

shortfalls, costs for restructuring due to budget reductions, the approved Childrens Services Cost Reduction Plan and any delays in implementing savings.

- 4.2 As part of the Childrens Services 5 Year Cost Reduction Plan, due to be approved by Council in October 2014, it is recommended that Council approve the transfer of £3.4m from a number of reserves to fund planned spend in Childrens with Children's Services repaying the reserve in 2017/18 & 2015/19. It is important that these reserves are repaid or there will be additional budget pressures for other services within the Council.
- 4.3 As part of the 2014/15 Review of Reserves Council approved "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". The use of this £1.5m is expected to be substantially used during 2014/15. This repayment is in addition to the £3.4m required as part of the Childrens Services 5 year Cost Reduction Plan.
- 4.4 As an implication of the in year budget pressures and estimated future costs of budget reductions additional funds it is recommended that Members consider during the 2015/16 budget process the allocation of additional funds to the Comprehensive Spending Review Reserve and/or the General Fund Reserve.
- 4.5 Members are reminded of the advice previously given by The Chief Finance Officer that 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.

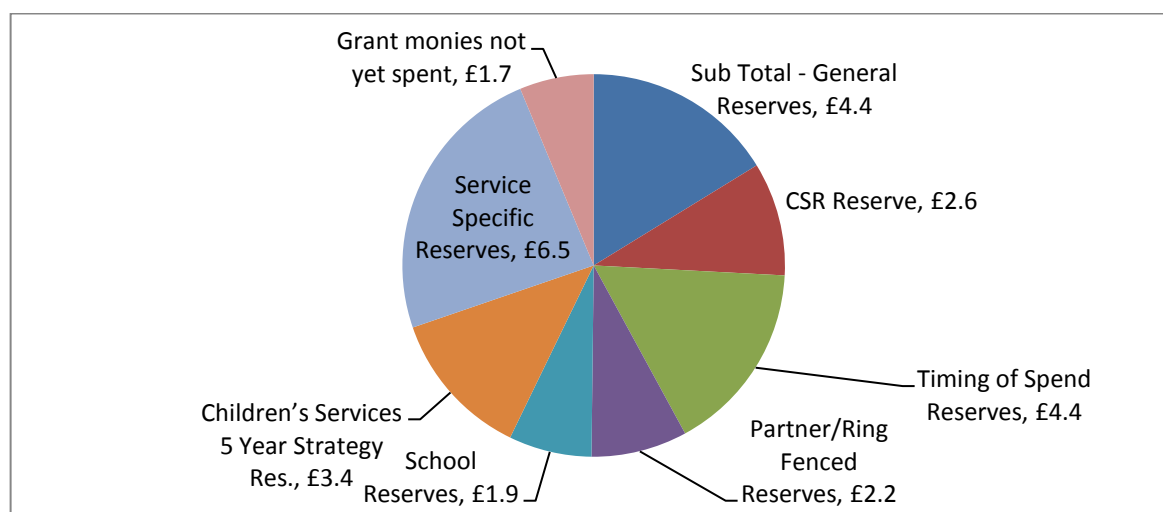
A2 Review of Reserves 2015/16

A2.1 Overview

A2.2 As at 31/03/2014 Torbay Council's reserves were as follows:-

| | 31/3/13 actual | Change in year | 31/3/14 actual | 31/3/15 estimate |
|--|-------------------|-------------------|-------------------|---------------------|
| | £m | £m | £m | £m |
| General Fund Reserve | 4.4 | 0 | 4.4 | 4.4 |
| Sub Total - General Reserves | 4.4 | 0 | 4.4 | 4.4 |
| Comprehensive Spending Review Reserve | 3.1 | 0.7 | 3.8 | 2.6 |
| Timing of Spend Reserves | 10.0 | (3.2) | 6.8 | 4.4 |
| Partner/Ring Fenced Reserves | 3.2 | 0.6 | 3.8 | 2.2 |
| School Reserves | 3.2 | (0.4) | 2.8 | 1.9 |
| Children's Services 5 Year Strategy Res. | 0 | 0 | 0 | 3.4 |
| Other Service Specific Reserves | 10.2 | 2.4 | 12.6 | 6.5 |
| Grant monies not yet spent | 2.0 | 1.1 | 3.1 | 1.7 |
| Sub Total – Earmarked Reserves | 31.7 | 1.2 | 32.9 | 22.7 |
| Total Reserves | 36.1 | 1.2 | 37.3 | 27.1 |

A2.3 From the table above, the estimated balances (in £m) as at 31/3/15 after the allocation of £3.4m to Childrens Services is as follows:



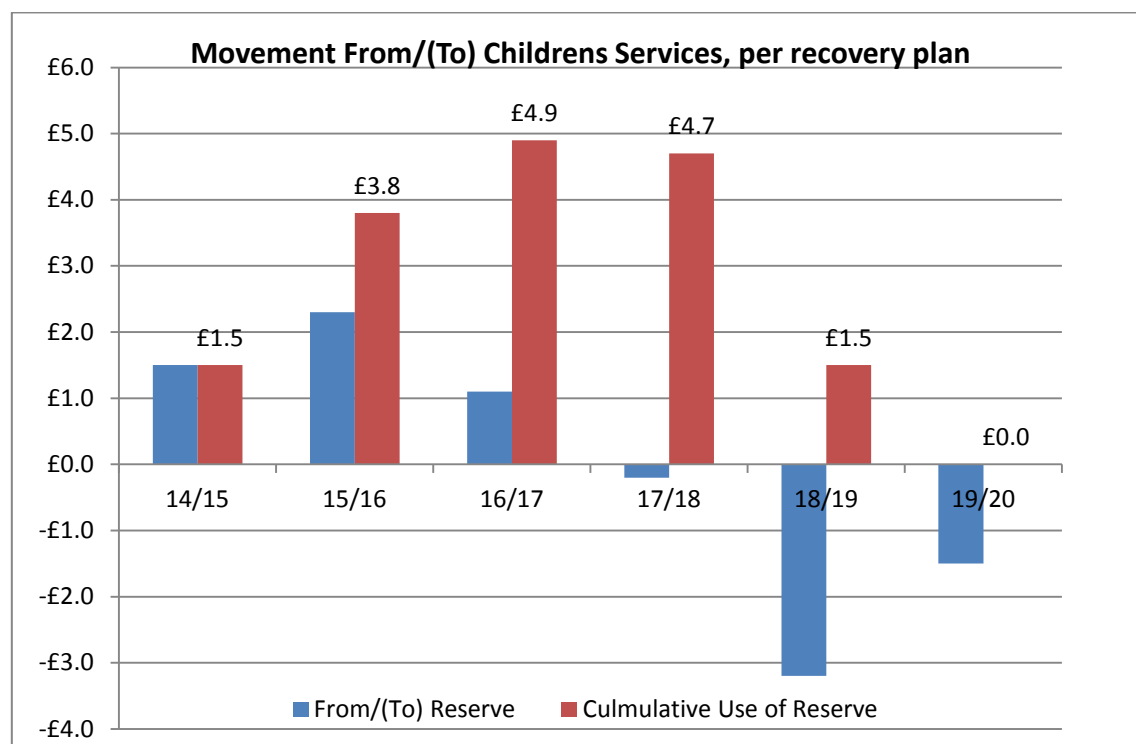
A2.4 A list of the Council's Reserves as at 31/03/2014 is attached at Appendix 1.

A2.5 The table in A2.2 shows that the total reserves held by the Council increased by £1.2m during 2013/14. The General Fund Reserve remained at £4.4 million during the same period. This is discussed in more detail below.

A2.6 Included in this agenda Council is asked to approve a five year cost reduction plan for Childrens Services which requires the use of £3.4m of reserves to fund children services budget pressures in 2015/16 and 2016/17 before the service will have introduced and embedded service changes which will result in savings compared the current level of spend which will enable children's services to repay the reserves used to fund the £3.4m. The Plan identified that £0.2m will be repaid in 2017/18 and £3.2m will be repaid in 2018/19. The £3.4m will be re allocated to service reserves by the Chief Finance Officer if there is still an expenditure pressure on these reserves in the future.

A2.7 The £3.4m is in addition to the previously approved use of £1.5m from the PFI Sinking Reserve which is also to be repaid by Children's Services, with the assumption that this £1.5m will be used in 2014/15 with repayment in 2019/20.

A2.8 The use of these reserves to support Childrens Services and their repayment is shown in the bar chart below.



A2.9 The reserves identified to fund the £3.4m required for Childrens' Services are shown in the table below. The reserves have been selected where there are not any definite expenditure commitments or expenditure is expected in future years. In addition a 20% general reduction over a number of reserves has also been made. It is expected that these reserves will be repaid by Children's services in future years. The risk and potential implication of reducing these reserves is summarised below:

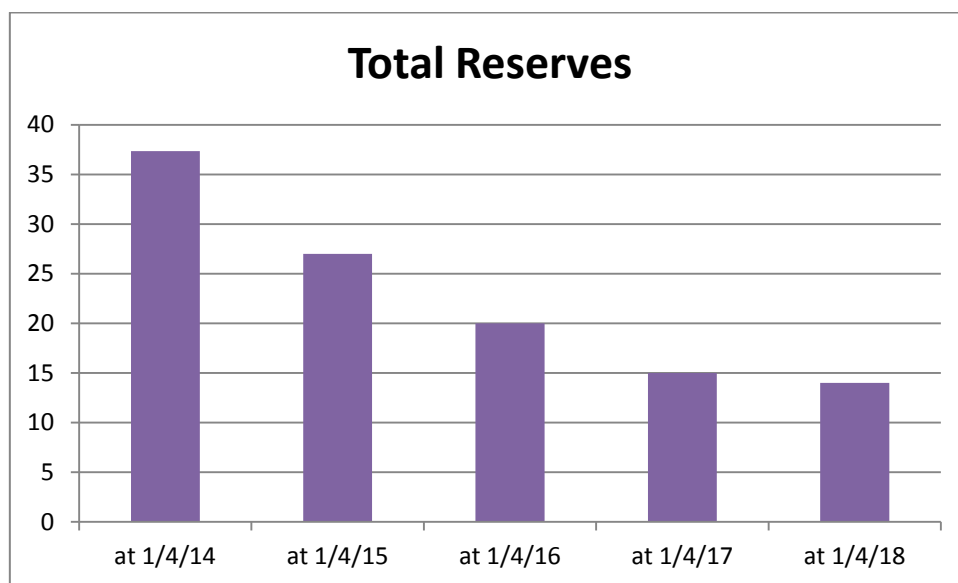
| Reserve | Reduction £000's | Reduction % | Implication if reserve NOT repaid |
|----------------------------------|---------------------|----------------|---|
| Office Rationalisation | 55 | 20 | Budget pressure if future revenue costs of office rationalisation exceed available reserve |
| Crematorium | 5 | 20 | Budget pressure if future costs of Council responsibility re churchyards exceed available reserve |
| Asset Issues | 45 | 20 | Budget pressure if future costs of asset disposals exceed available reserve |
| Employment Issues | 50 | 36 | No commitments on this reserve, however no funds for re skilling and training of staff |
| Education Early Retirement | 34 | 20 | Budget pressure if future costs of teacher redundancy exceed available reserve |
| Insurance | 750 | 18 | Less reserve for potential insurance costs |
| Harbours | 86 | 10 | Reduced spend on Harbour estate and equipment |
| Equipment Fund | 31 | 12 | Budget pressure if future costs of IT and other system replacement exceed available reserve |
| PFI Sinking Fund | 896 | 28 | Budget pressure within Childrens Services to meet ongoing increased PFI contract annual costs |
| Public Health – Disease Outbreak | 435 | 100 | Any costs to be funded from the ring fenced public health reserve or a budget pressure |
| Prudential Borrowing Reserve | 180 | 19 | Future year budget pressure and premiums paid, if any, on repayment of borrowing will be a budget pressure. |

| | | | |
|-------------------------|--------------|-----|--|
| Regeneration | 35 | 100 | Reduced funds to progress future regeneration schemes |
| South Devon Link Road | 252 | 27 | Higher ongoing prudential borrowing costs which will be a cost to the service |
| Taxi Reserve | 7 | 20 | Budget pressure if future costs of taxi license costs exceed available reserve |
| Universal Credit | 449 | 100 | Budget pressure if Universal Credit introduced with no central government funding |
| Waste Strategy | 90 | 20 | Budget pressure if future costs of EFW and waste tonnages exceed available reserve |
| Total Identified | 3,400 | | |

A2.10 This report has assumed that the 2014/15 budget breaks even and that budget pressures currently forecast in social care, both Adults and Childrens, and in Residents and Visitor services can be offset by savings elsewhere combined with the achievement of in year recovery plans such as the £1.8m savings already identified for Childrens Services.

A2.11 If there is an overspend in 2014/15 this will be funded from the Comprehensive Spending Review Reserve which, if significant, will deplete the reserve earlier than predicted which will result in a budget pressure for the Council in future years to support budget reductions such as restructuring costs. If such an event occurs then the Chief Finance Officer will give consideration to transferring the remaining balance on the prudential borrowing reserve of £0.752m to the Comprehensive Spending Review Reserve. The consequence of this action will be to create an ongoing budget pressure (approx £0.040m p.a) and premiums paid, if any, on repayment of borrowing will be a budget pressure.

A2.12 Each reserve has been assessed for its estimated balance as at 31st March 2015 and for the estimated additions or withdrawals from the reserve during 2015/16 and future years. This is included in the table at Appendix 1. This table is shown after the recommendations arising from this report, but excludes the £4.9m repayments (£3.4m + £1.5m) by Childrens Services.



A2.13 The table in A2.2, (based on this review of reserves), shows that the level of reserves is expected to decrease by £10m during 2014/15 to £27m. The actual balance at year end will depend on spend during the year and any year end service carry forwards from unspent revenue funds and/or unspent grant allocations.

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

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

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

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

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

A3.4 In undertaking a detailed annual review of reserves that is presented to both Overview and Scrutiny Board and Council, Torbay Council is largely complying with most of the recommendations in this report.

A3.5 It is important to differentiate between general and uncommitted reserves and reserves held for a specific purpose. It is only the general and uncommitted reserves that could be used to support “short term costs”. As shown in the table above, the Council’s uncommitted reserves was the Comprehensive Spending Review reserve (£3.8m) 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. 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 2014/15 in year pressures for social care.

A3.6 The Chief Finance Officer is reluctant to use any reserve funds, which can only be spent once, to support ongoing expenditure as that is not financially sustainable as it only delays the impact of the required budget reductions. Any use of reserves for ongoing spend by a service on an invest to save basis or as a short term strategy such as the 5 Year Childrens Services Cost Reduction Plan which must be repaid by the same service and will become a call on future year’s budgets.

A3.7 This position taken by the Chief Finance Officer is similar to CIPFA guidance which says “Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as how such expenditure will be funded in the medium to long term”.

A4 Earmarked Reserves

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

A4.2 Comprehensive Spending Review Reserve – balance £3.8m 31/3/14 (£2.6m 31/3/15)

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 signed off by the Chief Finance Officer.

A4.4 As part of the 2014/15 review of reserves an additional £0.6m was transferred to this reserve from other reserves. During 2012/13 £0.8m was used to fund the costs of staff reductions for the 2014/15 budget.

A4.5 The cost of severance packages for staff as the Council faces budget reductions are an ongoing significant budget pressure. The highest cost of “exit packages” over the past three years was £1.5m however £1.0m has been assumed for 2014/15 and £1.0m assumed for subsequent years.

A4.6 This reserve will also be used to support any transitional funding offered as part of the 2015/16 budget and if there is an overspend in 2014/15, as currently predicted, this will have to be funded from this reserve if compensating savings cannot be found. This report assumes that 2014/15 will break even and the transitional funding is as per the 2015/16 budget reduction proposals.

A4.7 Assuming no use of this reserve in 2014/15 to support any in year overspend this reserve will be fully committed in 2017/18, which means that the Council will have to identify additional resources to fund any costs of making the expected budget reductions in 2018/19 and future years. Given the in year budget pressures and estimated future costs of budget reductions it is recommended that Members consider during the 2015/16 budget process the allocation of additional funds to the Comprehensive Spending Review Reserve and/or the General Fund Reserve or establish a contingency within the Revenue budget.

A4.8 Timing of Expenditure Reserves – balance £9.9m 31/3/14 (£6.1m 31/3/15)

A4.9 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.

A4.10 PFI Sinking Fund

As part of the 2014/15 Review of Reserves Council approved; “the transfer of £1.5m from the PFI Sinking Fund to Childrens Services on an “invest to save” basis. Childrens Services to repay the reserve in future years”. The use of this £1.5m is expected to be substantially used during 2014/15; however the terms of repayment have yet to be agreed with the Director of Childrens Services. This repayment is in addition to the £3.4m required as part of the Childrens Services 5 year Cost Reduction Plan.

To support the Plan an additional £0.9m is proposed to be withdrawn from this reserves (see para A2.9) which will reduce the reserve to be equal to the expected revenue shortfall on the Council’s PFI contract for the next three years (£0.6m) until Childrens Services start to repay reserves in 2018/19.

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

A4.11 Collection Fund

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

Estimates of future year surpluses will be included in the 2015/16 Budget Setting process and reflected in the Medium Term Resource Plan.

A4.12 Partner/Ring Fenced Reserves – balance £6.6m 31/3/14 (£4.1m 31/3/15)

A4.13 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 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. As per the table (A2.9) it is proposed that there are reductions to support Childrens Services pending repayment in future years.

A4.14 The balance of £2.8m held by schools as at 31st March 2014 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.

A4.15 Specific Issue Reserves - balance £12.7m 31/3/14 (£9.9m 31/3/15)

These are reserves set aside for specific expenditure purposes.

A4.16 Insurance Reserve

The balance as at March 2014 for both the insurance reserve and the insurance provision before the addition of any current year surplus due to timing of claims was approximately £4.6 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 review as at March 2014.

As the 2014/15 budget included a reduction to the annual revenue contribution to the reserve for claims and a reduction in the total reserve of £0.250m to be released over the next five years, this increases the risk of the reserve being inadequate in the longer term from both changes in premiums and the number and value of claims. Given the potential long lead in time for certain insurance claims, such as those relating to children and certain types of industrial diseases, any shortfall in this reserve may not be realised for a number of years.

In the light of the above risks the proposal in paragraph A2.9 to use of £0.750m from the reserve to support the Childrens Services Reserve in the short term, the repayment in future years will be important.

A4.17 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.

A5 Review of Provisions and other Potential Liabilities

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

A5.2 As at 31/03/2014 Torbay Council's provisions were as follows:-

| 12/13 | | 13/14 | Change |
|--------------|-------------------------------|--------------|---------------|
| £m | | £m | £m |
| 0.7 | Insurance Provision | 0.5 | (0.2) |
| 0 | NNDR Appeals | 1.2 | 1.2 |
| 0.4 | Restructure/Budget Reductions | 0.1 | (0.3) |
| 0.8 | Other Provisions | 0.4 | (0.4) |
| | | | |
| 1.9 | Total Provisions | 2.2 | 0.3 |

A5.3 The provisions above were based on the latest information as to the value of the potential liability, as such no changes in the value of these are proposed. It is expected that the majority of these provisions will be used within 2014/15 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 such as carbon allowances.

A5.4 The provision for NNDR appeals as at 31st March 2014 is new as a result of the introduction of the NNDR Business Rates Retention Scheme and forms part of the Collection Fund – see para A4.12 above. When the scheme was introduced in April 2013 the Council now gains or loses a 49% share of any movements in NNDR income. This includes the ongoing impact and repayment from any successful NNDR appeals made. This includes a 49% share of any costs paid since April 2013 arising from refunds relating to financial years before April 2013 which were previously fully funded from central government.

A6 General Fund Reserve - Risk Assessment and Sensitivity/Scenario Appraisal

A6.1 The Councils General Fund Reserves of £4.4 million represents 3.8% of the Council's net 2014/15 budget. This level of "unallocated financial reserves" is lower than average compared to other unitary Councils. (see para A7.2).




- A6.2 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”.
- A6.3 A risk assessment of all 2014/15 budgets suggest that the maximum overspend in any year, if all services were subject to adverse pressures and where there isn't any specific service related earmarked reserve, would be £8.8 million or 7% of 2014/15 net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning) and to reflect the financial risks inherent in any significant new partnerships, outsourcing or capital developments, say £1.0 million. This would result in a required General Fund reserve of £9.8 million or 8% of net budget. The current level of General Fund Reserve will cover just under 45% of this sum.
- A6.4 This risk assessment overall is similar to the previous year as the higher value areas of volatility that were identified as a high risk last year have continued to cause pressures on the Council's revenue budget still exist. In addition the challenges of achieving the ongoing significant budget reductions from central government create a major risk of budget variations.
- A6.5 A continuing key consideration within this risk assessment is the level of the risk of budget variances passed to partners or other suppliers via service delivery contracts. A key partner for the Council is the Torbay and Southern Devon Health and Care NHS Trust as the level of funding to the Trust is over £43 million per annum. For 2014/15 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 2015/16) are discussing risk share arrangements for 2015/16 as part of the 2015/16 budget process. The expectation is there will be a risk share as part of the ICO, however for the purposes of this report until this has been finalised it is considered a risk.
- A6.6 A prudent risk based approach to budget setting and reserve levels will have mitigated some risks of an overspend, although it should be noted that in areas of high risk such as, Childrens Social Care, have already declared a significant budget pressures over the past few years. The Childrens Service 5 Year Cost Reduction Plan should help to mitigate some of the risks associated with this service.
- 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 be equal to 50% of the total assessed risk in any financial year (which equals to 4.2% of 2014/15 net revenue budget). This for 2015/16 will result in a required general fund reserve balance of £4.9 million. At this stage the current general fund balance of £4.4 million is £0.5 million below the target level.
- A6.7 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.
- A6.8 The 2015/16 budget to be presented in February 2015 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

- A6.9 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 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.
- A6.10 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.
- A6.11 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.

A7 Comparison with Other Councils:

- A7.1 The Audit Commission Report, (paragraph A3.3 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".
- A7.2 A comparison of Torbay Council reserves as at 31/3/13 with data for 9 other similar unitary authorities and Torbay's "local" neighbours of Cornwall, Devon and Plymouth using a CIPFA comparison site is shown below:

| | Torbay | Group Average | |
|---|-------------------|----------------------|---|
| Financial Reserves as a % of net revenue expenditure | 25% (9th/13) | 30% |  |
| Earmarked Reserves divided by net revenue expenditure | £188k (7th/13) | £177k |  |
| Unallocated (General) Reserves divided by net revenue expenditure | £31k (11th/13) | £68k |  |

Note – Audit Commission data excludes school and public health reserves.

- A7.3 This results shows that the profile of Torbay's total reserves are lower than average, however within that total Torbay's earmarked reserves were slightly higher than average, but more than offset by below average on general reserve. This shows that Torbay's general fund reserve is on the lower limit of being reasonable. The Audit Commission report (see para A3.3) found that general fund reserve levels were typically between 3% and 5% of net budget. Torbay's general reserve is 3.8%.

A8 Chief Finance Officer Statement.

- A8.1 On the assumption that a balanced budget can be achieved for 2014/15 and a robust budget set and realistic savings are identified and delivered for 2015/16, I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2015/16 and to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.
- A8.2 To support the statement in A8.1 above, it is important to keep the achievement of savings within the Childrens 5 Year Cost Reduction Plan under review to ensure the repayment of £3.4m to other service reserves in future years.

A9 Governance of Reserves.

- A9.1 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.
- A9.2 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.
- A9.3 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.
- A9.4 Any budget variations that are reported to Council which cannot be funded from existing revenue resources will then, as a consequence, impact on the projected balance on the General Fund Reserve.
- A9.5 Schools reserves are part of the delegated schools funding and these reserves remain at the discretion of the Head Teachers and Governing Bodies.

A10 Risk assessment of preferred option

A10.1 Outline of significant key risks

A10.2 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.

A10.3 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 and the achievement of the 5 Year Cost Reduction Plan and the repayment of reserves from future year savings.

Appendices

| | |
|------------|-----------------------------|
| Appendix 1 | Review of Reserves 2015/16 |
| Appendix 2 | Summary of Council Reserves |

2015/16 - Review of Reserves

| <u>Reserves</u> | Balance as at 1/4/14 £'000 | Balance as at 1/4/15 £'000 | Balance as at 1/4/16 £'000 | Balance as at 1/4/17 £'000 | Balance as at 1/4/18 £'000 |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| 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 Review Reserve | 3,761 | 2,639 | 1,382 | 382 | 0 |
| | 3,761 | 2,639 | 1,382 | 382 | 0 |
| Timing of Expenditure: | | | | | |
| Capital Funding Reserve | 1,611 | 1,700 | 1,560 | 200 | 100 |
| Collection Fund Reserve | -1,076 | 700 | 700 | 700 | 700 |
| Council Elections | 113 | 161 | 0 | 42 | 83 |
| Prudential Borrowing | 953 | 753 | 712 | 667 | 657 |
| PFI Sinking Fund | 3,196 | 600 | 400 | 200 | 0 |
| NNDR Collection Fund | 1,199 | 0 | 0 | 0 | 0 |
| Service C/fds | 752 | 509 | 315 | 243 | 186 |
| Unspent Grants c/fd | 3,124 | 1,654 | 1,414 | 1,414 | 1,414 |
| | 9,873 | 6,077 | 5,101 | 3,465 | 3,140 |
| Partner/Ring Fenced Reserves | | | | | |
| Devon Audit Partnership | 17 | 17 | 17 | 17 | 17 |
| EDC Reserves (paid in advance) | 1,365 | 395 | 0 | 0 | 0 |
| School Balances | 2,832 | 1,903 | 1,403 | 1,403 | 1,403 |
| Harbours Reserves | 860 | 416 | 203 | 92 | 3 |
| Public Health - Disease Outbreak | 436 | 0 | 0 | 0 | 0 |
| Public Health - Ring fenced | 769 | 1,019 | 1,019 | 1,019 | 1,019 |
| Education Schools Redundancy/Retirement | 323 | 300 | 280 | 260 | 240 |
| | 6,602 | 4,050 | 2,922 | 2,792 | 2,683 |
| Specific issues | | | | | |
| Art Objects Purchased Fund | 29 | 25 | 25 | 25 | 25 |
| Budget Pressures | 472 | 0 | 0 | 0 | 0 |
| Childrens Services 5 Year Strategy Reserve | 0 | 3,400 | 1,100 | 0 | 0 |
| Crematorium | 25 | 20 | 19 | 17 | 15 |
| Asset Issues & Disposal Costs | 224 | 139 | 139 | 139 | 139 |
| Social Fund (Crisis Support) | 351 | 351 | 176 | 0 | 0 |
| Growth Fund | 952 | 752 | 352 | 0 | 0 |
| Equipment Reserves | 361 | 88 | 70 | 70 | 20 |
| Employment Issues | 138 | 64 | 39 | 14 | 14 |
| Education Early Retirement | 169 | 106 | 96 | 86 | 76 |
| Geopark Conference Reserve | 100 | 100 | 100 | 0 | 0 |
| Highways Reserves | 625 | 625 | 600 | 575 | 550 |
| Insurance Reserves | 4,102 | 3,302 | 3,252 | 3,202 | 3,152 |
| IT Equipment Reserve | 550 | 0 | 0 | 0 | 0 |
| Land Charges | 266 | 41 | 41 | 41 | 41 |
| Office Rationalisation | 278 | 123 | 123 | 123 | 123 |
| Planning Reserve | 669 | 159 | 0 | 0 | 0 |
| Public Health - Domestic Abuse | 287 | 152 | 47 | 0 | 0 |
| Regeneration Reserve | 35 | 0 | 0 | 0 | 0 |
| Supporting People Commissioning | 842 | 0 | 0 | 0 | 0 |
| Tourism (Strategic Events) | 107 | 37 | 37 | 37 | 37 |
| Local Enterprise Partnership | 20 | 0 | 0 | 0 | 0 |
| South Devon Link Road | 912 | 224 | 0 | 0 | 0 |
| Community Development Trust | 300 | 200 | 100 | 0 | 0 |
| Taxi Reserve | 36 | 29 | 29 | 0 | 0 |
| Universal Credit | 449 | 0 | 0 | 0 | 0 |
| Waste Strategy | 450 | 0 | 0 | 0 | 0 |
| | 12,748 | 9,938 | 6,345 | 4,330 | 4,193 |
| Total Earmarked Reserves | 32,984 | 22,704 | 15,750 | 10,968 | 10,016 |
| | | | | | |
| TOTAL RESERVES | 37,340 | 27,060 | 20,106 | 15,324 | 14,372 |

| <u>Name of Reserve</u> | <u>Description of Reserve</u> |
|--|--|
| Asset Disposal Costs and Property Issues Reserve | To support the revenue costs associated with the rationalisation of the Council's assets |
| Budget Issues Reserve | To support future budgetary pressures facing the Council in the medium term. |
| Capital Funding | To reserve funding for items in the approved Capital Plan Budget. |
| Carry Forwards | Service Carry Forwards |
| Childrens Services 5 Year Strategy | Per Council approval to support Childrens Services in the short term by £3.4m. |
| Comprehensive Spending Review Reserve | To fund costs associated with meeting budget reductions as a result of the Government's comprehensive spending review. |
| Community Development Trust Reserve | Reserve established by support the creation and three year support for a Community Development Trust. |
| Early Retirement Reserve | To enable the Council to meet childrens' redundancy related liabilities as they fall due. Built up from annual budgets for new redundancies. |
| EDC Reserve | Reflects the value of funds awarded to the Torbay Economic Development Company where the work has yet to be completed. |
| Employment Issues Reserve | To support employment related issues, such as implication of pay modernisation, equal pay and payroll related issues. |
| Equipment Fund | To facilitate renewal of equipment within services where the replacement is at irregular periods. |
| Geo Park Conference | To support costs of Geo Park Conference |
| 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 |
| Growth Fund Reserve | Reserve established from the New Homes Bonus grant to create a Growth Fund to support employment opportunities. |
| Harbours | Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users. |
| Highways Act Reserves | Reserve holding funds received under Highways Acts and other legislation where the Council holds funds to do works. |
| 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 |
| IT Equipment Reserve | To provide funds for priority driven replacements of IT equipment. |
| Land Charges Reserve | Reserve to fund any potential costs arising from changes in the charging regulations in relation to land charges. |
| NNDR Rates Retention | Reserve to fund the one off costs of the 2014/15 NNDR deficit resulting from the Council's share of the costs of backdated NNDR appeals. |
| Office Accommodation Reserve | Reserve to help meet the short term revenue costs of the implementation of this major project. |
| Misc. Specific Reserves | Includes: Council Elections, Taxi Survey, Art Objects, Local Enterprise Partnership, Devon Audit Partnership and Cemeteries. |

| | |
|--|---|
| PFI Sinking Fund | To provide funds to meet the liabilities under the PFI agreement over 25 years (Westlands and Homelands Schools) and to provide funding towards Paignton Community College expansion project. |
| Planning Reserve | To provide for costs of Local Plan Inquiry held every 4/5 years. |
| Public Health – Domestic Abuse | To provide for costs of supporting people in the short term. |
| Public Health | Reflects carry forward of ring fenced funds for Public Health |
| Regeneration Reserve | A reserve to support economic regeneration and employment initiatives |
| School Balances | Reflects the carry forward by schools of their delegated school budget share. |
| School Redundancy Reserve | Reserve to support the costs of redundancies for schools based staff |
| Social Fund | Reserve to support the costs of social fund and exceptional hardship |
| South Devon Link Road | To support the development of the South Devon Link Road |
| Supporting People Re provision Reserve | To set aside monies to help in the commissioning of services for the re provision of the supporting people function |
| Tourism (Strategic Events) Reserve | Reserve established in 2012/13 to support tourism and events. |
| Universal Credit Reserve | Reserve to meet implementation costs associated with the introduction of the Universal Credit |
| Unsupported Borrowing Equalisation Reserve | Reflects the temporary surplus/deficit arising from the charges to services for the repayment of expenditure under Prudential Borrowing compared to actual interest and Revenue Provision. |
| Waste Disposal Strategy Reserve | Reflects the reclassification of part of the equipment fund as a specific reserve for Waste Disposal Initiatives. |