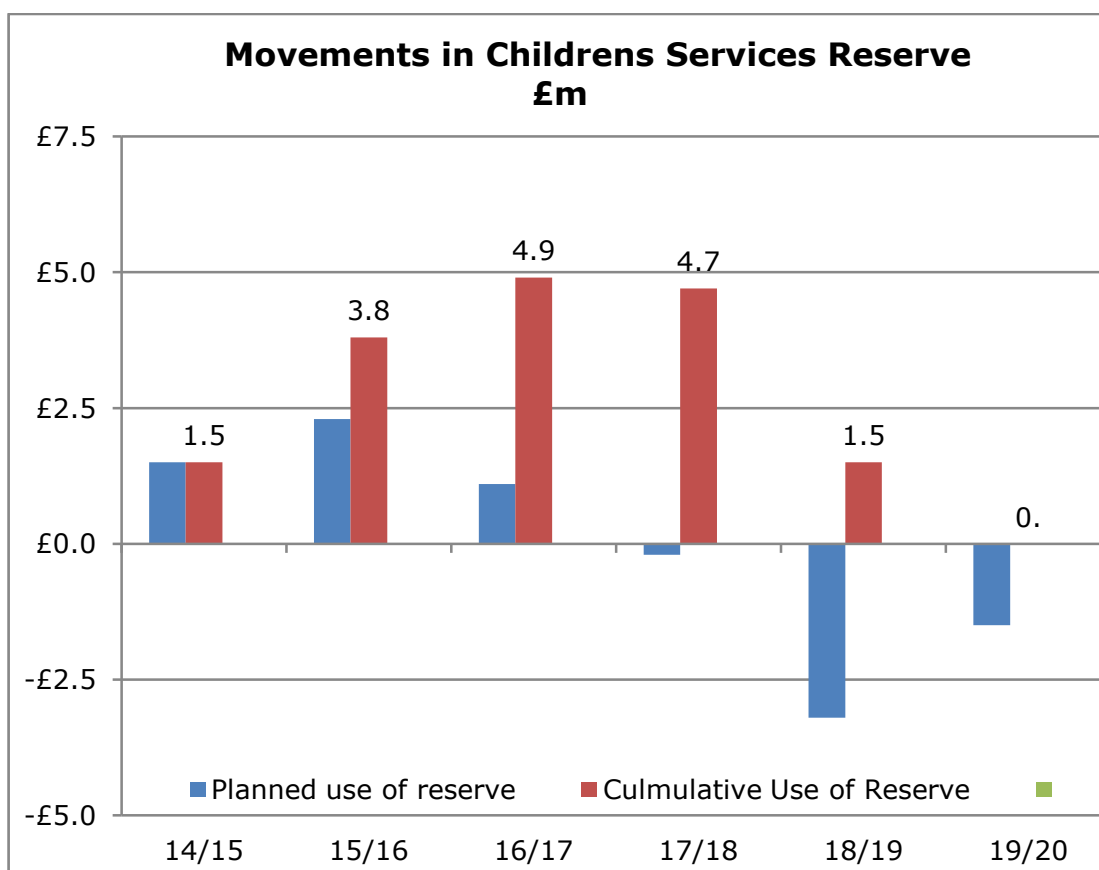
A2.2 As at 31/03/2015 Torbay Council's reserves were as follows:-

| | 31/3/14 actual | Change in year | 31/3/15 actual | 31/3/16 estimate |
|--|-------------------|-------------------|-------------------|---------------------|
| | £m | £m | £m | £m |
| General Fund Reserve | 4.4 | 0 | 4.4 | 4.4 |
| Sub Total - General Reserves | 4.4 | 0 | 4.4 | 4.4 |
| Comprehensive Spending Review Reserve | 3.8 | (0.7) | 3.1 | 2.7 |
| Committed Reserves | 6.8 | 1.2 | 8.0 | 3.6 |
| Partner/Ring Fenced Reserves | 3.8 | (1.4) | 2.4 | 2.7 |
| School Reserves | 2.8 | 0.1 | 2.9 | 2.8 |
| Children's Services 5 Year Strategy Res. | 0 | 3.4 | 3.4 | 1.1 |
| Other Service Specific Reserves | 12.6 | (4.2) | 8.4 | 7.6 |
| Grant monies not yet spent | 3.1 | (0.4) | 2.7 | 1.6 |
| Sub Total – Earmarked Reserves | 32.9 | (2.0) | 30.9 | 22.1 |
| Total Reserves | 37.3 | (2.0) | 35.3 | 26.5 |

A2.3 From the table above, the estimated balances (in £m) as at 31/3/16 after the recommended allocation of £1.4m (para A2.9) to specific issues is as follows:



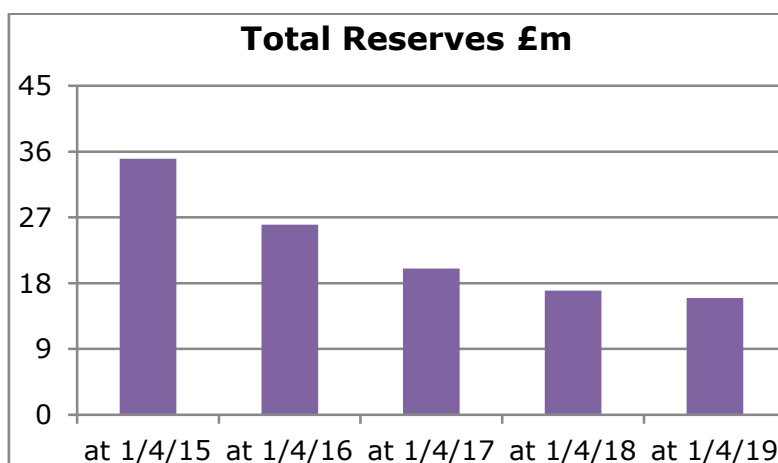
- A2.4 A list of the Council's Reserves as at 31/03/2015 is attached in Annex 1.
- A2.5 The table in A2.2 shows that the total reserves held by the Council decreased by £2.0m during 2014/15. The General Fund Reserve remained at £4.4 million during the same period. This is discussed in more detail below.
- A2.6 In October 2014 the Council approved a five year cost reduction plan for Children's Services which required the use of £3.4m of reserves to fund Children's services budget pressures in 2015/16 and 2016/17. Such a use of reserves was to allow the service to introduce and embed service changes which was forecast to result in savings compared to the current level of spend, consequently enabling Children's services to repay the reserves used to fund the £3.4m. The Plan identified that £0.2m would be repaid in 2017/18 and £3.2m repaid in 2018/19. The £3.4m was in addition to the previously approved use of £1.5m from the PFI Sinking Reserve which is also to be repaid by Children's Services, with the assumption that this £1.5m was used in 2014/15 with repayment in 2019/20.
- A2.7 Since October 2014 the financial performance of the plan has not matched the original predictions and therefore the plan is currently being updated.
- A2.8 The use of these reserves to support Children's Services and their repayment as per the October 2014 recovery plan is shown in the bar chart below.



- A2.9 The reserves identified to as surplus to their current purpose shown in the table below. The risk and potential implication of reducing these reserves is summarised below:

| Reserve | Reduction £000's | Reduction on estimated balance as at 31/3/16 % | Implications |
|------------------------------|---------------------|--|---|
| Prudential Borrowing Reserve | 1,244 | 100 | Linked to Capital Plan 2016/17 and borrowing approvals approved in 2015/16 the Council is unlikely to repay any borrowing in the medium term. |
| Land Charges | 96 | 100 | National legal case on property searches is close to being finalised, so reserve can be released |
| Pension | 95 | 100 | No estimated costs for this reserve. |
| Total Identified | 1,435 | | |

A2.12 Each reserve has been assessed for its estimated balance as at 31st March 2016 and for the estimated additions or withdrawals from the reserve during 2016/17 and future years. This is included in the table at Annex 1. This table is shown after the recommendations arising from this report, but excludes the £4.9m repayments (£3.4m + £1.5m) by Children's Services.



A2.13 The table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £9m during 2015/16 to £26m. The actual balance at year end will depend on spend during the year and any year end service carry forwards from unspent revenue funds and/or unspent grant allocations.

A3.0 **Guidance on the Management of Reserves**

A3.1 The CIPFA guidance on Reserves and Balances (LAAP bulletin 99 issued July 2014) advises that “Chief Finance Officers should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks, such as the ability to deliver planned efficiency savings”.

A3.2 The CIPFA guidance lists a number of assumptions to be considered when forming a budget, which although these directly link to the setting of a budget, the level of risk and uncertainty of these assumptions are be relevant in determining an appropriate level of reserves. Assumptions to consider include inflation, demand led pressures, delivery of planned savings and risks from new partnerships or ways of working.

A3.3 The Audit Commission in December 2012 issued a report “Striking a Balance” seeking to improve Council’s decision making on reserves.

<http://www.audit-commission.gov.uk/wp-content/uploads/2012/12/strikingabalance.pdf>

- A3.4 In undertaking a detailed annual review of reserves that is presented to both Overview and Scrutiny Board and Council, Torbay Council is largely complying with most of the recommendations in this report.
- A3.5 It is important to differentiate between general and uncommitted reserves and reserves held for a specific purpose. It is only the general and uncommitted reserves that could be used to support "short term costs". As shown in the table above, the Council's uncommitted reserves were the Comprehensive Spending Review reserve (£3.1m) and £4.4m is the Council's general fund balance which is discussed later. The Council does not have a large value of unallocated reserves compared to its overall budget or compared to the value of budget reductions required over the next few years or compared to the value of the 2015/16 in year pressures for social care.
- A3.6 The Chief Finance Officer is reluctant to use any reserve funds, which can only be spent once, to support ongoing expenditure as this is not financially sustainable, as it only delays the impact of the required budget reductions.
- A3.7 This position taken by the Chief Finance Officer is similar to CIPFA guidance which says "Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as how such expenditure will be funded in the medium to long term".

A4 Earmarked Reserves

- A4.1 The proposed changes to earmarked reserves are outlined in paragraph A2.9 above. The following paragraphs make specific comments on a number of reserves. A summary of each reserve and their purpose is included as Appendix Two. Further information on all Council Reserves is available that shows details about each reserve, including the reason/purpose of the reserve, how and when the reserve can be used and the process for retention of each reserve to ensure continuing relevance and adequacy.

A4.2 Comprehensive Spending Review Reserve – balance £3.1m 31/3/15 (£2.7m 31/3/16)

- A4.3 The Comprehensive Spending Review Reserve was originally established in 2010/11. The purpose of this reserve was identified as follows:

- short term support for the (revenue) budget while services adjust spending to new levels
- financing of any costs in relation to reducing services and therefore staff numbers
- to support any initial costs of changing service delivery that will result in future savings

Any use of this reserve for invest to save schemes must be supported by a robust business case and agreed by the Chief Finance Officer.

- A4.4 To fund any overspend in 2015/16 it is recommended that the Comprehensive Spending Review Reserve is not used, as the balance in the reserve should be retained to provide a contingency for budget pressures in 2016/17, in particular in relation to social care and to support the financial impact of the judicial review of care home fees including any costs should the Council's appeal be rejected.

- A4.5 Council at its meeting in December 2015 approved the use of up to £0.2m from this reserve to support the English Riviera Tourism Company to December 2016.

- A4.6 After the proposed allocation of £0.885m to this reserve the balance on the CSR reserve excluding the tourism commitment above and an allocation for the results of the judicial review appeal on care home fees, will be sufficient to provide a contingency to provide cover for the risk of any 2016/17 budget variations in particular in social care and any exit costs such as redundancy costs relating to 2017/18 incurred in 2016/17.

- A4.5 The potential for further transfers from earmarked reserves is becoming increasingly limited therefore, to help ensure a robust budget can be set, a sum to bring the balance to £1m per annum will be added to this reserve in each year as part of the budget proposals from 2017/18 onwards and will be included in future financial planning.

A4.6 Committed Reserves – balance £8.9m 31/3/15 (£5.2m 31/3/16)

- A4.7 These reserves arise as a result of differences in timing between the reserve being established and the expenditure being incurred and are therefore, in effect, committed reserves. Some of these are short term, such as service carry forwards, unspent revenue grants and the collection fund, where the expenditure

should be incurred within 12 months. Other reserves are spreading costs over a number of years, such as the PFI sinking fund that equalises the costs of the annual unitary charge over the 25 years of the contract.

A4.8 PFI Sinking Fund

As part of the 2014/15 Review of Reserves, Council approved; “the transfer of £1.5m from the PFI Sinking Fund to Children’s Services on an “invest to save” basis. Children’s Services are to repay the reserve in future years”. This repayment is in addition to the £3.4m required as part of the Children’s Services 5 year Cost Reduction Plan.

It is important that this reserve is repaid as the PFI contract has steadily increasing costs over the 25 year life of the contract to 2027. If the reserve is not repaid, then Children’s Services will have to reduce other service budgets to fund these increased costs.

A4.9 Partner/Ring Fenced Reserves – balance £6.6m 31/3/15 (£5.6m 31/3/16)

A4.10 These reserves are outside the Council’s direct control, in that the reserves are linked to funds held by partner organisations, schools, Torbay Development Agency or ring fenced Council services such public health. The harbour reserves have been included in this category as the service has operates as if it were ring fenced.

A4.11 The balance of £2.8m held by schools as at 31st March 2015 under delegated funds will change based on expenditure in schools and are likely to continue to reduce as more Council schools become academies. As a result a reduction in the balances held by schools has been shown in Annex 1.

A4.12 Specific Issue Reserves - balance £12.3m 31/3/15 (£8.7m 31/3/16)

These are reserves set aside for specific expenditure purposes.

A4.13 Insurance Reserve

The balance as at March 2015 for both the insurance reserve and the insurance provision, before the addition of any current year surplus due to timing of claims, was approximately £4.0 million. The Council’s insurance team in consultation with the Chief Finance Officer reviews the earmarked amounts on an annual basis and takes advice from an insurance actuary to ensure the adequacy of the reserves. The last actuarial review was a mini review as at March 2015.

As the 2014/15 budget included a reduction to the annual revenue contribution to the reserve for claims and a reduction in the total reserve of £0.250m to be released over the next five years and the 2016/17 budget proposal is to reduce the annual contribution to the fund for future liabilities by £50,000. In addition the reserve is due to be repaid £0.750m transferred in 2014/15 to support the Children’s Services Reserve in the short term.

This increases the risk of the reserve being inadequate in the longer term from both changes in premiums and the number and value of claims. Given the potential long lead in time for certain insurance claims, such as those relating to children and certain types of industrial diseases, any shortfall in this reserve may not be realised for a number of years.

As a result of the above risks and the number and value of potential insurance and legal claims against the Council it is recommended that this reserve is not reduced.

A4.14 Potential Liabilities

The Council, as identified in its Statement of Accounts, has given a number of guarantees. Following the Council’s loan to TCCT in 2015, the bank guarantee has now been cancelled and when PLUS became a CIC the Council’s guarantee in relation to a bank overdraft was also cancelled.

In addition the Council has provided a number of guarantees for pension liabilities to services now outsourced, such as TOR2 and the TDA, however it is unlikely that these guarantees will result in a cash payment from the Council. In the exceptional case of the pension liability being realised it is likely the liability will be transferred to the Council’s own pension liability which will be reflected in future employer contribution rates.

A5 Review of Provisions and other Potential Liabilities

A5.1 In addition to earmarked and general reserves the Council also holds provisions for a number of issues where the Council has a clear liability which is likely to result in a payment but the amount and timing of the potential payment is uncertain.

A5.2 As at 31/03/2015 Torbay Council's provisions were as follows:-

| 31/3/14 | | 31/3/15 | Change |
|----------------|-------------------------------|----------------|---------------|
| £m | | £m | £m |
| 0.5 | Insurance Provision | 0.3 | (0.2) |
| 1.2 | NNDR Appeals | 1.2 | 0 |
| 0.1 | Restructure/Budget Reductions | 0.1 | 0 |
| 0.4 | Other Provisions | 0.3 | (0.1) |
| 2.2 | Total Provisions | 1.9 | (0.3) |

A5.3 The provisions above were based on the latest information as to the value of the potential liability, as such no changes in the value of these are proposed. It is expected that the majority of these provisions will be used within 2015/16 except insurance where the "time lag" on claims being notified and settled is often over one year. Other provisions tend to be linked to specific issues.

A5.4 The provision for NNDR appeals as at 31st March 2015 is a result of the introduction of the NNDR Business Rates Retention Scheme and forms part of the Collection Fund – see para A6.1 below. The Council now gains or loses a 49% share of any movements in NNDR income. This includes the ongoing impact and repayment from any successful NNDR appeals made. This includes a 49% share of any costs paid since April 2013 arising from refunds relating to financial years before April 2013 which were previously fully funded from central government. The value of these pre 2013 claims should not now increase as the Government set a "cut off" date for backdated claims to be submitted by end of March 2015.

A6.1 Collection Fund

The Collection Fund Adjustment Account (formally Collection Fund Reserve) is slightly different from all other reserves and includes both Council Tax and NNDR. For Council Tax, legislation requires any balance (surplus or deficit) to be applied at the next Council Tax setting to the three major precepting authorities (Torbay, Devon & Cornwall Police Authority and Devon and Somerset Fire Authority). (Note Brixham Town Council as a minor precepting body does not bear any share of surplus or deficit). For NNDR, as a result of the introduction of the new Local Government funding arrangements from April 2013, the Council bears a 49% share of the risk and reward of changes in the level of National Non Domestic Rate income. Changes from the Council's initial National Non Domestic Rate income estimate arising from changes in yield and collection will now also result in a Collection Fund surplus or deficit. The Council's share of any surplus or deficit will impact on the forthcoming year.

Estimates of future year surpluses will be included in the 2016/17 Budget Setting process and reflected in the Medium Term Resource Plan.

A7 General Fund Reserve - Risk Assessment and Sensitivity/Scenario Appraisal

A7.1 The Council's General Fund Reserves of £4.4 million represents 4.0% of the Council's net 2015/16 budget. This level of "unallocated financial reserves" is lower than average compared to other unitary Councils. (see para A9.1).

A7.2 The CIPFA guidance on reserves does not recommend a minimum level of reserves. It states that "Local Authorities should make their own judgments on such matters taking into account all the relevant local circumstances which will vary between Authorities". CIPFA also state that "a well managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of reserves".

- A7.3 A risk assessment of all 2015/16 budgets suggest that the maximum overspend in any year, if all services were subject to adverse pressures and where there isn't any specific service related earmarked reserve, would be £8.1 million or 7% of 2016/17 net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning) and to reflect the financial risks inherent in any significant new partnerships, outsourcing or capital developments, say £1.0 million. This would result in a required General Fund reserve of £9.1 million or 8% of net budget. The current level of General Fund Reserve will cover just under 50% of this sum.
- A7.4 This risk assessment overall is similar to the previous year as the higher value areas of volatility that were identified as a high risk last year have continued to cause pressures on the Council's revenue budget still exist. In addition the challenges of achieving the ongoing significant budget reductions from central government create a major risk of budget variations.
- A7.5 A continuing key consideration within this risk assessment is the level of the risk of budget variances passed to partners or other suppliers via service delivery contracts. A key partner for the Council is the Integrated Care Organisation from October 2015. The Council has a 9% risk share of the total financial performance of the ICO (Torbay and South Devon Foundation Trust) which is a budget of approx £400m. There is a risk to the Council, as although the total budget the risk share is based on is greater, the Council's share is limited to 9%.
- A7.6 A prudent risk based approach to budget setting and reserve levels will have mitigated some risks of an overspend, although it should be noted that in areas of high risk such as, Children's Social Care, have already declared significant budget pressures over the past few years. The Children's Service 5 Year Cost Reduction Plan and its update should help to mitigate some of the risks associated with this service in the longer term.
- A7.7 However it is unlikely that all budgets will be adversely affected in the same year or that there will be no underspending arising from savings or additional income. Therefore the General Fund Reserve should be equal to 50% of the total assessed risk in any financial year (which equals to 4.2% of estimated 2016/17 net revenue budget). This for 2016/17 will result in a required general fund reserve balance of £4.6 million. At this stage the current general fund balance of £4.4 million is 4% of 2016/17 net revenue budget or £0.2 below the assessed target.
- A7.8 Following consideration of the above, in the opinion of the Chief Finance Officer, the current level of general fund reserve should not be reduced below 4%. This is dependent on the CSR reserve having a balance in excess of £1.0m as a contingency for 16/17 budget pressures and an ongoing balance of £1m.
- A7.9 The 2016/17 budget to be presented in February 2016 to Members will also include an assurance statement from the Chief Finance Officer about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the Local Government Act 2003.

A8 **Capital Investment Plan**

- A8.1 It is assumed that in the circumstances of a significant overspend within the Council's capital programme this will be covered by alterations to the timing of the Council's capital investment plan; use of the capital contingency or from additional borrowing within the Council's approved Prudential Indicators. Any additional borrowing costs would have to be met from the Council's revenue budget.
- A8.2 The Council's capital plan has a contingency of £0.6 million – this is approximately 1% of the current four year capital plan. It should be noted that all capital projects should have contingencies within the individual project costs.
- A8.3 The capital resources that the Council has available is reducing from central government grants and capital income from contributions such as S106 developer agreements and the delays in establishing a Community Infrastructure Levy. In addition as revenue budget cuts are made the affordability of prudential borrowing is more limited. This gives fewer options to allocate funding for any urgent capital projects such as infrastructure works. Members could give consideration to allocating reserves to support capital expenditure.

A9 **Comparison with Other Councils:**

- A9.1 Since the abolition of the Audit Commission the value of money council profiles are now the responsibility of Public Sector Audit Appointments. Unfortunately their updating of data is not as current as before. From

the reports available on the PSSA website a comparison of Torbay Council reserves as at 31/3/14 with data for other unitary authorities is shown below:

| Indicator | Period | Value (£000s) | Rank |
|--|---------|---------------|---------------------|
| Total non school reserves | 2013/14 | £34,090 | In the lowest third |
| Other earmarked financial reserves | 2013/14 | £29,735 | Average |
| Unallocated financial reserves | 2013/14 | £4,355 | In the lowest 10% |
| Unallocated financial reserves as a proportion of total net spend (%) (excluding grant income) | 2013/14 | 1.76% | In the lowest 20% |
| Schools reserves | 2013/14 | £2,832 | In the lowest 5% |

A9.2 These results shows that the profile of Torbay's total reserves are lower than average, however within that total Torbay's earmarked reserves were slightly higher than average, but more than offset by below average on the general reserve. This shows that Torbay's general fund reserve is on the lower limit of being reasonable. The PSAA report found that general fund reserve levels were typically around 3.4% of net expenditure (excluding grant income).

A10 Chief Finance Officer Statement.

A10.1 The Council is facing unprecedented financial challenges. At this stage I can only state that I can be satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2016/17 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment, if the following actions are undertaken:

- a) Funding of £2.5m is identified to fund the 2015/16 projected overspend
- b) The CSR has a minimum balance of £1.0m for 2016/17
- c) The General Fund reserve has a minimum balance equal to 4% of net budget
- d) For 2017/18 and future years a minimum ongoing balance is maintained in the CSR reserve of £1m
- e) That Children's Services do not require the future use of any earmarked reserves.
- f) That a balanced budget can be set for 2016/17

A11 Governance of Reserves.

A11.1 Annex 1 shows the projected balances of the reserves at the end of the current financial year and future years. These balances are based upon planned levels of spending. In the event of any unplanned expenditure occurring in the financial year current Standing Orders and Financial Regulations will apply.

A11.2 The Reserves will continue to be reported as part of the Council's Statement of Accounts and subject to a formal annual review and challenge as part of the budget process by both members and senior officers. Councilors should consider the Council's General Fund Reserve as part of the annual budget setting process. Any quarterly reporting of issues relevant to earmarked reserves will be on an exception basis.

A11.3 Schools reserves are part of the delegated schools funding and these reserves remain at the discretion of the Head Teachers and Governing Bodies.

A11.4 Public Health reserve is ring fenced for public health activities and this reserve remain at the discretion of the Director of Public Health.

A12 Risk assessment of preferred option

A12.1 Outline of significant key risks

A12.2 It is important that the issues raised in this report are considered by Members and appropriate action is taken, where necessary, to ensure that the Council has adequate reserves in the short and medium term. Failure to consider the issues raised within this report and take appropriate action could result in the Council having insufficient reserves that could adversely impact on the revenue budget and the longer term financial viability of the Council.

A12.3 The major risks facing the Council at present are the extremely challenging budget reductions as part of the Government's Comprehensive Spending Review and ongoing financial pressures from Children's social care, the achievement of the 5 Year Cost Reduction Plan and the repayment of reserves from future year savings.

Appendices

| | |
|---------|-----------------------------|
| Annex 1 | Review of Reserves 2016/17 |
| Annex 2 | Summary of Council Reserves |

Annex 1

Review of Reserves 2016/17

| <u>Reserves</u> | Balance as at 1/4/15 £'000 | Balance as at 1/4/16 £'000 | Balance as at 1/4/17 £'000 | Balance as at 1/4/18 £'000 | Balance as at 1/4/19 £'000 |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| General Reserves | | | | | |
| General Fund | 4,370 | 4,370 | 4,370 | 4,370 | 4,370 |
| | 4,370 | 4,370 | 4,370 | 4,370 | 4,370 |
| Earmarked Reserves | | | | | |
| Uncommitted Reserves: | | | | | |
| Budget Pressures | 62 | 31 | 0 | 0 | 0 |
| Comprehensive Spending Review | 3,139 | 2,673 | 1,000 | 1,000 | 1,000 |
| | 3,201 | 2,704 | 1,000 | 1,000 | 1,000 |
| Committed Reserves: | | | | | |
| Approved Service Carry Forwards | 1,251 | 1,000 | 348 | 328 | 308 |
| Capital Funding Reserve | 2,418 | 1,480 | 594 | 126 | 258 |
| Council Elections | 161 | 6 | 54 | 102 | 149 |
| Grants | 2,687 | 1,587 | 1,262 | 593 | 593 |
| NNDR Collection Fund | 589 | 471 | 471 | 471 | 471 |
| PFI Sinking Fund | 1,013 | 613 | 1,109 | 709 | 309 |
| Prudential Borrowing | 744 | 0 | 0 | 0 | 0 |
| | 8,863 | 5,156 | 3,838 | 2,329 | 2,089 |
| Partner/Ring Fenced Reserves | | | | | |
| Devon Audit Partnership | 18 | 18 | 18 | 18 | 18 |
| TDA Reserves (Funds paid in advance) | 1,385 | 791 | 791 | 791 | 791 |
| Education Schools Exit Packages | 312 | 280 | 280 | 260 | 240 |
| Harbours Reserves | 688 | 641 | 555 | 481 | 428 |
| Public Health Reserve | 1,285 | 1,020 | 554 | 186 | 43 |
| School Balances | 2,919 | 2,800 | 2,800 | 2,000 | 2,000 |
| | 6,607 | 5,550 | 4,998 | 3,737 | 3,521 |
| Specific issues | | | | | |
| Art Objects Purchased Fund | 24 | 24 | 24 | 24 | 24 |
| Childrens Services 5 Year Plan | 3,400 | 1,100 | 0 | 0 | 0 |
| Community Development Trust | 189 | 89 | 0 | 0 | 0 |
| Crisis Support Reserve | 604 | 604 | 404 | 204 | 4 |
| Disposal & Asset Rationalisation Costs | 89 | 62 | 62 | 62 | 62 |
| Domestic Abuse Reserve | 182 | 77 | 0 | 0 | 0 |
| Education Early Retirement | 173 | 157 | 152 | 142 | 132 |
| Employment Fund | 694 | 444 | 194 | 0 | 0 |
| Employment Issues | 138 | 88 | 14 | 14 | 14 |
| Equipment Reserves | 111 | 102 | 77 | 52 | 52 |
| Geopark | 81 | 50 | 0 | 0 | 0 |
| Highway Reserves | 676 | 600 | 575 | 550 | 525 |
| Housing Reserves | 162 | 150 | 100 | 50 | 25 |
| Insurance Reserves | 3,720 | 3,527 | 3,527 | 3,477 | 3,427 |
| IT Equipment Reserve | 471 | 273 | 43 | 43 | 43 |
| Invest for Income Reserve | 0 | 500 | 250 | 0 | 0 |
| Land Charges | 96 | 0 | 0 | 0 | 0 |

| | | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Office Accommodation Reserve | 179 | 219 | 219 | 219 | 219 |
| Pension Reserve | 95 | 0 | 0 | 0 | 0 |
| Planning Reserve | 468 | 330 | 167 | 67 | 0 |
| Regeneration Reserve | 5 | 10 | 15 | 20 | 25 |
| South Devon Highway | 299 | 0 | 0 | 0 | 0 |
| Supporting People Commissioning | 8 | 8 | 2 | 2 | 2 |
| Taxi Reserve | 29 | 29 | 29 | 29 | 29 |
| Tourism | 83 | 23 | 0 | 0 | 0 |
| Training and Development Reserve | 0 | 50 | 30 | 10 | 0 |
| Waste Strategy | 286 | 150 | 100 | 50 | 0 |
| | 12,262 | 8,666 | 5,984 | 5,015 | 4,583 |
| Total Earmarked Reserves | 30,932 | 22,077 | 15,821 | 12,081 | 11,193 |
| | | | | | |
| TOTAL RESERVES | 35,302 | 26,447 | 20,191 | 16,451 | 15,563 |
| | | | | | |

| <u>Name of Reserve</u> | <u>Description of Reserve</u> | <u>Responsible Officer</u> |
|--|--|---|
| Asset Disposal Costs and Property Issues Reserve | To support the revenue costs associated with the rationalisation of the Council's assets | Kevin Mowat Executive Head Business Services |
| Budget Issues Reserve | To support future budgetary pressures in adult social care facing the Council <i>in</i> the medium term. | Martin Phillips Chief Finance Officer |
| Capital Funding | To reserve funding for items in the approved Capital Plan Budget. | Martin Phillips Chief Finance Officer |
| Carry Forwards | Service Carry Forwards | Martin Phillips Chief Finance Officer |
| Childrens Services 5 Year Strategy | Per Council approval to support Childrens Services in the short term by £3.4m. | Richard Williams Director of Children's Services |
| Comprehensive Spending Review Reserve | To fund costs associated with meeting budget reductions as a result of the Government's comprehensive spending review. | Martin Phillips Chief Finance Officer |
| Community Development Trust Reserve | Reserve established by support the creation and three year support for a Community Development Trust. | Caroline Dimond Director Public Health |
| Crisis Fund | Reserve to support the costs of social fund and exceptional hardship | Bob Clark Executive Head Customer Services |
| Domestic Abuse Reserve | To fund the costs of the integrated domestic abuse service for 2 years, starting September 2014. | Fran Hughes Assistant Director Community & Customer Services |
| Early Retirement Reserve | To enable the Council to meet childrens' redundancy related liabilities as they fall due. Built up from annual budgets for new redundancies. | Debbie Horn School Improvement Officer |
| Regeneration/TDA Reserve | Reflects the value of funds awarded to the TDA where the work has yet to be completed. | Kevin Mowat Executive Head Business Services |
| Employment Issues Reserve | To support employment related issues, such as equal pay and payroll related issues. | Anne-Marie Bond Assistant Director Corporate and Business Services |
| Equipment Fund | To facilitate renewal of equipment within services where the replacement is at irregular periods. | Various |
| Geo Park Conference | To support costs of Geo Park Conference | Fran Hughes Assistant Director Community & Customer Services |
| Grants recognised but not used | Reflects the value of revenue grants (without conditions) received | Martin Phillips |

| | | |
|------------------------------|--|---|
| | by 31 st March but not yet used to support expenditure | Chief Finance Officer |
| Growth Fund Reserve | Reserve established from the New Homes Bonus grant to create a Growth Fund to support employment opportunities. | Kevin Mowat Executive Head Business Services |
| Harbours | Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users. | Kevin Mowat Executive Head Business Services |
| Highways Act Reserves | Reserve holding funds received under Highways Acts and other legislation where the Council holds funds to do works. | Ian Jones Head of Highways |
| Insurance Reserve | To set aside amounts to cover the future cost of past uninsured events which result in a loss to the Council. This reserve covers potential future liabilities arising from the Council's previous insurers Municipal Mutual Insurance Ltd not having sufficient solvency, to meet pre 1998 claims from Devon County Council, amounts for specific uninsured risks and a general reserve to meet as yet unknown insurance claims | Anne-Marie Bond Assistant Director Corporate and Business Services |
| IT Equipment Reserve | To provide funds for priority driven replacements of IT equipment. | Bob Clark Executive Head Customer Services |
| Invest for Income Reserve | New reserve to support the development of new income streams for the council and increased commercialisation of services. | Martin Phillips Chief Finance Officer |
| Land Charges Reserve | Reserve to fund any potential costs arising from changes in the charging regulations in relation to land charges. | Anne-Marie Bond Assistant Director Corporate and Business Services |
| NNDR Rates Retention | Reserve to smooth the volatility of NNDR income including appeals, s31 grant and the performance of the Devon wide NNDR pool. | Martin Phillips Chief Finance Officer |
| Office Accommodation Reserve | Reserve to help meet the short term revenue costs of the rationalisation of office accommodation. | Kevin Mowat Executive Head Business Services |
| Misc. Specific Reserves | Includes: Council Elections, Taxi Survey, Art Objects, Devon Audit Partnership and Cemeteries. | Various |
| PFI Sinking Fund | To provide funds to meet the liabilities under the PFI agreement over 25 years (Westlands and Homelands Schools) and to provide funding towards Paignton Community College expansion project. | Richard Williams Director of Children's Services |
| Planning Reserve | To provide for costs of Local Plan Inquiry held every 4/5 years and masterplan delivery. | Pat Steward Head of Spatial Planning |
| Public Health | Reflects carry forward of ring fenced funds for Public Health | Caroline Dimond Director Public Health |
| Prudential Borrowing Reserve | Reflects the temporary surplus/deficit arising from the charges to services for the repayment of expenditure under Prudential Borrowing compared to actual interest and Revenue Provision. | Martin Phillips Chief Finance Officer |
| Regeneration Reserve | A reserve to support economic regeneration and employment initiatives | Kevin Mowat Executive Head Business Services |

| | | |
|------------------------------------|---|---|
| School Balances | Reflects the carry forward by schools of their delegated school budget share. | Lisa Finn Finance Manager |
| School Redundancy Reserve | Reserve to support the costs of redundancies for schools based staff | Richard Williams Director of Children's Services |
| South Devon Highway | To support the development of the South Devon Highway | Ian Jones Head of Highways |
| Tourism (Strategic Events) Reserve | Reserve established in 2012/13 to support tourism and events. | Fran Hughes Assistant Director Community & Customer Services |
| Training and Development Reserve | New reserve to support the training and development needs of senior staff and members. | Anne-Marie Bond Assistant Director Corporate and Business Services |
| Waste Disposal Strategy Reserve | Reflects the reclassification of part of the equipment fund as a specific reserve for Waste Disposal Initiatives. | Fran Hughes Assistant Director Community & Customer Services |