

**Meeting:** Overview and Scrutiny Board      **Date:** 25 January 2017

**Wards Affected:** All

**Report Title:** Review of Reserves 2017/2018

**Is the decision a key decision?** Yes

**When does the decision need to be implemented?** As soon as possible

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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 Overview and Scrutiny Board consider the report and proposed recommendations to the Council, and that the Board report its comments, conclusions and/or recommendations to the Mayor:

The proposed recommendations to the Council are:

1. That the transfer of £2.750m identified from a number of individual earmarked reserves (as detailed in paragraph A2.19) to the following reserves be approved;
  - a) £2.0m to the Comprehensive Spending Review to fund the predicted 2016/17 Council overspend primarily as a result of budget pressures in childrens and adults social care.
  - b) £0.750m to the General Fund Reserve to be used as a contingency to support the Council’s financial risks in future years.
2. That, given the significant financial pressures facing the Council in future years, the allocation of additional funds, as required, to the Comprehensive

Spending Review Reserve in each budget process from 2018/2019 onwards to increase, and then maintain, an ongoing minimum balance in the reserve of £2m 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 is facing significant financial pressures in 2016/17 from both Adults and Children's social care with the current predicted overspend on those services of £1.8m and £1.6m respectively. These overspends are partly offset by savings in other services resulting in a predicted overspend (as at quarter three) in 2016/17 of approx £2.2m. This overspend will need to be funded.
- 3.3 Due to the significant financial risks facing the Council in 2017/18 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 as a result of the level of current and previous year budget variations it is proposed to replenish the balance to a minimum of £2m by 2019/20 and this will be included in future financial planning. This approach to maintain a balance of £2m in the CSR has been supported by CIPFA during their Financial Resilience inspection. This is in addition to the general fund balance.
- 3.4 The Council is undertaking a number of new activities that have a level of risk associated with them, such as the Investment Fund and potential Housing Company where the council is investing/proposing to invest a significant amount of borrowing to support. There is a risk that the projects will not deliver the income required to cover the "fixed" costs of the borrowing. These risks will be mitigated by business cases and due diligence.
- 3.5 It is clear that the Council has lower levels of general fund reserves than other Council's. As a result of this low level, combined with increasing financial risks facing the council, it is recommended that the general fund reserve is increased by £0.750m to a level that is equal to 5% of the Council's estimated 2017/18 net budget.
- 3.6 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.

## Supporting information

### A1. Introduction

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

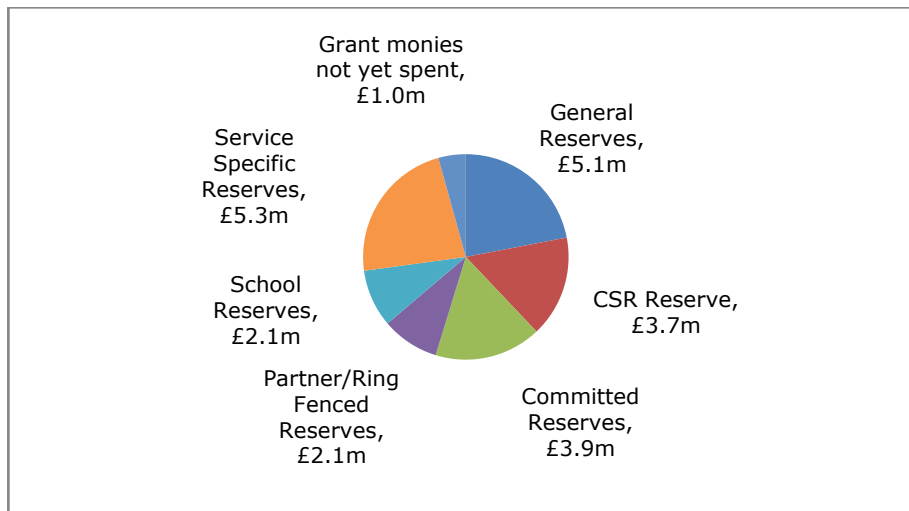
### A2 Review of Reserves 2017/18

#### A2.1 Overview

A2.2 As at 31/03/2016 Torbay Council's reserves were as follows:-

|                                          | 31/3/15<br>actual | Change<br>in year | 31/3/16<br>actual | 31/3/17<br>estimate |
|------------------------------------------|-------------------|-------------------|-------------------|---------------------|
|                                          | £m                | £m                | £m                | £m                  |
| General Fund Reserve                     | 4.4               | 0                 | 4.4               | 5.1                 |
| <b>Sub Total - General Reserves</b>      | <b>4.4</b>        | <b>0</b>          | <b>4.4</b>        | <b>5.1</b>          |
|                                          |                   |                   |                   |                     |
| Comprehensive Spending Review Reserve    | 3.1               | 0.6               | 3.7               | 3.7                 |
| Committed Reserves                       | 6.1               | (0.3)             | 5.8               | 3.9                 |
| Grant monies not yet spent               | 2.7               | (0.7)             | 2.0               | 1.0                 |
| Partner/Ring Fenced Reserves             | 3.7               | (0.6)             | 3.1               | 2.1                 |
| School Reserves                          | 2.9               | (0.5)             | 2.4               | 2.1                 |
| Children's Services 5 Year Strategy Res. | 3.4               | (2.3)             | 1.1               | 0                   |
| Other Service Specific Reserves          | 9.0               | (1.8)             | 7.2               | 5.3                 |
| <b>Sub Total – Earmarked Reserves</b>    | <b>30.9</b>       | <b>(5.6)</b>      | <b>25.3</b>       | <b>18.1</b>         |
|                                          |                   |                   |                   |                     |
| <b>Total Reserves</b>                    | <b>35.3</b>       | <b>(5.6)</b>      | <b>29.7</b>       | <b>23.2</b>         |

A2.3 From the table above, the estimated balances (in £m) as at 31/3/17 after the recommended allocation of £2.750 (para A2.19) is as follows:



A2.4 A list of the Council's Reserves as at 31/03/2016 is attached in Appendix 1.

A2.5 This report is, for another year, highly influenced by the significant financial risks facing the Council both from current financial pressures within Children's social care (safeguarding and wellbeing) and Adults Social care both from the ICO's significant financial deficit and the uncertainty over the future of the contractual arrangements for adult social care arising from ICO's recent twelve month notice period given on the Risk Share Agreement from January 2018, 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, any changes to the approved Children's Services Cost Reduction Plan and any delays in implementing savings.

A2.6 The Council has had unprecedented financial challenges from reduced funding levels over the past few years and is facing a further £14m reduction in its Revenue Support Grant from 2016/17 (£20m) to 2019/20 (£6m), in addition to any future expenditure pressures such as inflation and increase in demand.

A2.7 With the significant uncertainty facing the Council from the DCLG's funding review, NNDR 100% rates retention consultations and the higher levels of volatility in NNDR income compared to Council Tax it is clear that Councils need to mitigate and plan for variations in income as well as expenditure.

A2.8 To be able to meet future year budgets and reduce the reliance on the use of reducing reserves it is essential the Council progresses and achieves both its transformation programme including the required changes in childrens services and its efficiency plans.

A2.9 To achieve the reserves required mitigating the impact on the 2016/17 financial position and the concerns on the ability of adults and childrens social care to meet the required cost reductions in the short term has required the significant reduction in certain earmarked reserves, in particular the insurance reserve. This has an impact on services in their ability to progress future projects and with insurance the lower reserve level increases the risk associated with meeting future, as yet unknown, risks.

A2.10 The Chief Finance Officer is reluctantly proposing these reductions as the Council has to fund the existing overspend in adults and childrens in 2016/17 and the likely ongoing delay in achieving significant cost improvements in these services.

### Adults Social Care

A2.11 As noted above the ICO has given 12 month notice to withdraw from the risk share agreement with the Council and CCG for the provision of Adult Social Care. At this stage it is unclear what the Council contractual and therefore financial commitments will be from January 2018. All partners are working together to resolve this issue.

A2.12 In addition the ICO is forecasting an increasing financial deficit. For 2016/17 their deficit is likely to be in excess of £20m. Their predicted deficit for 2017/18 (before any mitigation and cost reductions) combined with changes in the NHS England "control targets" is significantly in excess of the 2016/17 deficit. Under the current Risk Share Agreement the Council is exposed to 9% of any deficit.

### Children's Social Care

A2.13 The Children's Services recovery plan, in the light of the 2015/16 outturn and in year 2016/17 current financial position, was revisited by the new Director of Children's Services. It is clear that the expected improvements from the October 2014 plan have not yet been realised with a significant subsequent impact on the overall Council financial position. The Director of Children's Services has reviewed key aspects of the service and is currently implement service changes which will lead to reductions in expenditure.

A2.14 The proposed budget for 2017/18 is being increased to reflect the current year financial position for childrens services with the aim of setting a robust budget for that service.

A2.15 The new Children's Services Financial Plan is to be presented to the Council in February 2017. Any financial reductions will be a consequence of the service improvements that will be introduced. The financial impact on both the council budget and council reserves will be incorporated into future versions of this report and the medium term resource plan. At this stage it is considered unlikely that Children's Services will be able to make any repayments in the next few years (that were identified per the October 2014 plan). The Council's budget proposals for 2017/18 therefore assume that the previously planned for reduction of £1.1m will not be achieved in 2017/18.

A2.16 As background for Members, 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.

A2.17 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. The service will have to budget for and identify funding for these increased costs.

A2.18 In 2016/17 Council noted, that in the short term, 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 ). In addition Council approved 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 is included in any (potential) 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.

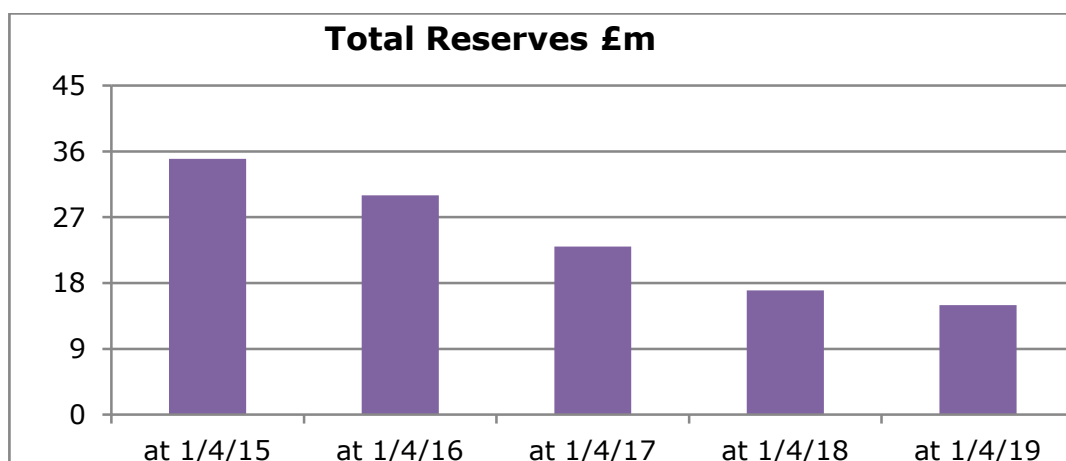
#### Reallocations of Reserves

A2.19 The reserves identified to as being options for reallocation from their current purpose shown in the table below. The risk and potential implication of reducing these reserves is summarised below:

| <b>Reserve</b>             | <b>Reduction<br/>£000's</b> | <b>Reduction on<br/>estimated bal<br/>as at 31/3/17<br/>%</b> | <b>Implications</b>                                                                                                                                                                    |
|----------------------------|-----------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Insurance                  | 1,250                       |                                                               | Reduce reserve to a minimum level. This is a significant reduction in the level of this reserve and will need to be closely reviewed on an annual basis.                               |
| Regeneration               | 201                         | 25                                                            | This is a 25% reduction in the regeneration reserves earmarked for projects led by the EDC. The reserve dates back to 2011 and the majority of this reserve does not have commitments. |
| Education Early Retirement | 121                         | 100                                                           | The service will have to budget for and identify funding for any costs in the future.                                                                                                  |
| Carry Forwards             | 289                         | 66                                                            | Balance on fund not required.                                                                                                                                                          |
| Employment Issues          | 50                          | 67                                                            | Funds earmarked for a potential repayment to HMRC no longer required                                                                                                                   |
| Grants carry forward       | 81                          | 8                                                             | Balance on fund not required.                                                                                                                                                          |
| Harbours                   | 272                         | 40                                                            | Reduce reserve by 40%. The service will have to budget for and identify funding for any future projects in excess of the remaining balance.                                            |

|                             |                |     |                                                                                                                                                                        |
|-----------------------------|----------------|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Invest for Income           | 400            | 100 | Reserve set up in 2016/17 to progress projects. However with 2017/18 budget proposal to fund £0.5m for transformation on an ongoing basis this reserve can be released |
| Pension                     | 80             | 100 | Balance on fund not required.                                                                                                                                          |
| Waste                       | 16             | 7   |                                                                                                                                                                        |
| <b>Total Identified</b>     | <b>2,760</b>   |     |                                                                                                                                                                        |
| <b>Allocation:</b>          |                |     |                                                                                                                                                                        |
| <b>2016/17 overspend</b>    | <b>(2,010)</b> |     | To fund predicted 2016/17 overspend                                                                                                                                    |
| <b>General Fund Reserve</b> | <b>(750)</b>   |     | To provide contingency for future year financial risks                                                                                                                 |
| <b>Total Allocated</b>      | <b>(2,750)</b> |     |                                                                                                                                                                        |

A2.20 Each reserve has been assessed for its estimated balance as at 31<sup>st</sup> March 2017 and for the estimated additions or withdrawals from the reserve during 2017/18 and future years. This is included in the table at Appendix 1. This table is shown after the recommendations arising from this report,



A2.21 The table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £7m during 2016/17 to £23m. 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 CIFPA 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 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 the Audit Commission report "Striking a Balance".
- A3.4 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 (£3.7m) and the Council's general fund balance (£4.4m) 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 and 2016/17 in year budget variances in social care.
- A3.5 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.
- A3.6 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 A2.19 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 £3.7m 31/3/15 (£3.7m 31/3/17)
- 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 After the proposed allocations of £2.0m from other earmarked reserves to this reserve the balance on the CSR reserve will be sufficient to provide a contingency to provide cover for the risk of any 2016/17 (current estimate £2.2m overspend) and any exit costs such as redundancy costs estimated to be £0.5m per annum.
- A4.5 The CSR includes a balance for the results of the judicial review appeal on care home fees. When the actual impact, if any, of this appeal (now due to be held in June 2017) is known then this will be included in the 2017/18 budget monitoring.
- A4.6 The potential for further transfers from earmarked reserves is becoming increasingly limited therefore, to help ensure a robust budget can be set and the reserve is at a level to mitigate in year variations at similar levels to recent years, a sum to increase the balance to £2m per annum will be added to this reserve in each year as part of the budget proposals from 2018/19 onwards and will be included in future financial planning.
- A4.7 Committed Reserves – balance £7.8m 31/3/16 (£4.9m 31/3/17)
- A4.8 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.
- A4.9 Partner/Ring Fenced Reserves – balance £5.5m 31/3/16 (£4.2m 31/3/17)
- A4.10 These reserves are outside the Council's direct control, in that the reserves are linked to funds held (or are managed by) by partner organisations, schools 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 £2.4m held by schools as at 31<sup>st</sup> March 2016 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 Appendix 1.
- A4.12 There are proposed reductions in both the TDA and harbour reserves as both these reserves are not fully committed.
- A4.12 Specific Issue Reserves - balance £8.1m 31/3/16 (£5.3m 31/3/17)

These are reserves set aside for specific expenditure purposes.

A4.13 Insurance Reserve

The balance as at March 2016 for both the insurance reserve, before the addition of any current year surplus due to timing of claims, was approximately £4.2 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 2016.

The last mini review has indicated that there is a surplus on the fund based on the assessment of liabilities including claims incurred but not reported (IBNR). As a result linked to the significant financial issues the Council is facing on both childrens and adult social care it is estimated that £1.25m could be released from this reserve.

This significantly increases the risk of the reserve being inadequate in the longer term from both changes in premiums and the number and value of claims. The Council currently has a very strong low risk profile based on its claims history however this could be adversely affected if the Council incurs a number of higher cost claims. Given the potential long lead in time for certain insurance claims, such as those relating to social care and certain types of industrial diseases, any shortfall in this reserve may not be realised for a number of years. This reserve will require careful monitoring of the impact of future liabilities on a regular basis.

#### A4.14 Potential Liabilities

The Council has provided a number of guarantees for pension liabilities to services now outsourced, such as TOR2, ERTC 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 31/03/2016 Torbay Council's provisions were as follows:-

| <b>31/3/15</b> |                               | <b>31/3/16</b> | <b>Change</b> |
|----------------|-------------------------------|----------------|---------------|
| £m             |                               | £m             | £m            |
| 0.3            | Insurance Provision           | <b>0.4</b>     | 0.1           |
| 1.2            | NNDR Appeals                  | <b>2.1</b>     | 0.9           |
| 0.1            | Restructure/Budget Reductions | <b>0</b>       | (0.1)         |
| 0.3            | Other Provisions              | <b>0.2</b>     | (0.1)         |
| <b>1.9</b>     | <b>Total Provisions</b>       | <b>2.7</b>     | <b>0.8</b>    |

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 2016/17 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 31<sup>st</sup> March 2016 is a result of the introduction of the NNDR Business Rates Retention Scheme and forms part of the Collection Fund. The Council 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. The calculation of this provision from April 2017 will be impacted by any assessment of NNDR appeals arising from the 2017 national NNDR revaluation. A provision for this will be included in the Council's NNDR estimates for 2017/18.

#### **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. The Council holds a NNDR equalisation reserve to help smooth the volatility of income which will become more important on the expected move to a 100% NNDR retention scheme in future years.

Estimates of future year surpluses will be included in the 2017/18 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 2016/17 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 2016/17 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 £9.2 million or 9% 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 £10.2 million or 10% of net budget. The current level of General Fund Reserve will cover just over 40% 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 an increasing risk to the Council linked to the ICO's deteriorating financial position. As noted above the ICO has given 12 month notice to withdraw from the risk share agreement with the Council and CCG for the provision of Adult Social Care. At this stage it is unclear what the Council contractual and therefore financial commitments will be from January 2018. All partners are working together to resolve this issue. As a result if the ICO in year performance and the achievability of their cost improvement plans this is assessed at a higher risk than in previous year.
- 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. It is vital that there is a robust performance and financial plan for this service to cover future years to reduce the levels of (financial) risk around this service.
- 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 4.8% of estimated 2017/18 net revenue budget). This for 2017/18 will result in a required general fund reserve balance of £5.1 million. At this stage the current general fund balance of £4.4 million is 4.2% of 2017/18 net revenue budget or £0.7m 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 be increased by £0.750m to be close to 5% of net revenue budget.
- A7.9 The 2017/18 budget to be presented in February 2017 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.



## A9 Comparison with Other Councils:

A9.1 CIPFA during their recent Financial Resilience review (November 21016) of Torbay provide the following information to compare Torbay with its nearest neighbours statistical group. This show that Torbay's general Fund reserve is significantly below the level of similar Councils.

A9.2 General Fund Reserve as a % of Current Net Revenue Expenditure

| <b>Torbay</b>                | <b>2011/12</b> | <b>2012/13</b> | <b>2013/14</b> | <b>2014/15</b> |
|------------------------------|----------------|----------------|----------------|----------------|
| General Fund Reserve         | £4.0m          | £4.4m          | £4.4m          | £4.4m          |
| Net Revenue Expenditure      | £124m          | £126m          | £122m          | £120m          |
| Reserve/Net Spend %          | 3.2%           | 3.5%           | 3.6%           | 3.7%           |
| Average (nearest neighbours) | 11.2%          | 12.0%          | 11.7%          | 11.3%          |
|                              |                |                |                |                |
| General & Earmarked Reserves | £37m           | £34m           | £38m           | £35m           |
| Average                      | £59m           | £63m           | £70m           | £71m           |

## A10 Chief Finance Officer Statement.

A10.1 The Council is continuing to face 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 2017/18 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) The CSR has a balance of £2.0m to fund 2016/17 projected overspend
- b) The General Fund reserve has a minimum balance equal to 5% of net budget
- c) That by 2019/20 a minimum ongoing balance of £2m is budgeted for in the CSR reserve
- d) That Children's Social Care achieve their improvement plans
- e) That Adult Social Care (via the ICO) develop and achieve a realistic cost reduction plan and the future contractual arrangements for adult social care from January 2018 are developed at pace
- f) That a balanced budget can be set for 2017/18
- g) That the Council delivers its transformation programme at pace

## A11 Governance of Reserves.

A11.1 Appendix 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. Councillors 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.

## **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 both Children's social care and adults social care.

A12.4 The significant proposed reduction in the insurance reserve is a concern should the Council's risk profile for insurance change.

## **Appendices**

|            |                             |
|------------|-----------------------------|
| Appendix 1 | Review of Reserves 2017/18  |
| Appendix 2 | Summary of Council Reserves |