TORBAY COUNCIL

Meeting: Council **Date:** 3 March 2022

Wards Affected: All Wards

Report Title: Review of Reserves 2022/23

Is the decision a key decision? No

When does the decision need to be implemented? n/a

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1. Purpose

1.1. The Council holds several reserves as part of its approach to maintaining a sound financial position, protecting the Council to some degree from volatility 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, in support of the 2022/23 budget setting process, Council notes the Council's reserves position.

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 continues to face significant financial uncertainty because of Covid-19 and the impact on both expenditure and income, as well as in the longer-term uncertainty over future council funding levels given the 2022/23 Local Government finance settlement was for one year only. In addition, the 2021 Spending Review national funding allocation for local government for 2023/24 and 2024/25 were at the same levels as 2022/23 (excluding the health and social care levy), therefore meaning that there is no provision for growth or inflation in these years.

3.3. As a result of Covid-19 the Government allowed Councils to spread the loss relating to 2020/21 over 3 years. So far in 2021/22 collection of Council Tax and Business Rates (NNDR) has performed in line with forecasts used in setting the 2021/22 budget. At this stage it is unclear to what extent the latest developments in relation to new strains of Covid-19 may impact upon collection rates in 2022/23.

3.4. The General fund is at £5.6m which is approx. 5% of the Council's 2021/22 net budget. This is after an agreed Council increase to the Reserve of £1m in 2020/21. This level of General Fund reserves is low but prudent, however should the Local Authority be required to fund the

Dedicated Schools Grant (DSG) deficit, which is forecast to be more than £9m by March 2022, this would exceed the General Fund Reserve balance and would cause a fundamental financial issue for the Council.

3.5. The Comprehensive Spending Review (CSR) reserve may be needed to fund any in year overspend for 2021/22 should this overspend not be addressed during the remainder of the financial year.

3.6. Whilst Childrens Social Care underspend in 2020/21, the continued impact of Covid-19 on this budget in terms of placement sufficiency has provided significant pressure on the 2021/22 budget. This has served as a reminder of the significant impact should spend start to rise again at levels seen in previous years, noting that there is limited funding within the CSR Reserve and the General Fund reserve to meet this. Future increases in spend like those seen in previous years would be a major concern for the Council as Children's Services represents approx. 40% of the Council's budget.

3.7. As a result of the relatively low level of general reserves it remains an option for the Council to approve prudential borrowing of up to £3m to fund items in the capital plan that were intended to be funded from revenue or reserves. This results in ongoing borrowing costs which will need to be included in future year budgets but does give a boost to reserves that are low. This funding could be added to both the General Fund Reserve and the Comprehensive Spending Review Reserve. This would then provide a higher level of mitigation for the Council by increasing the general fund reserve and increase the Comprehensive Spending Review Reserve to above minimum target levels. This option can be taken by Council in year if financial issues materialise in 2022/23 or future years.

3.8. The total balance of earmarked reserves may seem adequate however an examination of the individual reserves shows that for the majority of reserves their balance is ring fenced, links to a partner or is for a specific future funding issue or a specific future risk, therefore the flexibility to use those reserves to apply to an overspend position is limited.

3.9. As mentioned earlier, there remains a significant reserve risk due to the deficit balance on the DSG due to higher demand and cost in relation to children who require additional support (Higher Needs). Whilst this is no longer shown as a negative reserve due to the current Statutory override which allows a reclassification of the deficit on the council's balance sheet, this remains a significant risk to the Council's reserve position. The Council does not receive any funding for schools as part of its own funding therefore the overspend is expected to remain in the DSG to be funded from DSG in future years and is therefore not a cost that the Council must fund. This position had been confirmed by the School and Early Year Finance (England) Regulations 2020. However, most recently, engagements with the Education and Skills Funding Agency (ESFA) have indicated that a central government funding solution is unlikely. Consequently, it was disappointing that the Schools Forum, on a majority vote, chose not to agree to transfer 0.5% of the Schools block (of funding) in the 2022/23 DSG to the Higher Needs block. This decision exacerbates the position in relation to the deficit.

3.10. Due to the significant financial risks facing the Council in 2022/23 because of the prolonged effect of Covid-19 and possible risks in 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. Following previous Review of Reserves and the Medium-Term Financial Plan, it is recommended that, because of the level of current and previous year budget variations, to continue the target to establish a balance of the CSR Reserve at a minimum of £3m.

3.11. In addition to possible rises in demand pressures for social care, the future financial risks facing the Council are compounded by the uncertainty around future funding due to the spending review being reduced to a one-year settlement. Torbay's actual funding allocation was notified in December 2021, and whilst it contained one-off monies, it is not prudent to fund ongoing recurring expenditure with one-off funding and therefore this short-term nature of the settlement provides challenges to the medium-term finances.

3.12. In the absence of clarity from central government, councils, including Torbay, will inevitably aim to mitigate against that uncertainty. Uncertainties for Torbay Council include:

- Impact of Spending Review in 2023/24 onwards
- The ongoing financial impact of Covid-19
- Impact on new funding formula for Councils in 2023/24 (at the earliest)
- Ending of New Homes Bonus Grant (in its current form) in 2023/24
- Unconfirmed allocations for specific grants such as Improved Better Care Fund, Flexible Housing Grant and Supporting Families for 2023/24
- Impact of relative resource (council tax and service) equalisation in 2023/24 (at the earliest)
- Impact of the new NNDR retention scheme in 2023/24 (at the earliest)
- Impact of the revised NNDR baselines in 2023/24 (at the earliest)
- Future funding of Higher Needs Block in new schools funding formula
- Future value of contract for Adult Social Care in 2023/24
- Impact of reforms to Adult Social care from 2023.

3.13. The Council has previously undertaken activities that have a higher level of risk associated with them. This includes the Investment Fund (purchases now stopped) and both affordable and extra care housing where the Council is investing a significant amount funded by prudential borrowing via its subsidiary company Torvista. Whilst significant business case analysis and due diligence of proposals is undertaken for each initiative, there is always a risk that the projects will not deliver the income required to cover the "fixed" costs of the borrowing. These more commercial activities carry a higher level of risk and reward which is linked to changes in income streams (such as rent) and fluctuations in the values of any underlying assets.

3.14 Several of the regeneration and housing schemes the Council is considering are high value schemes that have a higher level of risk associated and require a significant level of future income to support the borrowing required. These include the Council funded housing development at Preston Down Road, extra care accommodation at both Crossways and Torre Marine and the major regeneration schemes at Union Square possible involving a joint venture company and at Victoria Square.

3.15 In addition, the Council owns 100% of SWISCo, Torbay Education Limited and the TDA Group of companies including Torvista, TEDC Developments, C&A Consultancy and Complete Cleaning Solutions. There are inevitably risks associated with those companies.

3.16 As part of setting the Budget for 2021/22 £1.2m was held in reserves for SWISCo, as it was recognised that they were likely to require financial support. This entire balance has been required in 2021/22 and the Council is proposing an "re basing" of the SWISCo funding in 2022/23.

3.17 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 Chief Finance Officer Statement.

4.1 The Council is continuing to face 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 2022/23 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.

4.2 I fully support retaining the prudent levels in the general fund reserve at close to 5% of the Council's net revenue budget and the continued, prudent use of reserves to support potential Covid-19 issues and the three-year impact of the 2020/21 collection fund deficit.

4.3 My statement for 2022/23 must be caveated due to the continued uncertainty around Covid-19. So far there is no announced financial support for 2022/23 to deal with increased expenditure or reduced income.

4.4 The adequacy of the Council's reserves can be supported if the following actions are undertaken:

a) The Medium-Term Financial Plan includes an increase to the CSR reserve to achieve a minimum ongoing balance of £3m.

b) That the Council maintains the focus on social care, both adults and childrens, as the biggest financial risks to the Council to deliver the identified improvements supported by a robust financial recovery plan and the sufficiency strategy

c) That Council recognises the option of using borrowing to fund the capital plan to enable an increase to reserve levels by £3m if needed.

4.5 However, all consideration of reserves must recognise the fundamental financial risk to the Council and schools associated with the increasing cumulative deficit on the higher needs block which is part of the ring-fenced Dedicated Schools Grant. This deficit is forecast to be over £9m by March 2022. While the Council and schools work jointly to mitigate this financial pressure the only viable solution is a central government resolution to this issue. The current central government short-term "fix" of having a statutory override to reclassify the deficit on the Council's balance sheet does not solve the issue. Inevitably if there is a risk that the council will have to fund this deficit then the fundamental financial impact on the Council will result in a s114 notice being issued and service and school spend being reduced or stopped.

4.6 At this stage with the significant uncertainty in relation to central government funding for 2023/24 I am currently only able to provide limited assurance in relation to 2023/24. I recommend, however, that the Council continues to be prudent in its use of reserves and plans for future risks and their mitigation. These to include:

a) Establishing and then maintaining a balance on CSR reserve of £3m

b) Protection to current level of General Fund Reserve

c) No general reserves used to balance 2022/23 or future year budgets

d) Specific material risks still mitigated for – e.g., insurance, NNDR volatility and investment fund

e) Regular updates and awareness of the risks identified in the Medium-Term Resource Plan

f) That the Council continues to deliver its transformation programme at pace in the medium term

g) Continued focus on reducing spend in children's' social care

h) That work continues on the Adult Social Care improvement plan

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

Sean Cremer
Deputy 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 2022/23

A2.1 Overview

A2.2 As at the start of the year, Torbay Council's reserves were as follows:-

- Reserves	Balance as at at 1/4/21 £'000	Balance as at at 1/4/22 £'000	Balance as at at 1/4/23 £'000	Balance as at at 1/4/24 £'000	Balance as at at 1/4/25 £'000
General Reserves					
General Fund	5,744	5,622	5,622	5,622	5,622
Earmarked Reserves					
COVID Reserve	2,350	1,100	100	0	0
Comprehensive Spending Review	2,370	1,865	1,765	2,265	2,765
Capital Reserves:	2,925	2,445	2,189	2,117	2,117
School Related Reserves	1,586	1,442	1,276	1,131	1,006
Partner/Ring Fenced Reserves	3,976	3,852	3,452	1,675	1,662
Specific issues	32,753	12,488	10,266	8,628	8,428
Investment Fund	1,376	1,659	2,658	3,658	4,658
Grants - received not spent	10,336	6,797	3,729	1,349	1,348
Total Earmarked Reserves	**57,672**	**31,648**	**25,435**	**20,823**	**21,984**
TOTAL RESERVES	**63,417**	**37,270**	**31,057**	**26,445**	**27,606**

A2.3 A list of the Council's Reserves is attached in Appendix 1.

A2.4 The table above currently **excludes** the deficit balance in the higher needs block of the Dedicated Schools Grant of £5.8m as at March 2021. Under a statutory override this reserve is reclassified until the end of 2022/23. At this point if the statutory override is not extended, nor a central government solution identified, then the total of Torbay's reserves will reduce by the deficit balance which is forecast to be more than £9m at the end of 2022/23.

A2.5 Each reserve has been assessed for its estimated balance as at 31st March 2022 and for the estimated additions or withdrawals from the reserve during 2022/23 and future years. This is included in the table at Appendix 1. Where there is a surplus balance on a reserve this has been transferred to the CSR Reserve.

A2.6 The level of reserves is expected to decrease between 2021/22 and 2022/23 by circa £26m.

A2.7 The majority of the movement is due to amounts carried forward specific issues including the Collection fund Reserve balance that reflects the timing of the 2020/21 s31 NNDR relief compensation grants.

A2.8 The Collection Fund reserves were inflated at the start of the year by £12m which were reversed in 2021/22. This relates to the timing difference between the grant funding of the 2020/21 retail, leisure and hospitality 100% reliefs and the following financial year that the impact has to be accounted for in. With the 2021/22 extended NNDR reliefs and the proposed

2022/23 NNDR extended relief schemes, depending on how and when DLUHC will pay and recoup the relevant compensation grants there could be, as in 2020/21, significant temporary balances held for NNDR at year end which have not been included in these tables pending detail from DLUHC being issued.

A2.9 Adults Social Care

A2.10 The current three-year agreement will expire in March 2023. This agreement between the Integrated Care Organisation (ICO) and Clinical Commissioning Group (CCG) and the Council provides a "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. Given the impact of Covid-19 the work of the Adult Social Care Improvement board is integral to mitigating the risk of future increases wherever possible.

A2.11 Children's' Social Care

A2.12 Following significant investment in the service the financial position for Children's Social care has improved. Continued stability within spend in this service remains crucial to the Council's medium-term sustainability.

A2.13 As part of the 2022/23 budget to mitigate against volatility of cost and demand for placements a new earmarked reserve will be established with an initial level of £1.0m. This reserve will be created from the reallocation of surplus balances from other reserves.

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

A3.1 The CIPFA guidance on reserves is now included in the Financial Management Code of Practice (2019). It states:

Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the Chief Finance Officer to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the Financial Management Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks.

These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

As a general rule, the authority might seek to: have a policy as to the level of reserves it wishes to retain and how these reserves may be used, be able to demonstrate that it has used its reserves only for investment in future activities or in the implementation of savings plans, rather than to plug funding gaps in the delivery of services.

A3.3 In undertaking a detailed annual review of reserves that is presented to Council, Torbay

Council is largely complying with the CIPFA Financial Management Code.

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 part of the Comprehensive Spending Review reserve and 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 in-year budget variances in social care over the past few years.

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 in keeping with the CIPFA Financial Management Code guidance which states:

> The aim of the authority’s financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges. Consequently, limited use of reserves to support the delivery of a clear and transparent savings programme is perfectly acceptable. Using reserves to fund otherwise-unsustainable services or to defer the need to make difficult decisions about service delivery, on the other hand, is to be avoided. Such an approach does nothing to enhance financial resilience. It also serves to make those difficult decisions even more difficult when they inevitably have to be made in the future.

A3.7 Earmarked Reserves

A3.8 The following paragraphs make specific comments on several 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.

A3.9 Comprehensive Spending Review Reserve

A3.10 Due to the significant financial risks facing the Council in 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.

A3.11 Given the levels of budget variation the Council has experienced in recent years, the minimum target reserve level should still be £3m. The budgeted contribution of £0.5m with additional contributions in future years will help to provide a higher level of risk mitigation for the Council.

A3.12 Dedicated Schools Grant

A3.13 The reserve for Dedicated Schools Grant is estimated to be in a deficit of £9m as at March 2022. Funding for schools activities are primarily funded though 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.

A3.14 The higher needs block has in the recent years been under financial pressure as a result of an increasing level of referrals from schools and parents for higher needs support for children resulting in a cumulative overspend.

A3.15 The Council does not receive any funding for schools therefore the overspend will remain in the DSG to be funded from DSG in future years. This overspend is therefore not a cost that the Council has to fund. This position was confirmed by the School and Early Year Finance (England) Regulations 2020 and repeated for 2021. However, as mentioned earlier in the report, recent conversations with the Education and Skills Funding Agency (ESFA) have indicated that a central government funding solution to deficits is unlikely.

A3.16 The Explanatory note to the 2020 Regulations stated:

We have made changes to how a local authority should handle deficits in their schools budget in order to make clear, on a statutory basis, that the schools budget is a ringfenced fund. Therefore, where a local authority decides not to deduct the deficit from its schools budget, it must carry forward the deficit to future financial years rather than fund it from other sources.

A local authority will now only be able to fund a deficit from a previous financial year from other sources where the Secretary of State has given authorisation to disregard the requirements in the regulations.

To reflect this, a number of changes have been made in Regulations 8(7) and 8(8) and Part 8 of Schedule 2 on dealing with the handling of deficits in a local authority's schools budget. The impact of these changes will be that a local authority with a deficit in its schools budget from a previous funding period ("funding period" is defined as a financial year) must either: (i) deduct the whole of the deficit from its schools budget for the current financial year; (ii) deduct part of the deficit from its schools budget for the current financial year and carry forward the rest of it into the next financial year; (iii) carry forward the whole of the deficit into the next financial year.

A3.17 This represents a significant financial risk that needs to be highlighted to Members given the relative value compared with the total balances in the Council's General Fund and CSR reserve.

A3.18 Investment Fund Reserve

A3.19 The Council has now invested over £235m in investment property and capital loans. Following on from the HM Treasury started a consultation on future PWLB borrowing terms the Council is no longer purchasing such assets, but it retains its previous investments.

A3.20 The reserve remains in place to mitigate any variations in income or costs associated with Investment Fund properties such as void and rent-free periods and receives annual contributions from the rental income received.

A4 Review of Provisions, other Potential Liabilities and potential risk from Council Companies

All companies owned by the Council are ultimately part of the Council's overall (consolidated) financial position and as CIPFA states that "the statutory role of the CFO does not stop at the boundaries of the local authority but extends into its partnerships, devolved arrangements, joint ventures and companies in which the authority has an interest".

TEDC trading as TDA, 100% owned by the Council, has established several companies including Complete Cleaning Solutions Limited, TorVista, and TEDC Developments, Kings Ash Holdings and C&A Consultancy.

Following the launch of SWISCo in 2020 amidst challenging operating environments the Council has continued to provide additional financial support as part of setting the 2021/22 budget and further support is proposed for 2022/23 and future years. This work is predominantly focussed on modernisation of the Company and should result in improved operational efficiency in future years.

Torbay Education Limited started operating in November 2021 for the delivery of an independent service providing which provides specialist tuition for students unable to attend mainstream school for medical reasons.

As the number of council subsidiary companies and the range of activities they undertake expand, the Council must ensure it closely monitors the Companies performance.

In addition to earmarked and general reserves the Council also holds provisions, where appropriate, for 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. The council also holds provisions for future issues mostly in relation to insurance claims where the "time lag" on claims being notified and settled is often over one year and a provision for NNDR appeals. The Council gains or loses a 49% share of any movements in NNDR.

A5 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, because 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 a target level of 5% of the Council's annual NNDR retained income under a 49% retention scheme.

Estimates of future year surpluses or deficits are included in the Budget Setting process and reflected in the Medium-Term Resource Plan.

The economic impact of Covid-19 has had a significant impact on the collection of council tax in 2020/21 and, in line with forecasts, 2021/22 has seen a continued, but lower, shortfall.

The earmarked reserve established in 2020/21 remains sufficient to meet the spread of the 20220/21 deficit over three years. As a result, the Council in future years will not have to make service reductions to fund this shortfall. However, given the developments in December 2021 in relation to Covid-19, there remains uncertainty on the future impact.

A6 Pensions and Loans (Non Treasury Investments)

Pensions: The Council has provided several guarantees in respect of pensions when staff have transferred from the Council's employment to an alternative supplier who has set up a LGPS pension scheme as an "admitted body". These are not guarantees to the supplier but to the pension fund in the event of the insolvency of the supplier. 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. As such, under accounting standards (IFRS), these are accounted for as insurance contracts. There is different accounting treatment for the guarantee to TEDC as that is now accounted for as a "pass through" agreement.

Loans: The Council has provided several loans to the private sector and to it subsidiary companies. If a loan defaults or under the "expected loss" model of assessing the fair value of a loan, then the loss will be charged to the council's revenue budget in the year the loss is recognised. The value of the Council loans is now significant – including £2.8m to TEDC, £9m to That Group for Torwood Street and £4m to South Devon College with a potential further £25m loan to Torvista. At year end the Chief Finance Officer will assess each loan for actual or potential "expected losses" and will make a charge to revenue in year or set aside funds as a "bad debt" provision as required.

Investment Properties: The Council has purchased several investment properties. Risk and reserve management of these is discussed above.

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

The Council increased its General Fund Reserves in 2020/21 by £1m to £5.6m which is approx. 5% of the Council's net 2022/23 budget. Despite the prudent and welcome increase this level of "unallocated financial reserves" is relatively low compared to other unitary Council's.

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".

A risk assessment of all 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 £10.1m million or circa 9% of 2022/23 draft 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 Torvista and SWISCo, investments, funding changes, outsourcing or capital developments, of £1.0 million. This would result in a required General Fund reserve of £11.1 million or 10% of net budget. The current level of General Fund Reserve will cover 50% of this sum.

The risk above has been mitigated as the council continues to expect to have a fixed payment for Adult Social care. This fixed payment does remove volatility from the second largest budget/service the Council has. However, if there is no fixed payment 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.

A prudent risk-based approach to budget setting and reserve levels will have mitigated some risks of an overspend. It is vital that the improvement plans continue to yield results within both Adults and Children's Social Care and the medium-term financial strategy for this service is delivered to reduce the levels of (financial) risk.

However, it is unlikely that all budgets will be adversely affected in the same year or that there will be no under spending 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 5% of estimated 2022/23 net revenue budget). This for 2022/23 will result in a target general fund reserve balance of £5.9 million.

The 2022/23 budget to be presented in March 2022 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

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.

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. (Note additional contingency funded from prudential borrowing proposed as part of 2022/23 revenue budget).

It should be noted that there is currently high risk of cost inflation on capital projects. Any cost rises within a project will have to met within that project's funding. Therefore, it is essential appropriate project contingencies are set in the business case for each project.

A9 **Comparison with Other Councils:**

CIPFA issue the financial resilience index for all councils. Using this Index, Torbay's general fund reserve remains low when compared to other Council's. Based on 2020/21 data Torbay's general fund reserve as a percentage of its net revenue budget was 11 lowest from 14 statistically similar councils. The same comparison for earmarked reserves ranked Torbay as 8 lowest from the same 14 Councils.

A10 **Governance of Reserves.**

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.

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.

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

A11 **Risk assessment of preferred option**

Outline of significant key risks

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.

The major risks facing the Council at present are the uncertainty of the Council's future funding from 2023/24 onwards and the ongoing financial pressures from both Children's social care and, in the longer term, adults' social care.

As a guide to higher costs in the longer term from changes in demand from the demographic profile of Torbay, the following table shows the ONS estimated population changes in Torbay over the next 10 years.

Age Group	2020 000's	2025 000's	2030 000's	10 year Change 000's	10 year Change %
Up to 4	7	7	7	0	0
5 to 17	22	23	23	+1	+5
18 to 64	71	71	69	(2)	(3)
65 to 79	27	28	30	+3	+11
80 and over	10	12	15	+5	+50
Total Population	**137**	**141**	**144**	**+7**	**+5**

The table shows that there is likely to be decline in the working age population over 10 years with increases on both school age and over 65's. It is the rise in over 65's and within that the increase in the over 80 population that is likely to result in significantly higher social care costs in the longer term. It is essential that the Council has a long-term plan for these future demand changes.

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 Group including Torvista and TEDC Developments and “SWISCo”.

Appendices

Appendix 1	Review of Reserves 2022/23
Appendix 2	Summary of Council Reserves

Appendix 1 Review of Reserves 2022/23

- **Reserves** - -	**Balance as at at 1/4/21 £'000**	**Balance as at at 1/4/22 £'000**	**Balance as at at 1/4/23 £'000**	**Balance as at at 1/4/24 £'000**	**Balance as at at 1/4/25 £'000**
General Reserves					
General Fund	-5,744	-5,622	-5,622	-5,622	-5,622
	-5,744	**-5,622**	**-5,622**	**-5,622**	**-5,622**
Earmarked Reserves					
Comprehensive Spending Review					
COVID Reserve	-2,350	-1,100	-100	0	0
Comprehensive Spending Review	-2,370	-1,865	-1,765	-2,265	-2,765
	-4,720	**-2,965**	**-1,865**	**-2,265**	**-2,765**
Capital Reserves:					
Capital Funding Reserve	-2,742	-2,345	-2,139	-2,117	-2,117
IT Equipment Reserve	-54	0	0	0	0
IT Replacement Res New Project	-130	-100	-50	0	0
	-2,926	**-2,445**	**-2,189**	**-2,117**	**-2,117**
School Related Reserves					
Dedicated Schools Grant	0	0	0	0	0
Education Schools Exit Packages	-150	-150	-112	-84	-63
School Balances	-1,436	-1,293	-1,163	-1,047	-942
	-1,586	**-1,442**	**-1,276**	**-1,131**	**-1,006**
Partner/Ring Fenced Reserves					
Adult Social Care	-1,425	-1,425	-1,425	-37	-37
Devon Audit Partnership	-25	-25	-25	-25	-25
EDC Reserves (Funds paid in advance)	-66	-66	-66	-66	-66
Harbours Reserves	-39	-163	-163	-174	-161
Public Health Reserve	-1,893	-1,893	-1,493	-1,093	-1,093
Museum Reserve	-25	-25	-25	-25	-25
Swimming Pool Reserve	-42	-42	-42	-42	-42
Salix Fund	-214	-214	-214	-214	-214
EU Exit Funding	-248	0	0	0	0
	-3,976	**-3,852**	**-3,452**	**-1,675**	**-1,662**
Specific issues					
Adult Care Trust	-268	-268	-268	-268	-268
Childrens Services	0	-1,000	-1,000	-1,000	-1,000
Community Engagement	-215	-140	-65	0	0
Concessionary Fares	-960	0	0	0	0
Council Elections	-216	-276	-336	-86	-86
Crisis Support Reserve	-487	-487	-387	-287	-187
Growth Fund	-3	0	0	0	0
Equipment Reserves	-277	-277	-277	-177	-77
Geopark	-16	-6	0	0	0
Governance	-33	0	0	0	0
Green Travel Plan	-106	-106	-106	-106	-106
Highway Reserves	-347	-297	-297	-297	-297
Housing First	-114	0	0	0	0
Housing Benefit	-475	-475	-475	-475	-475
HR	-9	0	0	0	0
Insurance Reserves	-3,295	-3,295	-3,295	-3,295	-3,295
Ind Chair for Strat Housing Bo	-40	-40	-40	-40	-40

Collection Fund	-16,952	-2,659	-1,709	-759	-759
Partnership 2122	-2,000	0	0	0	0
Planning Reserve	-275	-275	-275	-275	-275
PFI Sinking Fund	-573	-373	-173	0	0
Regeneration Reserve	-243	-243	0	0	0
Town Centre Regeneration	-46	-46	0	0	0
Section 106	-7	-7	-7	-7	-7
Service Carry Forwards	-2,847	-786	-606	-606	-606
SWISCo operational	-1,200	-248	-248	-248	-248
Tourism	-12	0	0	0	0
Transformation Reserve	-178	-78	0	0	0
Waste Strategy	-248	0	0	0	0
WESTLANDS PFI	-52	0	0	0	0
Climate Change	-55	-55	0	0	0
Better Bus area	-9	0	0	0	0
Community Infrastructure Levy	-343	-343	-343	-343	-343
Retail Reserve	-511	-443	-143	-143	-143
Car Parking	-315	-265	-215	-215	-215
New Burdens - Transparency Code	-26	0	0	0	0
Leisure Centre Support	0	0	0	0	0
	-32,753	**-12,488**	**-10,266**	**-8,628**	**-8,428**
Investment Fund					
Investment Fund	-1,376	-1,658	-2,658	-3,658	-4,658
	-1,376	**-1,658**	**-2,658**	**-3,658**	**-4,658**
Grants - received not spent					
Grants - received not yet spent	-10,336	-6,796	-3,729	-1,348	-1,348
	-10,336	**-6,796**	**-3,729**	**-1,348**	**-1,348**
Total Earmarked Reserves	**-57,673**	**-31,647**	**-25,435**	**-20,823**	**-21,984**
TOTAL RESERVES	**-63,418**	**-37,270**	**-31,057**	**-26,445**	**-27,606**

Appendix Two

Name of Reserve	**Description of Reserve**	**Responsible Officer**
Adult Social Care	Reserve for any adult social care funding to be used to support adult social care	Jo Williams Director of Adult Social Care
Capital Funding	To reserve funding for items in the approved Capital Plan Budget.	Martin Phillips Chief Finance Officer
Carry Forwards	Balance of any Service specific Carry Forward of budget	Martin Phillips Chief Finance Officer
Childrens Services Reserve	To fund any variations in the cost of placements for looked after children.	Nancy Meehan Director of Children's Services
Collection Fund Reserve	Reserve to smooth the volatility of NNDR and Council Tax income including appeals, s31 grant and the performance of the Devon wide NNDR pool. Also includes funding for the impact of the three-year spread of the cost of the 2020/21 collection fund deficit	Martin Phillips Chief Finance Officer
Comprehensive Spending Review Reserve	To fund costs associated with meeting future budget reductions	Martin Phillips Chief Finance Officer
Crisis Support Fund	Reserve to support the costs of social fund and exceptional hardship	Tara Harris Divisional Director Community Services
Dedicated Schools Grant	Reserve to reflect the position on the ring-fenced dedicated school grant – currently a negative balance reclassified as an "unusual reserve" under a statutory override.	Nancy Meehan Director of Children's 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 Director for Place
Grants recognised but not used	Reflects the value of revenue grants (without conditions) received by 31st March but not yet used to support expenditure. This includes Covid-19 Grants	Martin Phillips Chief Finance Officer
Harbours	Torquay, Paignton and Brixham Harbours – To finance	Kevin Mowat

	Harbour expenditure schemes for the purpose of Harbour Users.	Director for Place
Highways Reserves	Reserve holding funds received under Highways Acts and other legislation where the Council holds funds to do works.	Kevin Mowat Director for Place
Housing Benefit Subsidy	Reserve to mitigate variations to the Council's housing benefit subsidy	Tara Harris Divisional Director Community Services
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	Martin Phillips Chief Finance Officer
IT Equipment Reserve	To provide funds for priority driven replacements of IT equipment. Reserve to fund costs of the purchase of a replacement case management system for childrens' social care	Matt Fairclough-Kay Divisional Director – Corporate Services
Investment Fund Reserve	Reserve to mitigate any short-term variations in income or costs associated with Investment Fund properties such as void and rent-free periods	Kevin Mowat Director for Place
Collection Fund Reserve	Reserve to smooth the volatility of NNDR income including appeals, s31 grant and the performance of the Devon wide NNDR pool. To fund the impact of the three-year spread of the cost of the 2020/21 collection fund deficit	Martin Phillips Chief Finance Officer
Misc. Specific Reserves	Includes: Council Elections, Devon Audit Partnership, Green Travel Plan. Museums 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.	Nancy Meehan 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 Director for Place
Public Health	Reflects carry forward of ring-fenced funds for Public Health	Lincoln Sargeant Director Public Health
Regeneration Reserve	A reserve to support economic regeneration and employment initiatives	Kevin Mowat

		Director for Place
Regeneration/TDA Reserve	Reflects the value of funds awarded to the TDA where the work has yet to be completed.	Kevin Mowat Director for Place
School Balances	Reflects the carry forward by schools of their delegated school budget share.	Rachael Williams Divisional Director Education
School Redundancy Reserve	Reserve to support the costs of redundancies for schools-based staff	Rachael Williams Divisional Director Education
Swimming Pool Reserve	Reserve established as part of 2018/19 budget proposals to support unplanned expenditure or income variances for community run internal swimming pools.	Kevin Mowat Director for Place
Town Centre Regeneration	Reserve established to fund the staffing and feasibility costs associated with the Town Centre Regeneration project	Kevin Mowat Director for Place
Transformation Reserve	Reserve to support expenditure on projects associated with the Council's transformation programme.	Anne-Marie Bond Chief Executive
SWISCo Reserve	Reflects the reclassification of Waste Strategy reserve to reflect the new operational arrangements with SWISCo..	Kevin Mowat Director for Place