



Meeting: Overview & Scrutiny Board
Council

Date: 29th January 2014
6th February 2014

Wards Affected: All

Report Title: Review of Reserves 2014/15

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1 Purpose

1.1 The Council holds a number of reserves as part of its approach to prudent resource management. The application and use of the reserves supports the achievement of service delivery and improvements in the Bay, as outlined in the Community and Corporate plans and related strategies. In addition the use of reserves can support any in year service budgetary pressures or budget pressures arising from Central Government's ongoing funding reductions.

2 Proposed Decision

Overview & Scrutiny Board

2.1 That Members review the Council's reserves as part of the 2014/15 budget process and make any recommendations to Council.

Council

2.2 That Council approve the transfer of the surplus of £0.2m identified on a number of individual reserves to the Comprehensive Spending Review Reserve.

2.3 That Council approve the transfer of the surplus of £0.1m identified on a number of individual reserves to a new Geopark Conference Reserve.

2.4 That Council approve the transfer of the surplus of £0.250m identified on a number of individual reserves to the IT Replacement Reserve.

2.5 That, subject to final confirmation of employer pension rates for 2014/15, Council approve the transfer of £0.4m from the pensions reserve to the Comprehensive Spending Review Reserve.

2.6 That Council approve the transfer of £1.5m from the PFI Sinking Fund to Childrens Services on an "invest to save" basis. Childrens Services to repay the reserve in future years.

2.7 That Council note the significant financial pressures facing the Council in 2013/14 and for future years, and consider during the 2014/15 budget process the allocation of additional funds to the Comprehensive Spending Review Reserve and/or the General Fund Reserve.

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 Act 2003 and the Localism Act 2011.

4 Summary

4.1 This report is highly influenced by the increasing financial risks facing the Council both from current financial pressures within Childrens social care (safeguarding and wellbeing) and the substantial budget reductions required for 2014/15, 2015/16 and future years. There is an increasing risk that during 2014/15 and 2015/16 the Council will not have enough identified reserves to support the one off expenditure

required to meet any in year budget shortfalls, costs for staff reductions due to budget reductions and any delays in implementing savings.

- 4.2 As a result of the increasing risk from the financial pressures facing the Council, (in particular from childrens social care), and the requirement for ongoing significant budget reductions, on achieving a balanced revenue budget it is recommended that the surplus on a number of reserves of approximately £0.550m is transferred to the Comprehensive Spending Review Reserve, IT Replacement Reserve and a new Geopark Conference Reserve.
- 4.3 As part of the Council's 2014/15 budget it is recommended that Council approve the transfer of £1.5m from the PFI Sinking Fund to Childrens Services on an "invest to save" basis. Children's Services to repay the reserve in future years. The timing and annual value of repayment to be agreed by Chief Finance Officer in consultation with the Mayor.
- 4.4 Reserves should not be used for supporting ongoing recurring expenditure. This 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.

Paul Looby
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 2014/15

A2.1 Overview

A2.2 As at 31/03/2013 Torbay Council's reserves were as follows:-

	31/3/12	Change in year	31/3/13 actual	31/3/14 estimate
	£m	£m	£m	£m
General Fund Reserve	4.0	0.4	4.4	4.4
Sub Total - General Reserves	4.0	0.4	4.4	4.4
Uncommitted Reserves	3.6	(0.2)	3.4	1.9
Timing of Spend Reserves	15.4	(5.4)	10.0	6.0
Partner/Ring Fenced Reserves	3.6	(0.4)	3.2	2.5
School Reserves	3.5	(0.3)	3.2	2.5
Specific Reserves	10.4	(0.5)	9.9	9.4
Grant monies not yet spent	-	2.0	2.0	0
Sub Total – Earmarked Reserves	36.5	(4.8)	31.7	22.3
Total Reserves	40.5	(4.4)	36.1	26.7

A2.3 A list of the Council's Reserves as at 31/03/2013 is attached at Appendix 1.

A2.4 The table in A2.2 shows that the total reserves held by the Council reduced by £4.4m during 2012/13. The General Fund Reserve increased by £0.4m to £4.4 million during the same period. This is discussed in more detail below.

A2.5 Each reserve has been assessed by the Service Manager and their Finance Manager for its estimated balance as at 31st March 2014 and for the estimated additions or withdrawals from the reserve during 2014/15 and future years. This is included in the table at Appendix 1. This table is shown after the recommendations arising from this report.

A2.6 The table in A2.2, (based on this review of reserves), shows that the level of reserves is expected to decrease by £9m during 2013/14 to £26.7m. 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.

A2.7 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.

A2.8 The CIPFA guidance on Reserves and Balances (LAAP bulletin 77) 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". 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 will be relevant in determining an appropriate level of reserves.

A2.9 The Audit Commission in December 2012 issued a report "Striking a Balance" seeking to improve Council's decision making on reserves.

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

A2.10 The report found that many Councils had been setting aside funds as a response to funding reductions and financial uncertainty. CIPFA welcomed the report and made the following response:

"We have to be extremely careful about using one-off reserves to fund shortfalls in recurring funding. Reserves are not a long term solution. At best they buy time to enable service changes to be planned and

implemented in an orderly way. In these circumstances it is important that councils explain clearly to the public the actions and implications for services which are expected to follow in the medium and longer term.”

A2.11 In undertaking a detailed annual review of reserves that is presented to both Overview and Scrutiny Board and Council, Torbay Council is largely complying with most of the recommendations in this report, however for 2014/15 Torbay has included additional information request from the budget holders as part of the annual review process such as asking for explanations of variances. The report does also include a number of questions that elected members may wish to consider.

A2.12 There has been frequent national comment about Councils using reserves to support revenue budgets. In August 2013 a DCLG press release on behalf of the Minister for Communities & Local Government said:

“Mr Pickles called on local authorities to consider whether such substantial reserves are necessary at a time when they should be focusing on protecting frontline services for residents and making sensible investments for the longer term. There are no rules that specify minimum or maximum levels of reserves and people will be surprised that while councils are hoarding billions in their piggy banks some are pleading poverty and raising Council Tax. While it is sensible for local authorities to maintain a healthy cushion, such substantial reserves are completely unnecessary and should be tapped into to ensure councils can protect frontline services and keep Council Tax down for hardworking people. Councils should also be making creative use of reserves to address short-term costs, such as restructuring or investing now to realise savings in the longer-term”.

A2.13 In considering these comments 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 £3.4m as at 31/3/13 of which £3.0 million was the comprehensive spending review reserve which is expected to be used to support redundancy costs arising from future reductions in government funding to Councils and £4.4m is the Council’s general fund balance which is discussed later. At present the Council does not have a large value of unallocated reserves compared to its overall budget and in particular, compared to the value of budget reductions required over the next few years.

A2.14 The Chief Finance Officer is reluctant to use any reserve funds, which can only be spent once, to support ongoing expenditure as that is not financially sustainable as it only delays the impact of the required budget reductions. However if the Council identifies any surplus funds from the review of reserves then this could be used to support one off expenditure. Any use of reserves for ongoing spend by a service on an invest to save basis must be repaid by the same service and will become a call on future year’s budgets.

Earmarked Reserves

A2.15 Specific comments on the following reserves are listed below along with any recommendations. For the Earmarked Reserves where no specific comment has been made below, it is suggested that no changes are made, however officers can provide further detail if required.

A2.16 Uncommitted Earmarked Reserves – balance £3.4m 31/3/13 (£1.9m 31/3/14)

A2.17 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 signed off by the Chief Finance Officer.

A2.18 As part of the 2013/14 review of reserves an additional £2.4m was transferred to this reserve from other reserves. However during 2012/13 £1.1m was used to support the overspend in Childrens services and £1.6m was used to fund the costs of staff reductions for the 2013/14 budget.

A2.19 The cost of severance packages for staff as the Council faces budget reductions are an ongoing significant budget pressure. The cost of “exit packages” are averaging at £1.5m per annum and this annual cost has been assumed for both 2014/15 and 2015/16. In this case the balance on this reserve will be committed over these two years, which means that the Council will have to identify additional resources to fund any shortfall in funding for 2014/15 and 2015/16. In addition the Council will have to identify additional resources for the costs of making the expected budget reductions in 2016/17 and

2017/18.

- A2.20 If the balance on this reserve is to be applied to future year costs of staff reductions then this reserve will not be available to support any 2013/14 in year budget pressures which may arise.
- A2.21 Given the significant budget challenges facing the Council and the associated costs of reducing staff numbers it is recommended that the surplus identified on a number of reserves of approx £0.2m is transferred to this reserve and this reserve is solely used for funding the costs associated with budget reductions (see para A2.25).
- A2.22 Timing of Expenditure Reserves – balance £12.0m 31/3/13 (£6.0m 31/3/14)
- A2.23 These reserves arise as a result of differences in timing between the reserve being established and the expenditure being incurred. 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.
- A2.24 As these reserves are linked to timing of expenditure, where the spend is expected to be after a period of one year then, on a temporary basis some of these reserves could be used on a short term basis to support budget shortfalls, however the reserve will need to be repaid to prevent a budget pressure arising in the future when the spend due to be funded from this reserve is incurred. The Chief Finance Officer recommends this is only considered in exceptional circumstances.
- A2.25 A review of the carry forwards held by services has identified that £0.550m could be released of which it is proposed that £0.200m is transferred to the Comprehensive Spending Review reserve and £0.250m is applied to the IT replacement fund to support software and hardware replacement pressures (see A2.35 below).
- A2.26 Council at its meeting in September 2013 supported the proposal to host a Geopark conference in Torbay, the potential shortfall currently estimated in the hosting of this conference is £0.1m. It is proposed to allocate £0.1m of the surplus reserves identified above to transfer into a specific Geopark Conference Reserve. However if sufficient sponsorship can be raised for this International event then some or all of the £0.1m can be allocated to the Comprehensive Spending Review Reserve.
- A2.27 Elements of carry forwards in relation to housing benefits have been reclassified to a Universal credit reserve to help with any costs to the Council from the proposed implementation of Universal Credit which includes housing benefits over the next few years and an element of funds for Domestic Abuse have been reclassified to a separate Domestic Abuse reserve within the remit of Public Health.

A2.28 Collection Fund

The Collection Fund Adjustment Account (formally Collection Fund Reserve) is slightly different from all other reserves. 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). Any balance represents the sum collected over or under the assumed Council Tax collection rate and is normally distributed in the following financial year.

As a result of the introduction of the new Local Government funding arrangements from April 2013, the Council now 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 for 2013/14 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 amount of any surplus or deficit which a billing authority, like Torbay, estimates on its collection fund at the end of the current year is to be shared by both the billing authorities and Major Precepting Authorities. 49% of this falls to Torbay Council, 1% to Devon and Somerset Fire and Rescue Authority and 50% to Central Government.

In relation to the Torbay share of the Collection Fund surplus, there was a surplus in this reserve as at 31/03/13 of £1.8m of which £1.8m is to be used in 2013/14. Estimates of future year surpluses will be included in the 2014/15 Budget Setting process and reflected in the Medium Term Resource Plan.

A2.29 Prudential Borrowing Reserve

The balance on the prudential borrowing reserve of £1.0m is to be used to both spread the costs of timing differences arising from the Council's statutory "minimum revenue provision" calculation (4% reducing balance) and the actual repayments from services for unsupported borrowing (based on asset life), and also to support the reduction in Council borrowing costs in future years by either repayment of Council borrowing over the next four years in line with approved Treasury Management Strategy or by voluntary revenue provision transfers. As a result the Chief Finance Officer considers it would not be prudent to reduce the balance of this reserve.

A2.30 Partner/Ring Fenced Reserves – balance £6.4m 31/3/13 (£5.0m 31/3/14)

A2.31 These reserves are outside the Council's direct control in that the reserves are linked to funds held by partner organisations, schools, Economic Development Company or ring fenced Council services such as public health. The harbour reserves have been included in this category as the Council in the past has chosen to operate this Council service as if it were ring fenced.

A2.32 The balance of £3.2m held by schools 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 notional £1.0m and £1.5m annual reduction in the balances held by schools has been shown in Appendix 1.

A2.33 Specific Issue Reserves - balance £9.9m 31/3/13 (£9.4m 31/3/14)

These are reserves set aside for specific expenditure purposes.

A2.34 Insurance Reserve

The balance as at March 2013 for both the insurance reserve and the insurance provision before the addition of any current year surplus due to timing of claims was approximately £4.5 million. The Council's insurance team in consultation with the Chief Finance Officer review the earmarked amounts on an annual basis and take advice from an insurance actuary to ensure the adequacy of the reserves. The last actuarial review was a "mini" review as at March 2013. (The next full review is due March 2014).

Of the total reserve £1.9 million covers earmarked amounts for specific insurance risks such as Municipal Mutual Insurance (MMI) - both Torbay Council and Devon County Council liabilities, residual Devon County Council liability relating to services transferred to Torbay in 1998, a number of uninsured risks such as environment issues and industrial diseases (e.g asbestos) and monies for risk management initiatives. The balance within the reserve and provision which is earmarked for current and as yet unknown insured claims as at March 2013 is £2.6 million which is in excess of the latest actuarial assessment of potential liabilities combined with an allowance for the Council's "stop loss" i.e the level the Council's exposure is limited to.

As the 2014/15 budget proposals include a reduction to the annual revenue contribution to the reserve for claims this increases the risk of the reserve being inadequate in the longer term from both changes in premiums and the number and value of claims. However, given the Council's overall financial position it is suggested that a reduction in the total reserve of £0.250m is possible which could be released over the next five years. This does however reduce the level of the insurance reserve, which is a risk that should be considered. Given the potential long lead in time for certain insurance claims, such as those relating to children and certain types of industrial diseases, any shortfall in this reserve may not be realised for a number of years.

In relation to Municipal Mutual Insurance (MMI), the company will not achieve a "solvent run off of claims" which has resulted in a liability for the Council under the scheme of arrangement. The MMI liability arose from the financial difficulties this insurer faced in the 1990's. In 2012 the Council was informed that the scheme of arrangement was triggered with an initial "levy" to be charged to the Council equal to the Council's share of 15% of the scheme's liabilities. In addition from January 2014 the Council will be liable to pay 15% of any new claims incurred. In light of this increased uncertainty it is suggested that the Council's current insurance reserve for this potential liability remains unchanged.

A2.35 Other Specific Reserves:

The Employment (Growth) Fund (£1.0m) was set up to support employment initiatives. Applications from business looking to create jobs will be considered for funding in line with the guidelines approved by Council.

Riviera Centre Reserve (£0.1m) was set up to support the future options for the centre. It is proposed to

allocate all of this reserve to the Riviera Centre in 2013/14 to enable grant reductions in future years.

Dilapidations Reserve (£0.2m) has not yet been allocated to a specific proposal therefore it is proposed to combine this reserve with the office rationalisation reserve as its aims are similar.

IT Replacement Fund (£0.4m) As a result of prior year budget reductions there is no annual contribution to the IT Replacement Fund. This fund is now under pressure with new demands totalling up to £0.5m of which 50% can be funded from the existing reserve. It is proposed the shortfall of £0.250m is supported by the transfer to this reserve of some service carry forwards (A2.25).

- a) The majority of the Council's PC estate (80%) runs the Microsoft Windows XP operating system which will no longer be supported by Microsoft from April 2014. This means that the Council needs to upgrade all the old Microsoft Windows XP software (and some physical PC's) on our PC estate to the Microsoft Windows 7 operating system, in order to receive continued software support and security patches from Microsoft and comply with the new Cabinet Office ICT security guidance. We have no choice but to undertake these software upgrades.
- b) The Cabinet Office's new ICT security guidance does not allow the connection of remote unmanaged devices to the Council's ICT network. (i.e. that is, staff using remote equipment or their own personal home to access the Council's Network and systems). This means that staff currently accessing Council systems from home using their own PC's and devices will no longer be able to do this unless the Council supply them with a managed Council owned PC or device. Funding is required to procure Laptops (or other devices) for these staff. The only option here is to provide staff with Council owned equipment if remote access is required in order for them to continue to undertake their job.
- c) The Council would like to enable a more "agile" working environment for staff in order to maximise accommodation rationalisation. In order to achieve this ICT technology is required (hardware/software i.e. "VDI") to enable desk sharing and the "agile" working environment. This is not a compliance issue; it is required to support Council strategy, and is expected to reduce future expenditure on IT hardware.

The TDA Capital Scheme Reserve is held to support regeneration schemes in the Bay. It is intended that any balances in this reserve are used to support schemes in the approved Capital Investment Plan.

Land Charges Reserve (£0.2m). Changes in central government guidance and interpretation of legislation regarding the "environmental" data Councils hold has led to considerable uncertainty regarding the charging of fees and in particular whether Councils will be required to repay fees previously charged. This issue is still being considered on a national basis which the Council will continue to monitor, therefore no changes to this reserve are proposed.

Pension Reserve (£0.4m). The Council has had the results of the triennial actuarial review of the Devon County Pension Scheme and the Council's future employer contributions required to fund the scheme's financial position. Following the results of this review the balance on this reserve is expected to be surplus. After the final confirmation of the actuarial figures the balance on this reserve can be transferred to the Comprehensive Spending Review Reserve.

On the review of reserves a number of other balances have been identified as surplus. These total £0.050m including funds from the Crematorium Reserve and the equipment fund. It is recommended that the surplus on these reserves is transferred to the Comprehensive Spending Review Reserve.

A2.36 Potential Liabilities

The Council, as identified in its Statement of Accounts, has given a number of guarantees. The Council has also entered a number of contracts which could lead to a future liability such as dilapidation costs on leased in buildings. In particular the Council has provided a guarantee to bankers to the Torbay Coast and Countryside Trust for £975,000 to provide cover for the Trust's loan and overdraft facility. If the bankers call the guarantee the Council will have to fund the £975,000 from its own resources which will probably result in the use of, as yet unidentified, reserves.

In addition the Council has provided a number of guarantees for pension liabilities to services now outsourced, such as Provider Trust and the Economic Development Company, however it is unlikely that these guarantees will result in a cash payment from the Council.

A3 Review of Provisions and other Potential Liabilities

A3.1 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 probable to result in a payment but the amount and timing of the potential payment is uncertain.

A3.2 As at 31/03/2013 Torbay Council's provisions were as follows:-

11/12		12/13	Change
£m		£m	£m
0.6	Insurance Provision	0.7	0.1
0.1	Pay Modernisation (incl. schools)	0	(0.1)
0.6	Restructure/Budget Reductions	0.4	(0.2)
0.3	Other Provisions	0.8	0.5
1.6	Total Provisions	1.9	0.3

A3.3 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 2013/14 except insurance where the "time lag" on claims being notified and settled is often over one year. Other provisions tend to be linked to legal issues such as property claims.

A4 General Fund Reserve - Risk Assessment and Sensitivity/Scenario Appraisal

A4.1 The Council's General Fund Reserves of £4.4 million represents 3.5% of the Council's net 2013/14 budget. Using the Audit Commission profiling information this level of "unallocated financial reserves" is lower than average compared to other unitary Councils.

A4.2 The CIPFA guidance on reserves does not recommend a statutory minimum level of reserves. It states that "Local Authorities should make their own judgements 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".

A4.3 A risk assessment of all 2013/14 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 £9.1 million or 7% of 2013/14 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 £10.1 million or 8% of net budget. The current level of General Fund Reserve will cover just under 45% of this sum.

A4.4 This risk assessment overall is higher than 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 particular the current year budget pressures. In addition the challenges of achieving the ongoing significant budget reductions from central government create a major risk of budget variations.

A4.5 A 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 Torbay and Southern Devon Health and Care NHS Trust as the level of funding to the Trust is over £43 million per annum. For 2013/14 the Care Trust and Council have not agreed to share the risk of any over or under spends on the most volatile budget area. Although the Council and Trust (and the new provider after the acquisition process due to be completed during 2014/15) will discuss risk share arrangements for 2014/15 as part of the 2014/15 budget process, at this stage it is unknown whether a risk share will be agreed for 2014/15. The risk assessment above continues to reflect this significant uncertainty.

A4.6 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, Childrens Social Care, have already declared a significant overspend in 2013/14. However it is unlikely that all budgets will be adversely affected in the same year or that there will be no underspend arising from savings or additional income. Therefore the General Fund Reserve should as a minimum be equal to 50% of the total assessed risk in any financial year (which equals to 4.0% of 2013/14 net revenue budget). This for 2014/15 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 £0.7 million below the target level.

- A4.7 Following consideration of the above, in the opinion of the Chief Finance Officer, the current level of general fund reserve should not be reduced and ideally increased to reflect the higher level of risk, as balances would fall below a prudent minimum level. Therefore it is recommended that Members give consideration to increase the level of this reserve as part of its Medium Term Resource Plan.
- A4.8 The 2014/15 budget to be presented in February 2014 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.

Capital Investment Plan

- A4.9 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 programme, 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.
- A4.10 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.
- A4.11 The capital resources that the Council has available is reducing from central government grants and capital income from contributions such as S106 developer agreements and the delays in establishing a Community Infrastructure Levy. In addition as revenue budget cuts are made the affordability of prudential borrowing is more limited. This gives fewer options to allocate funding for any urgent capital projects such as infrastructure works. Members could give consideration to allocating reserves to support capital expenditure.

A5 Short term Use of Earmarked Reserves

- A5.1 The Council is facing substantial budget pressures over the current financial year from the significant overspend in Childrens service and from the high level of budget reductions required by reductions in central government funding to the Council over the next two financial years. It is possible the services are unable to deliver the required savings within the timescale required so the Council may have to fund the shortfall to achieve a robust balanced budget.
- A5.2 The Council is unlikely to have enough general reserves to fund this situation. Other reserves where the spend is expected to be after a period of one year could, on an emergency basis, be used on a short term basis to support budget shortfalls. However the reserve will need to be repaid to prevent a budget pressure arising in the future when the spend due to be funded from this reserve is incurred.
- A5.3 As already recommended the reserve which could be used for this circumstance is the PFI sinking fund (£3.3m) where the reserve is to be used over the next 14 years, and a part of the insurance reserve, say £1m. Both would need to be repaid by the relevant service which will be a cost to the service above any future budget reductions that are required. Whilst the short term use of earmarked reserves is a strategy available to the Council the Chief Finance Officer's view is this should only be used in exceptional circumstances.
- A5.4 Linked to A5.1 above as part of the Council's 2014/15 budget it is recommended that Council approve the transfer of £1.5m from the PFI Sinking Fund to Childrens Services on an "invest to save" basis. Children's Services to repay the reserve in future years. The timing and annual value of repayment will be agreed by Chief Finance Officer in consultation with the Mayor. The £1.5m will be allocated to specific invest to save initiatives within Children's Services.

A6 Comparison with Other Councils:

- A6.1 The Audit Commission Report, (paragraph 2.9 above) does state that the amount that Councils need or choose to hold in reserve varies due to local circumstances. This does make any comparison with other Council's to contain a "health warning".
- A6.2 A comparison of the Council reserves as at 31/3/13 with data for single tier and county councils in the Audit Commission report (to 31/3/12) is shown below:

	Torbay	AC Data
Total reserves as a % of net revenue spending	25%	28%
% of total reserves earmarked for a specific purpose	86%	78%
Unallocated (General) Reserves as a % of net revenue spending	3.5%	5%
% Increase/(decrease) in total reserves over past year	(8%)	14%

Note: data excludes schools and collection fund reserves.

This shows that Torbay has a lower than average general fund reserve compared to other Councils, and has a decreasing level of reserves compared to other Councils where reserves are increasing which the Audit Commission attributes as a response to funding reductions and increasing financial uncertainty.

- A6.3 Comparing Torbay with its two closest (single and higher tier) neighbours Plymouth City Council and Devon County Council using information from their 12/13 accounts.

	Torbay	Plymouth	Devon
Net Budget 2013/14	£127m	£213m	£521m
General Fund Reserve	£4m	£11m	£15m
Percentage general fund/net budget	3.5%	5%	3%
Earmarked Reserves	£27m	£30m	£78m
Percentage earmarked reserves fund/net budget	21%	14%	15%

Note data includes insurance provisions but excludes schools and collection fund reserves.

This table shows that the profile of Torbay's reserves are similar to Devon in that it has a greater percentage of earmarked reserves compared to General Fund Reserves, however as a unitary Council Torbay has a greater range of services to provide.

A7 Chief Finance Officer Statement.

- A7.1 On the assumption that a balanced budget can be achieved for 2013/14 and a robust budget set and realistic savings identified for 2014/15, I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2014/15 and to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.
- A7.2 An updated statement on the level of reserves and their adequacy in relation the Council's financial plans will be presented to members when Council considers the final budget proposals in February 2014.

A8 Governance of Reserves.

- A8.1 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.
- A8.2 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.
- A8.3 Any quarterly reporting of issues relevant to earmarked reserves will be on an exception basis. Where appropriate a "withdrawal from reserve" form is completed and signed by the Chief Finance Officer and the Mayor.
- A8.4 Any budget variations that are reported to Council which can not be funded from existing revenue resources will then, as a consequence, impact on the projected balance on the General Fund Reserve.
- A8.5 Schools reserves are part of the delegated schools funding and these reserves remain at the discretion of the Head Teachers and Governing Bodies.

A9 Risk assessment of preferred option

- A9.1 Outline of significant key risks
- A9.2 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.

A9.3 The two 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 childrens social care.

Appendices

Appendix 1

Council Reserves as at 31/3/13

2014/15 - Review of Reserves

-	Balance as at 1/4/13 £'000	Balance as at at 1/4/14 £'000	Balance as at at 1/4/15 £'000	Balance as at at 1/4/16 £'000	Balance as at at 1/4/17 £'000
Reserves					
General Reserves					
General Fund	4,356	4,356	4,356	4,356	4,356
	4,356	4,356	4,356	4,356	4,356
Earmarked Reserves:					
Uncommitted Reserves:					
Comprehensive Spending Issues	3,065	1,928	428	428	428
Budget Pressures	350	0	0	0	0
	3,415	1,928	428	428	428
Timing of Expenditure:					
Capital Funding Reserve	1,324	1,045	865	865	865
Collection Fund Reserve	1,824	-301	700	500	500
Council Elections	66	113	161	29	77
Prudential Borrowing	1,787	953	932	911	896
PFI Sinking Fund	3,322	3,318	3,364	3,373	3,342
Service C/fds	1,343	200	159	154	35
Unspent Grants c/fd	2,031	262	25	19	13
	11,991	5,982	6,498	6,143	6,020
Partner/Ring Fenced Reserves					
Devon Audit Partnership	17	17	17	17	17
EDC Reserves (paid in advance)	1,218	718	218	0	0
School Balances	3,214	2,514	1,014	1,014	1,014
Harbours Reserves	1,145	710	412	345	280
Public Health Disease Outbreak	436	436	436	436	436
Public Health	42	342	250	200	100
Education Schools					
Redundancy/Retirement	323	300	200	100	100
	6,394	5,036	2,546	2,112	1,947
Specific issues					
Art Objects Purchased Fund	37	29	14	14	14
Crematorium	45	25	25	25	25
Asset Issues & Disposal Costs	270	222	222	222	222
Dilapidations	217	0	0	0	0
Growth Fund	975	850	505	220	85
Equipment Reserves	191	121	121	121	121
Employment Issues	152	100	100	100	100
Education Early Retirement	169	150	140	130	120
Geopark Conference Reserve	0	100	0	0	0
Insurance Reserves	3,743	3,693	3,643	3,593	3,543
IT Equipment Reserve	394	488	238	0	0
Land Charges	191	191	191	191	191
Office Rationalisation	295	392	292	292	292
Planning Reserve	394	394	0	0	0
Public Health - Domestic Abuse	0	284	284	284	284
Regeneration Reserve	292	227	292	292	292
Riviera centre	110	20	0	0	0
Supporting People Commissioning	736	455	175	0	0
Tourism	114	40	0	0	0
Local Enterprise Partnership	40	20	0	0	0
Pension	385	385	385	385	385
TDA - Capital Schemes Reserve	7	0	0	0	0
South Devon Link Road	912	912	1,234	0	0
Community Development Trust	300	200	100	0	0
Taxi Reserve	36	36	36	36	36
Universal Credit	0	361	361	361	0
Waste Strategy	234	103	28	0	0
	9,942	9,403	8,092	5,973	5,417
Total Earmarked Reserves	31,742	22,350	17,564	14,655	13,812
TOTAL RESERVES	36,098	26,706	21,920	19,011	18,168