



Meeting: Council 1st February 2018

Wards Affected: All

Report Title: Review of Reserves 2018/19

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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 Council approve that:

- a) £2.0m is earmarked in the Comprehensive Spending Review Reserve to fund the predicted 2017/18 Council overspend.
- b) £0.200m is transferred from Comprehensive Spending Review Reserve to the IT Replacement Fund.
- c) £0.050m is allocated from Comprehensive Spending Review Reserve to a Swimming Pool Reserve to support the 2018/19 budget proposal

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 2017/18 from Children’s social care with the current predicted overspend on this services of £2.4m. These overspends are partly offset by savings in other services resulting in a predicted overspend (as at quarter two) in 2017/18 of £2.0m. This overspend will need to be funded.

3.3 Due to the significant financial risks facing the Council in 2018/19 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. Consistent to the 2017/18 Review of Reserves and the Medium Term Financial Plan, it is still recommended that, as a result of the level of current and previous year budget variations, to maintain the balance at a minimum of £2m. This approach to maintain a balance of £2m in the CSR was 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 higher level of risk associated with them, such as the Investment Fund and Housing Companies 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. However these activities are more commercial in nature and therefore carry a higher level of risk and reward. The risk/reward is linked to changes in income streams, (such as rent),

and also fluctuations in the values of any underlying assets.

- 3.5 A significant financial risk facing the council was in relation to the judicial review on care home fees dating back to 2014/15. The Council has appealed one element of the original judgment from 2016 and in October 2017 the judgment was awarded in the councils favour. This has removed the financial risk from the original judicial review.
- 3.6 This change has two significant implications for the Council's financial and reserve planning. Firstly the Comprehensive Spending Review reserve now has sufficient funds to fund the projected £2m 2017/18 overspend, therefore allocations from other earmarked reserves is not now required. Secondly the balance on the CSR reserve is now projected to be at the recommended £2m level therefore no contribution to this reserve is now required as part of the 2018/19 budget. The Mayor will consider this issue in his final 2018/19 budget proposals in January 2018. It must however be noted that the budget proposals presented in October 2017 still had a £0.8m target to be achieved.
- 3.7 It is clear that the Council has lower levels of general fund reserves at 4.2% than other Council's.
- 3.8 Members are again reminded of the advice previously given by the Head of Finance, 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.

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

Martin Phillips
Head of Finance

Supporting information

A1. Introduction

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

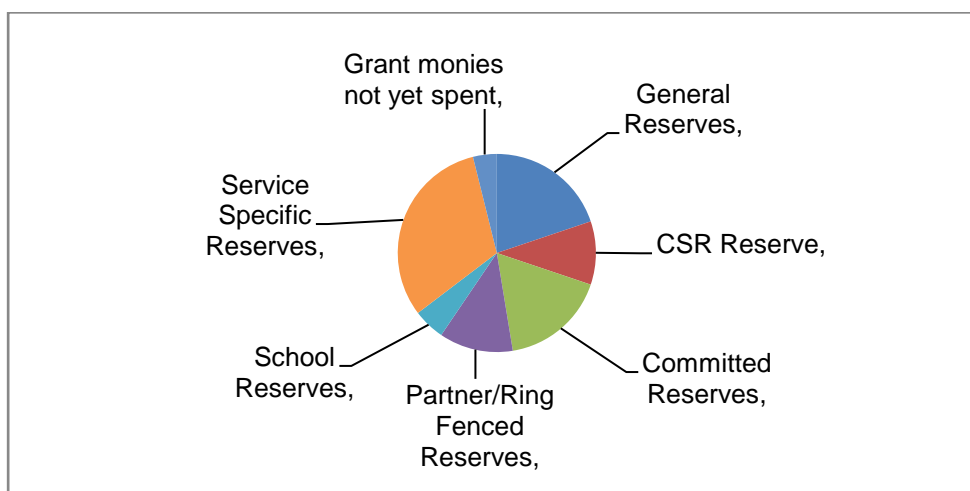
A2 Review of Reserves 2018/19

A2.1 Overview

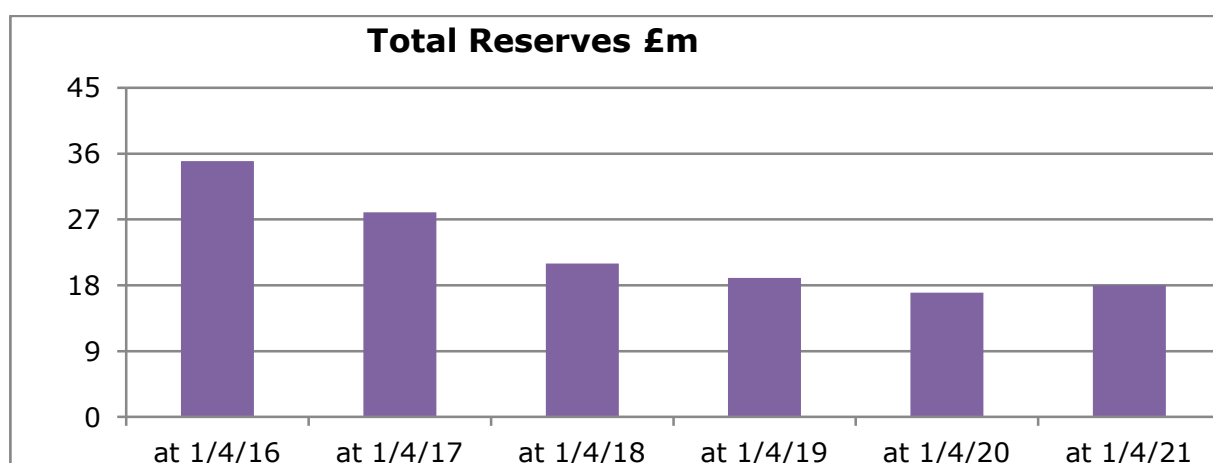
A2.2 As at 31/03/2017 Torbay Council's reserves were as follows:-

	31/3/16 actual	Change in year	31/3/17 actual	31/3/18 estimate
	£m	£m	£m	£m
General Fund Reserve	4.4	0.2	4.6	4.6
Sub Total - General Reserves	4.4	0.2	4.6	4.6
Comprehensive Spending Review Reserve	3.7	0.7	4.4	2.4
Committed Reserves	5.8	(1.0)	4.8	4.0
Committed Reserves - Grant monies not yet spent	2.0	(0.2)	1.8	(0.9)
Partner/Ring Fenced Reserves	3.1	(0.1)	3.0	2.8
School Reserves	2.4	(0.5)	1.9	1.2
Children's Services 5 Year Strategy Res.	1.1	(1.1)	0	0
Other Service Specific Reserves	7.2	(0.1)	7.1	7.3
Sub Total – Earmarked Reserves	25.3	(2.3)	23.0	16.8
Total Reserves	29.7	(2.1)	27.6	21.4

A2.3 From the table above, the estimated balances (in £m) as at 31/3/18 after the recommended allocations is as follows:



- A2.4 A list of the Council's Reserves as at 31/03/2017 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). In the short term risk from Adults Social care have been mitigated by the agreement to a revised risk share agreement that limits the Council's exposure to financial risk. There is an ongoing 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 implication of the judgment on care home fees in the Council's favour will enable the Council to maintain a balance of at least £2m in the CSR Reserve to reflect this risk. The 2017/18 Review of Reserves report council approved that "That Council notes the significant financial pressures facing the Council in future years and agrees, as a policy decision, the allocation of additional funds, as required, to the Comprehensive Spending Review Reserve in each budget process to increase, and then maintain, an ongoing minimum balance in the reserve of £2m". This policy still stands and the projected level of this reserve is currently sufficient to meet this target therefore an additional contribution will not be required in 2018/19 budget proposals.
- A2.7 The Council has had unprecedented financial challenges from reduced funding levels over the past few years and is facing a further £8m reduction in its Revenue Support Grant from 2017/18 (£14m) to 2019/20 (£6m), in addition to any future expenditure pressures such as inflation and increase in demand. There have been no funding announcements for 2020/21.
- A2.8 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.
- A2.9 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 and the improvement plan and medium term financial strategy for children services.
- A2.10 Of particular significance for 2018/19 is the new partnership with Plymouth City Council for the management of children's services, the risks and rewards in relation to Investment Properties and the risks and rewards in relation to the Council's new housing companies.
- A2.11 Each reserve has been assessed for its estimated balance as at 31st March 2018 and for the estimated additions or withdrawals from the reserve during 2018/19 and future years. This is included in the table at Appendix 1. This table is shown after the recommendations arising from this report,



- A2.12 The table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £6m during 2017/18 to £21m. 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.

A2.13 Adults Social Care

A2.14 A revised risk share was negotiated in October 2017 with both the ICO and CCG due to in place for 2018/19 and 2019/20 with the Council funding a higher “fixed” annual payment in exchange for no exposure to the risk of changes in cost. This therefore reduces the exposure to financial risk on this service to nil. However if this fixed payment does not exist, say after the contract period, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service. Therefore future risk assessments could be higher than the risk assessment for 2018/19.

A2.15 Childrens Social Care

A2.16 This service has experienced a high level of financial volatility over the past few years and has exceeded its approved budget for the past few years and is projected to overspend by £2.4m in 2017/18 (quarter 2). The Childrens Services Financial Strategy was approved by Council in February 2017.

A2.17 The proposed budget for 2018/19 for the service is being increased to reflect the current year financial position for childrens services with the aim of setting a robust budget for that service. This increase is offset, in part, by estimated expenditure reductions of £1.5m linked the service’s improvement plan and medium term financial strategy approved by Council in February 2017.

A2.18 The Council expects to have commenced its partnership working with Plymouth City Council in 2018/19. One off “implementation” funding has been awarded to Plymouth from the Department of Education this should be sufficient to cover the initial costs of transition.

A2.19 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. The reserve is projected to be depleted during 2019/20 therefore children services need to plan for the funding of this contract.

A2.20 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 Childrens’ Services transfer to the ICO”*. Although the service will not transfer to the ICO, but will now form a contractual partnership with Plymouth City Council, this repayment will still need to be included in any future longer term financial planning.

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 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, as at 31st March 2017 the Council’s uncommitted reserves were the Comprehensive Spending Review reserve (£4.4m) and the Council’s general fund balance (£4.6m) 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 in year budget variances in social care over the past few years.

A3.5 The Head of Finance 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 Head of Finance 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 following paragraphs make specific comments on a number of reserves. A summary of each reserve and their purpose is included as Appendix Two. During this review a number of balances (£0.5m) have been identified by Head of Finance as surplus and these have been transferred to the CSR Reserve. 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 £4.4m 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 Head of Finance.

The CSR included a balance for the results of the judicial review appeal on care home fees dating back to 2014/15. The Council has appealed one element of the original judgment from 2016 and in October 2017 the judgment was awarded in the councils favour. This has removed the financial risk from the original judicial review. This change has two significant implications for the Council's financial and reserve planning. Firstly the comprehensive spending review reserve now has sufficient funds to fund the projected £2m 2017/18 overspend, therefore allocations from other earmarked reserves is not now required. Secondly the balance on the CSR reserve is now projected to be at the recommended £2m level therefore no contribution to this reserve is now required as part of the 2018/19 budget. The Mayor will consider this issue in his final 2018/19 budget proposals in January 2018. It most however be noted that the budget proposals presented in October 2017 still had a £0.8m target to be achieved.

A number of specific issues are also to be addressed from this reserve:

- Costs of exit packages arising from budget decisions will continue to be funded
- Part funding of the office rationalisation project focusing on improvement works to Electric House to be repaid from future year rental income from the lease of two floors of Torhill House
- Creation of a specific reserve of £50,000 linked to the 2018/19 budget proposal for one off costs for the two community run swimming pools in Brixham and Torquay
- Allocation of £200,000 to IT replacement reserve to ensure adequate resources for the current IT replacement demands in 2018/19.
- Allocation of up to £450,000 for one off costs from the (proposed) new contractual arrangements for the provision of library services from April 2018.
- Allocation of up to £150,000 for one off costs from the (proposed) new contractual arrangements for the provision of toilet services from April 2018.
- Allocation for any one off costs associated with the (proposed) new contractual arrangements for the delivery of the leisure activities including Clennon Valley Leisure Centre and the Velopark.

A4.7 Committed Reserves – balance £6.6m 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 Within revenue grants, the reserve for Dedicated Schools Grant is estimated to be “negative” by £1.1m. Funding for schools activities are primarily funded through the dedicated schools grant (DSG). The Council does not receive any schools funding within its own grant and funding allocations. This grant is allocated in “blocks” to cover different activities – in 17/18 these “blocks” are early years, higher needs and schools. The higher needs block has in the past 12 months been under financial pressure as a result of an increasing level of referrals from schools for higher needs support for children resulting in an over spend in 2017/18 of £1.1m.

A4.10 The Council does not receive any funding for schools therefore the over spend will remain in the DSG to be funded in future years and is not a cost the Council will fund. As a recognition of this pressure the Schools Forum, (who have a governance role in the allocation of schools funding), have been supportive and have agreed an allocation of 0.5% of the 18/19 schools block of the DSG (approx. £0.350m) to part fund this overspend. The Council considered submitting to Department of Education a request (a disapplication) to Department of Education that additional funds are transferred from the schools block in 2018/19 to fully fund the 2017/18 overspend. However this was not submitted as it was considered that a better approach to reducing this demand, (and therefore cost), is to work directly with schools to jointly work on a solution to this issue.

A4.11 Partner/Ring Fenced Reserves – balance £4.9m 31/3/17

A4.12 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.

A4.13 The balance of £1.9m held by schools as at 31st March 2017 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.

A4.14 Specific Issue Reserves - balance £6.9m 31/3/17

These are reserves set aside for specific expenditure purposes.

A4.15 Investment Fund Reserve

The Council has now invested £118m in investment property in the past year (as at 31st December 2017) and could invest another £82m to the Council approved limit of £200m. This, more commercial activity, introduces new risks and rewards for the Council to manage. The risks in relation to variations in income such as changes in rent, void periods, rent reviews, landlord costs etc. This is mitigated by making an annual contribution to a specific reserve that, as a principal is 0.25% per annum of the purchase costs. This will be reviewed by Head of Finance in light of any known or potential changes in future years.

The Council also has to mitigate for any changes in asset value and fund the repayment of the borrowing incurred on the purchase of the asset. It is important that the value of the asset does not reduce below the level of outstanding debt on the asset. To mitigate this risk, and to provide for the repayment of the borrowing if the asset is not sold in the medium term, a contribution to the capital funding reserve will be made.

A4.16 Regeneration Reserve

As approved by Council the estimated in year surplus of £0.2m on the return from Fugro House (Investment Fund purchase) is to be allocated for regeneration. Pending specific plans for the use of this funding this surplus has been transferred to a specific earmarked reserve.

A4.17 IT Replacement Reserve

Based on current estimates of the costs of essential IT replacement and investment in 2017/18 and 2018/19 an additional £0.2m is required to supplement the current capital allocation for IT investment.

A4.18 Insurance Reserve

The balance as at March 2017 for both the insurance reserve was £2.9 million. The Council's insurance team in consultation with the Head of Finance 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 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.

A new insurance risk arising from the purchase of investment properties is to ensure that these properties are adequately covered. This cost under the lease is met by the tenants. Insurance related risks for the council companies such as TDA and the Housing companies are funded by those companies.

A5 Review of Provisions, other Potential Liabilities and potential risk from Council Companies

A5.1 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.

A5.2 All companies owned by the Council are ultimately part of the Council's overall (consolidated) financial position.

The TDA, 100% owned by the Council, has now established a trading subsidiary Complete Cleaning Solutions limited and intends to establish a second trading company during 2017/18. Although there are no significant risks from these companies expected, these companies are owned by the Council therefore the Council must ensure it reviews the Company's performance.

The Council has also now set up Torbay Housing Company and is in the process of setting up a holding company and a development company. All 100% owned by the Council. As with the TDA and its companies, although there are no significant risks from these companies expected, these companies are owned by the Council therefore the Council must ensure it reviews the Company's performance.

A5.3 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.

A5.4 As at 31/03/2017 Torbay Council's provisions were as follows:-

31/3/16		31/3/17	Change
£m		£m	£m
0.4	Insurance Provision	0.4	0
2.1	NNDR Appeals	1.5	(0.6)
0.2	Other Provisions	0	(0.2)
2.7	Total Provisions	1.9	(0.8)

A5.5 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 provisions will be typically used within 2017/18 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.

A5.6 The provision for NNDR appeals as at 31st March 2017 is part 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.

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, set at 5% of the Council's annual NNDR retained income under a 49% retention scheme.

Estimates of future year surpluses are included in the 2018/19 Budget Setting process and reflected in the Medium Term Resource Plan.

The Council, as part of a joint submission with all other Councils in Devon, applied to be a NNDR pilot area for 2018/19. This bid has now been approved by DCLG for 2018/19 only, as only one year "pilot status" will be confirmed, the Councils risk on NNDR volatility and growth will be a shared risk between all Devon Council's. This should provide a level of certainty for Torbay's NNDR income in 2018/19.

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

- A7.1 The Councils General Fund Reserves of £4.6 million represents 4.2% of the Council's net 2017/18 budget. This level of "unallocated financial reserves" is lower than average compared to other unitary Councils.
- 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 2017/18 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 £6.5 million or 6% of 2017/18 net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning), to reflect the financial risks inherent in any significant new partnerships such as Housing Company and Childrens' services partnership with Plymouth City Council, investments, funding changes, outsourcing or capital developments, say £2.6 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 over 50% of this sum.
- A7.4 This risk assessment overall is lower than the previous year as although some of 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, the risk is lower as the council has a fixed payment to for Adult Social care in 2018/19 and 2019/20. This fixed payment (agreed October 2017) does remove volatility from the largest budget/service the Council has. However if this fixed payment does not exist, say after the contract period, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service. In addition the challenges of achieving the ongoing significant budget reductions from central government create a major risk of budget variations.
- A7.5 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 the improvement plan and medium term financial strategy for this service is delivered to reduce the levels of (financial) risk around this service.
- A7.6 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 4.1% of estimated 2018/19 net revenue budget). This for 2018/19 will result in a required general fund reserve balance of £4.5 million. At this stage the current general fund balance of £4.6 million is in line with that assessed target.

A7.7 However following consideration of the above, in the opinion of the Head of Finance, as the level of Council’s reserve is low compared to other Councils and the continued spending pressures within children social care, the Mayors 2018/19 budget proposal to increase this reserve by £0.250m should be supported.

A7.8 The 2018/19 budget to be presented in February 2018 to Members will also include an assurance statement from the Head of Finance 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

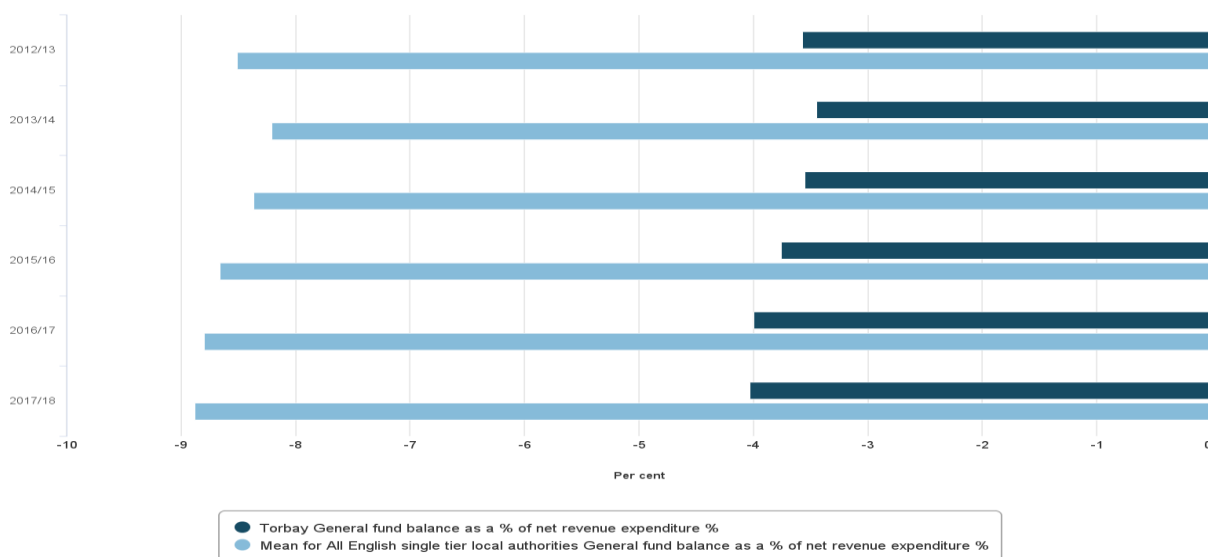
A8.1 It is assumed that in the circumstances of a significant overspend within the Council’s capital programme this will be covered by alterations to the timing of the Council’s capital investment plan; use of the capital contingency or from additional borrowing within the Council’s approved Prudential 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. It should be noted that all capital projects should have contingencies within the individual project costs.

A9 Comparison with Other Councils:

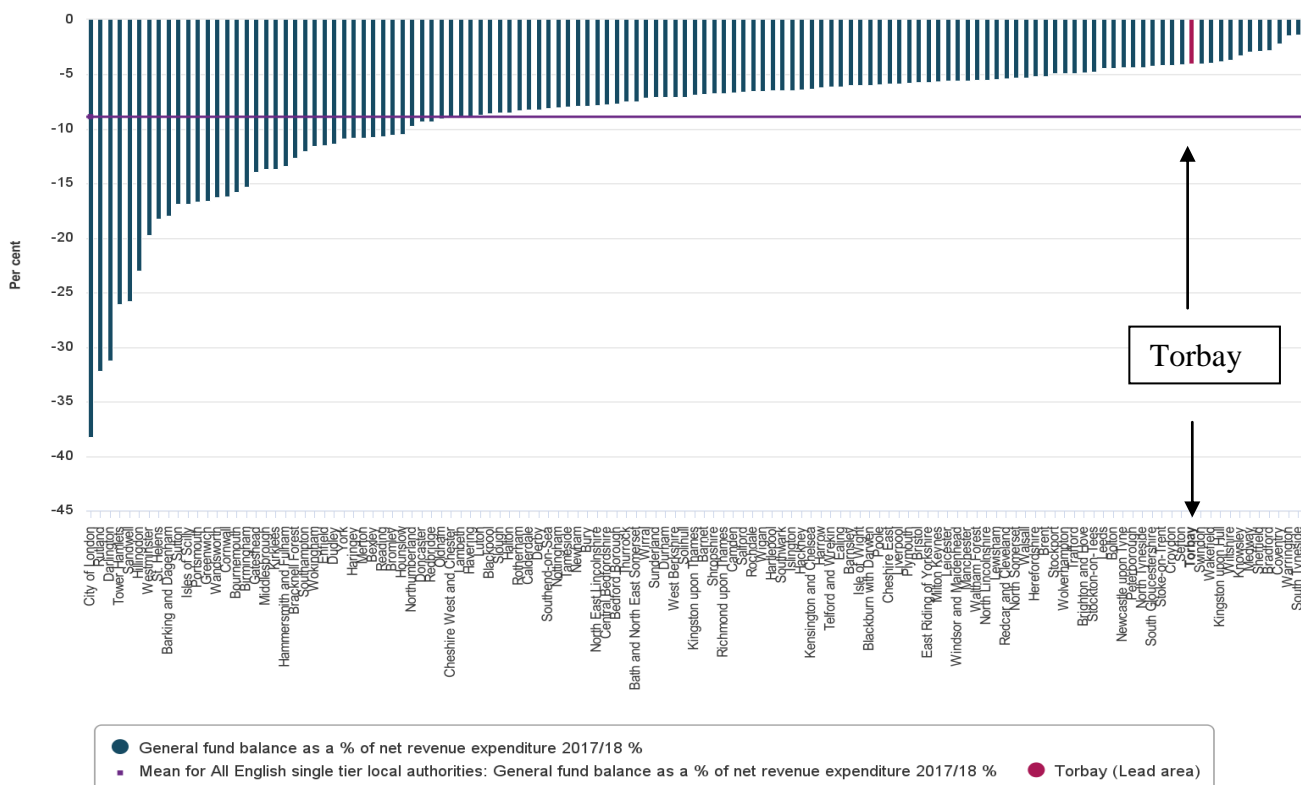
A9.1 The Local Government Association holds statistical data for all Councils. This includes an indicator of the “general fund balance as a percentage of net revenue expenditure”. Torbay’s percentage for 2017/18 was 4% compared to an average for all unitary councils of 9%.

General fund balance as a % of net revenue expenditure (%) (from 2012/13 to 2017/18) for Torbay & All English single tier local authorities



Source: Local Government Association

General fund balance as a % of net revenue expenditure (%) (2017/18) for Torbay & All English single tier local authorities



Source:
Local Government Association

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A10 Head of Finance Statement.

A10.1 The Council is continuing to face unprecedented financial challenges. I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2018/19 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:

- The CSR has a balance of £2.0m to fund 2017/18 projected overspend
- The General Fund reserve has a minimum balance equal to 4.2% of net budget
- That a minimum **ongoing** balance of £2m is maintained for in the CSR reserve
- That Children's Social Care, with Plymouth City Council, deliver the expected improvements and cost reductions for 2018/19
- That the revised Risk Share Agreement for Adult Social Care is maintained for 18/19 and future years
- That a balanced revenue budget can be set for 2018/19
- That the budgeted Investment Property surplus for 2018/19 is achieved.
- That the Council continues to 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 this 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, in the longer term, adults' social care.

A12.4 It is important for the Council to review its risks and rewards in relation to new activities, such as Investment properties and its interests in its companies if the level of activity in those companies changes. Companies include the TDA and its subsidiary companies and the newly established Housing companies.

Appendices

Appendix 1	Review of Reserves 2018/19
Appendix 2	Summary of Council Reserves

APPENDIX 1

2018/19 - Review of Reserves

<u>Reserves</u>	Balance as at at 1/4/17	Balance as at at 1/4/18	Balance as at at 1/4/19	Balance as at at 1/4/20	Balance as at at 1/4/21
	£'000	£'000	£'000	£'000	£'000
General Reserves					
General Fund	4,623	4,623	4,623	4,623	4,623
	4,623	4,623	4,623	4,623	4,623
Earmarked Reserves					
Uncommitted Reserves:					
Budget Pressures	62	0	0	0	0
Comprehensive Spending Review	4,419	2,377	2,036	1,996	1,916
	4,482	2,377	2,036	1,996	1,916
Committed Reserves:					
Approved Service Carry Forwards	982	422	242	242	242
Capital Funding Reserve	2,098	2,326	2,580	2,527	3,341
Council Elections	48	90	133	0	43
Grants	1,825	-939	-615	-616	-616
NNDR Collection Fund	1,022	750	750	750	750
PFI Sinking Fund	668	404	141	0	0
	6,643	3,054	3,232	2,903	3,759
Partner/Ring Fenced Reserves					
Devon Audit Partnership	19	19	19	19	19
EDC Reserves (Funds paid in advance)	805	805	205	205	205
Education Schools Exit Packages	222	165	82	0	0
Harbours Reserves	828	561	358	236	143
Public Health Reserve	1,174	1,227	1,310	975	975
School Balances	1,881	1,197	958	766	613
	4,929	3,974	2,933	2,201	1,955
Specific issues					
Art Objects Purchased Fund	25	25	25	25	25
Crisis Support Reserve	634	534	434	334	234
Employment Fund	247	178	0	0	0
Employment Issues	24	24	24	24	24
Equipment Reserves	177	57	68	79	91
Geopark	46	46	26	0	0
Green Travel Plan	106	86	66	46	26
Highway Reserves	482	382	282	182	82
Insurance Reserves	2,889	2,882	2,882	2,882	2,882
IT Equipment Reserve	74	200	0	0	0
Invest for Income Reserve	75	0	0	0	0
Investment Fund	10	501	553	605	822
Office Accommodation Reserve	230	360	0	0	0
Oldway Mansion Reserve	571	495	469	443	417

Planning Reserve	288	217	167	67	67
Regeneration Reserve	0	200	200	200	200
Salix Reserve	216	105	170	235	235
Swimming Pool Reserve	0	50	50	50	50
Town Centre Regeneration	230	168	58	15	15
Tourism	37	22	22	22	22
Training and Development Reserve	43	38	38	38	38
Transformation Reserve	121	400	200	0	0
Waste Strategy	414	414	414	414	414
	6,938	7,382	6,147	5,660	5,643
Total Earmarked Reserves	22,991	16,788	14,348	12,761	13,273
0					
TOTAL RESERVES	27,614	21,411	18,971	17,384	17,896

Appendix Two

<u>Name of Reserve</u>	<u>Description of Reserve</u>	<u>Responsible Officer</u>
Capital Funding	To reserve funding for items in the approved Capital Plan Budget.	Martin Phillips Head of Finance
Carry Forwards	Balance of any Service specific Carry Forward of budget	Martin Phillips Head of Finance
Comprehensive Spending Review Reserve	To fund costs associated with meeting budget reductions as a result of the Government's comprehensive spending review.	Martin Phillips Head of Finance
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
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
Employment (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
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 activities	Kevin Mowat Executive Head Business Services
Grants recognised but not used	Reflects the value of revenue grants (without conditions) received by 31 st March but not yet used to support expenditure	Martin Phillips Head of Finance
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 Director Corporate and Business Services
IT Equipment Reserve	To provide funds for priority driven replacements of IT equipment.	Bob Clark

		Executive Head Customer Services
Investment Fund Reserve	Reserve to mitigate any variations in income or costs associated with Investment Fund properties such as void and rent free periods	Kevin Mowat Executive Head Business Services
NNDR Equalisation Reserve	Reserve to smooth the volatility of NNDR income including appeals, s31 grant and the performance of the Devon wide NNDR pool.	Martin Phillips Head of Finance
Office Accommodation Reserve	Reserve to help meet the short term revenue costs of the rationalisation of office accommodation.	Kevin Mowat Executive Head Business Services
Oldway Mansion Reserve	Reserve funded from the developer contribution to be used for the benefit of the Mansion.	Kevin Mowat Executive Head Business Services
Misc. Specific Reserves	Includes: Council Elections, , Art Objects, Devon Audit Partnership, Green Travel Plan and Salix (energy initiatives).	Various
PFI Sinking Fund	To provide funds to meet the liabilities under the PFI agreement over 25 years (The Spires and Homelands Schools) and to provide funding towards Paignton Community College expansion project.	Andy Dempsey Director of Children's Services
Planning Reserve	To provide for costs of Local Plan Inquiry held every 4/5 years and masterplan delivery.	Kevin Mowat Executive Head Business Services
Public Health	Reflects carry forward of ring fenced funds for Public Health	Caroline Dimond Director Public Health
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.	Rachel Williams Head of Schools
School Redundancy Reserve	Reserve to support the costs of redundancies for schools based staff	Andy Dempsey Director of Children's Services
Swimming Pool Reserve	Reserve established as part of 2018/198 budget proposals to support unplanned expenditure or income variances for community run internal swimming pools.	Kevin Mowat Executive Head Business Services
Tourism (Strategic Events) Reserve	Reserve established in 2012/13 to support tourism and events.	Kevin Mowat Executive Head Business Services
Town Centre Regeneration	Reserve established to fund the staffing and feasibility costs associated with the Town Centre Regeneration project	Kevin Mowat Executive Head Business Services
Training and Development Reserve	New reserve to support the training and development needs of senior staff and members.	Anne-Marie Bond Director Corporate and Business Services
Transformation Reserve	Reserve to support expenditure on projects associated with the Council's transformation programme.	Anne-Marie Bond 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.	Kevin Mowat Executive Head Business Services