



Meeting:

Council

21 February 2019

Wards Affected:

All

Report Title:

Review of Reserves 2019/20

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1. Purpose

- 1.1 The Council holds a number of reserves as part of its approach to maintaining a sound financial position, protecting the Council to some degree from volatility in 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.
- 1.2 The report setting out the Review of Reserves was considered by the Overview and Scrutiny Board on 30 January 2019 and no recommendations for amendments were proposed. However, when the report was presented to the Council on 7 February 2019, the motion to approve the recommendations within the report was lost.
- 1.3 The recommendations within the original report are now being re-presented to Council for consideration as:
- (i) Consideration of the Council’s levels of reserves is linked to legislation for budget setting contained in both the Local Government Acts of 1992 (section 31A & 42A) and 2003 (section 25) and the Local Government Finance Act 1988 (section 114). In particular, under the 2003 Act the Chief Financial Officer has a statutory duty to report to the Council on the robustness of the Council’s estimates and the adequacy of its financial reserves.
 - (ii) Article 4 of the Council’s Constitution states that the Review of Reserves is approved annually as part of the budget setting process.
 - (iii) The report proposes the allocation of funds to establish a budget of £1 million for the purchase of the replacement case management system for children’s social care, and future IT replacement and investment. The replacement system for the case management of vulnerable children in the Council’s care is important and Ofsted have previously highlighted the need to replace the current system. On-going funds for IT are essential to ensure the Council’s IT hardware and software are fit for purpose.
 - (iv) The report proposes that the Comprehensive Spending Review Reserve

has a minimum balance of £2 million for future financial pressures. The Head of Finance's Statement of the robustness of the Revenue Budget 2019/20 is based on the assumption that this Reserve is maintained at that level. The report proposes the allocation of earmarked reserves to ensure that level is maintained.

- 1.4 Therefore it is the recommendation of the Head of Finance (as the Council's Chief Financial Officer) that the recommendations within this report should be approved.

2. Proposed Decision

- 2.1 Council approve that:

- a) Up to £1.0m is earmarked from the Comprehensive Spending Review Reserve to fund the balance of the predicted 2018/19 Council overspend
- b) and £2.1m of reserves identified in paragraph 4.2 of this report are transferred to both the Comprehensive Spending Review Reserve (£1.1m) and the IT reserve (£1.0m) to support future IT replacement and IT investment for all services including a replacement Children's Services care management system.

3 Reasons for Decision

- 3.1 A Review of Reserves is a key part of the Council's budget setting process. Consideration of reserve levels is linked to legislation for budget setting contained in both the Local Government Acts of 1992 (section 31A & 42A) and 2003 (section 25) and linked to section 114 of the Local Government Finance Act 1988.
- 3.2 The Council is facing significant financial pressures in 2018/19 from children's social care with the current predicted overspend on this service of £4.2m (as at quarter three 18/19). Other services and recovery options are reporting a net saving of £1.5m resulting in a forecast overspend as at quarter three 18/19 of £2.7m. It is anticipated that additional funding options of £2.6m will be identified by year end to leave any balance to be funded from the Comprehensive Spending Review (CSR) Reserve.
- 3.3 Due to the significant financial risks facing the Council in 2019/20 and future years it is essential that the Council's reserves provide a sufficient contingency to meet this increasing risk and to ensure a robust budget. Consistent with the 2018/19 Review of Reserves and the Medium Term Financial Plan, it is recommended that, as a result of the level of current and previous year budget variations, to maintain the balance of the CSR Reserve at a minimum of £2m. This approach – in addition to maintaining the General Fund balance – was supported by CIPFA during their Financial Resilience inspection.
- 3.4 In addition to the rising demand pressures for social care, the financial risks facing the Council in 2020/21 are compounded by the uncertainty over future funding levels for the Council. In the absence of clarity from central government, councils, including Torbay, will inevitably aim to mitigate against that uncertainty. Uncertainties for Torbay Council include:
- a) No funding allocations for 2020/21 onwards
 - b) Impact of Spending Review 2019 in 2020/21
 - c) Impact on new funding formula for Councils in 2020/21
 - d) (Probable) Ending of New Homes Bonus Grant in 2020/21
 - e) No allocations for Improved Better Care Fund for 2020/21
 - f) Impact of relative resource (council tax and service) equalisation in 2020/21

- g) Impact of the new 75% NNDR retention scheme in 2020/21
- h) Impact of the revised NNDR baselines in 2020/21
- i) Revised payments under new Risk Share Agreement 2020/21
- j) Future funding of Higher Needs Block in new schools funding formula 2021/22

3.5 The Council is undertaking a number of activities that have a higher level of risk associated with them. This includes the Investment Fund and, possibly, both affordable and extra care housing where the Council is investing a significant amount funded by prudential borrowing. Whilst significant business case analysis and due diligence of proposals is undertaken, 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 also fluctuations in the values of any underlying assets. The level of reserves needs to be considered in this context.

3.6 It is clear that the Council has lower levels of General Fund reserves than most other councils.

3.7 Members are again reminded of the advice previously given by the Head of Finance, that reserves should not be used for supporting ongoing recurring expenditure. Use in that way is not financially sustainable as reserves can only be spent once.

3.8 Head of Finance Statement.

3.9 The Council is continuing to face unprecedented financial challenges. I am satisfied that the Council’s General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council’s Financial Plans for 2019/20 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment, if the following actions are undertaken:

- a) The CSR has a balance of £1.0m to fund 2018/19 projected overspend
- b) The General Fund reserve has a minimum balance equal to 4% of net budget
- c) That a minimum **ongoing** balance of £2m is in the CSR reserve
- d) That Children’s Social Care, deliver the improvements and cost reductions for 2019/20 and future years supported by a robust financial recovery plan
- e) That the revised Risk Share Agreement for Adult Social Care is maintained for 2019/20
- f) That a balanced revenue budget can be set for 2019/20
- g) That the budgeted Investment Property surplus for 2019/20 is achieved.
- h) That the Council continues to delivers its transformation programme at pace in short term

3.10 At this stage with the significant uncertainty in relation to central government funding for 2020/21 I am currently unable to give any assurance in relation to 2020/21. 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) Maintaining a balance on CSR reserve of £2m
- b) Protection to current level of General Fund Reserve
- c) No reserves are used to balance 2019/20 or future year budgets
- d) Specific material risks still mitigated for – such as 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 delivers its transformation programme at pace in

- medium term
- g) Continued focus on reducing spend in children's' social care
 - h) Renegotiation of risk share agreement for adult social care for 2020/21 onwards

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

Martin Phillips
Head of Finance

Supporting information

A1. Introduction

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

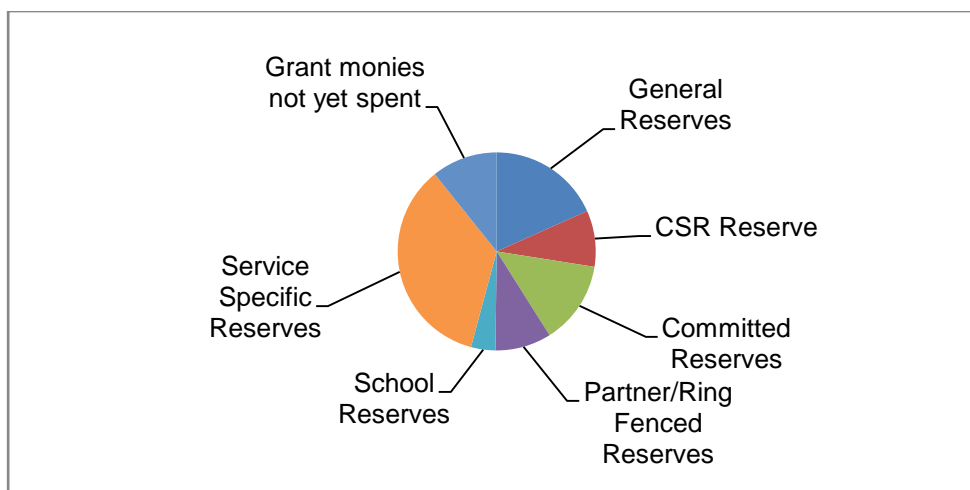
A2 Review of Reserves 2019/20

A2.1 Overview

A2.2 As at 31/03/2018 Torbay Council's reserves were as follows:-

	31/3/17 actual	Change in year	31/3/18 actual	31/3/19 estimate
	£m	£m	£m	£m
General Fund Reserve	4.6	0	4.6	4.6
Sub Total - General Reserves	4.4	4.6	4.6	4.6
Comprehensive Spending Review Reserve	4.4	(0.8)	3.6	2.3
Committed Reserves	4.8	0.8	5.6	3.4
Committed Reserves - Grant monies not yet spent	1.8	(0.9)	0.9	(2.7)
Partner/Ring Fenced Reserves	3.0	1.8	4.8	2.3
School Reserves	1.9	(1.1)	0.8	1.0
Investment Fund Reserve	0	1.6	1.6	1.7
Other Service Specific Reserves	7.1	0.7	7.8	7.1
Sub Total – Earmarked Reserves	23.0	2.1	25.1	15.1
Total Reserves	27.6	2.1	29.7	19.7

A2.3 From the table above, the estimated balances (in £m) as at 31/3/19 after the recommended allocations is as follows. The negative balance of £2.7m on grants is linked to the higher needs overspend in the dedicated schools grant.



A2.4 A list of the Council's Reserves as at 31/03/2018 is attached in Appendix 1.

A2.5 This report is, for another year, highly influenced by the significant financial risks facing the Council predominately from current financial pressures within children's social care (safeguarding and wellbeing). For 2019/20 the financial risk from Adults Social care has been mitigated by the revised Risk Share Agreement that limits the Council's exposure to financial risk. There is an ongoing risk that, without mitigation, in future years, the Council will not have enough identified reserves to support any one-off expenditure required to meet any in-year budget shortfalls, costs for restructuring due to budget reductions, any further significant changes to the children's social care expenditure and any delays in implementing savings.

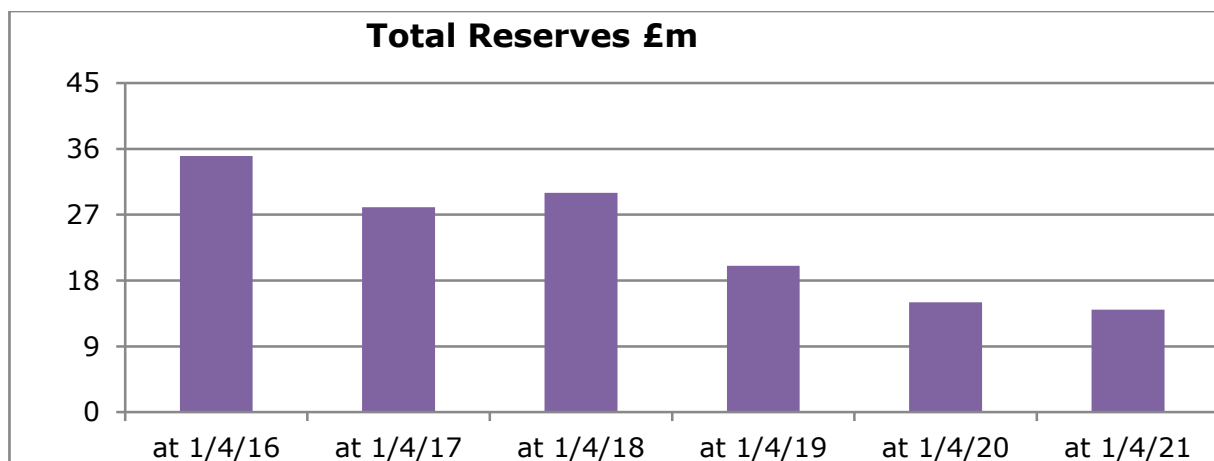
A2.6 Following consideration of the 2017/18 Review of Reserves, that was approved by Council, accepted that the significant financial pressures facing the Council in future years should be noted and "and agreed, as a policy decision, the allocation of additional funds, as required, to the Comprehensive Spending Review Reserve in each budget process to increase, and then maintain, an ongoing minimum balance in the reserve of £2m". This policy remains financially prudent for the Council.

A2.7 The Council has had unprecedented financial challenges from reduced funding levels over the past few years and is facing a further £4m reduction in its Revenue Support Grant in 2019/20 to £6m (from £42m in 2013/14), in addition to any future expenditure pressures such as inflation and increase in demand. There have been no funding announcements for 2020/21.

A2.8 As outlined in paragraph 3.2 above, given the significant uncertainty facing the Council it is clear that, more than ever, the Council needs to mitigate and plan for variations in income as well as expenditure.

A2.9 To be able to meet future years' budgets and reduce the reliance on the use of reducing reserves it is essential that the Council progresses and achieves savings and income generation from its Transformation Portfolio **and** an absolute reduction in the cost of Children Looked After

A2.10 Each reserve has been assessed for its estimated balance as at 31st March 2019 and for the estimated additions or withdrawals from the reserve during 2019/20 and future years. This is included in the table at Appendix 1. This table is shown after the recommendations arising from this report.



A2.11 The table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £10m during 2018/19 to £20m. 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 which usually results in higher reserve levels than predicted.

A2.12 Adults Social Care

A2.13 A revised risk share agreement was negotiated in October 2017 with both the Integrated Care Organisation (ICO) and Clinical Commissioning Group (CCG) for 2018/19 and 2019/20 with the Council funding a higher “fixed” annual payment in exchange for no exposure to the risk of changes in cost. This therefore reduces the exposure to financial risk on this service to nil. However if this fixed payment does not exist, at any point in the future, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service. Key to future adult social care funding is the Improved Better Care Fund Grant (£7.7m in 19/20). There are currently no funding announcements for 2020/21 onwards. Therefore future risk assessments could be higher than the risk assessment for 2019/20.

A2.14 The Council in August 2018 started initial negotiations with both the ICO and CCG about the future structure and payment profile for a revised five year risk share agreement for 2020/21 onwards. Due to the notice periods within the various adult social care contracts, this needs to be agreed by the end of March 2019.

A2.15 Children’s’ Social Care

A2.16 This service has experienced a high level of financial volatility over the past few years and has exceeded its approved budget in recent years and is projected to overspend by £4.2m in 2018/19 (quarter 3). The number of Children Looked After increased by 20% from December 2017 to June 2018. This increase was on top of an existing level of numbers which were significantly above the “benchmark” for similar councils.

A2.17 The proposed budget for 2019/20 for the service is being increased to reflect the current year financial position for children’s services with the aim of setting a robust budget for that service.

A2.18 As part of the 2014/15 Review of Reserves the Council approved “the transfer of £1.5m from the PFI Sinking Fund to Children’s Services on an “invest to save” basis with a requirement for Children’s Services to repay the reserve in future years”. Members are again reminded that if the reserve is not repaid then it will be necessary for Children’s

Services to fund the future costs of the PFI school contract. The service will have to budget for and identify funding for these increased costs.

A2.19 Linking to the August 2018 Ofsted rating of “inadequate” for the service and previous inspection reports there is a need to replace the current case management system. The costs are yet to be confirmed and will depend, in part, on whether it is a joint procurement with Plymouth City Council. To support the funding the balance on the transformation reserve of £0.5m is to be transferred into the IT reserve for this purpose along with an additional allocation of £0.5m to a total of £1m for the purchase and implementation of the new system.

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

A3.1 The guidance remains unchanged from previous years but is repeated as still valid.

A3.2 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”.

A3.3 The CIPFA guidance lists a number of assumptions to be considered when forming a budget, which although these directly link to the setting of a budget, the level of risk and uncertainty of these assumptions are be relevant in determining an appropriate level of reserves. Assumptions to consider include inflation, demand led pressures, delivery of planned savings and risks from new partnerships or ways of working.

A3.4 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 the Audit Commission report “Striking a Balance”.

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, as at 31st March 2018 the Council’s uncommitted reserves were part of the Comprehensive Spending Review reserve and the Council’s general fund balance (£4.6m) which is discussed later. The Council does not have a large value of unallocated reserves compared to its overall budget or compared to the value of budget reductions required over the next few years or compared to the value of the in year budget variances in social care over the past few years.

A3.6 The Head of Finance is reluctant to use any reserve funds, which can only be spent once, to support ongoing expenditure as this is not financially sustainable, as it only delays the impact of the required budget reductions.

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

A3.8 In July 2018 CIPFA consulted on a “financial resilience” score for all Councils. The consultation includes indicators based on the movement up/down in reserves over three years and the level of general fund reserve to revenue spend and the level of earmarked reserves to revenue spend.

A4 Earmarked Reserves

A4.1 The following paragraphs make specific comments on a number of reserves. A summary of each reserve and their purpose is included as Appendix Two. During this review a number of balances (£0.4m) have been identified by Head of Finance as surplus and these have been transferred to the CSR Reserve. Further information on all Council Reserves is available that shows details about each reserve, including the reason/purpose of the reserve, how and when the reserve can be used and the process for retention of each reserve to ensure continuing relevance and adequacy.

A4.2 Proposals for the reallocation of reserves:

Reserve	Value £m	Note
Allocated From:		
NNDR Equalisation Reserve	0.5	Reduce balance to target level
Insurance Reserve	0.5	Reduce balance for future, as yet unknown, claims
Capital Funding Reserve	0.7	Release value in relation to Investment Properties
Other Reserves	0.4	Balance released from other reserves where no expectation of use
Sub Total	2.1	
Allocated To:		
CSR Reserve	(1.1)	To ensure balance remains at £2m after £1.0m used to fund balance of 18/19 overspend
IT Replacement Reserve	(1.0)	For CSC care management system & IT investment and software and hardware replacement
Sub Total	(2.1)	

A4.3 Comprehensive Spending Review Reserve

The Comprehensive Spending Review Reserve was originally established in 2010/11. The purpose of this reserve was identified as follows:

- short term support for the (revenue) budget while services adjust spending to new levels
- financing of any costs in relation to reducing services and therefore staff numbers
- to support any initial costs of changing service delivery that will result in future savings

Any use of this reserve for invest to save schemes must be supported by a robust business case and agreed by the Head of Finance.

Due to the significant financial risks facing the Council in 2019/20 and future years it is essential that the Council's reserves provide a sufficient contingency to meet this increasing risk and to ensure a robust budget. Consistent to the 2018/19 Review of Reserves and the Medium Term Financial Plan, it is still recommended that, as a result of the level of current and previous year budget variations, to maintain the balance at a minimum of £2m. This approach to maintain a balance of £2m in the CSR was supported by CIPFA during their Financial Resilience inspection. (This is in addition to the general fund balance).

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

- Costs of exit packages arising from budget decisions will continue to be funded
- Part funding of £350,000 for the office rationalisation project focusing on improvement

works to Electric House to be repaid from future year rental income from the lease of two floors of Torhill House

- Allocation of up to £400,000 for one off costs from the new contractual arrangements for the provision of library services from April 2018.
- Allocation of up to £150,000 for one off costs from the new contractual arrangements for the provision of toilet services from April 2018.
- Allocation of up to £71,000 to support the setup of the Youth Trust.
- Allocation of £149,000 to support the Parkwood Leisure contract
- Allocation of £50,000 to support community activities.

As a result of the above issues it is proposed to reallocate £1.1m into the CSR reserve from other reserves (see para 4.2 above) to enable the specific issues above to be funded as agreed, contribute £1.0m to fund the balance of the 18/19 overspend and maintain a balance in the reserve of at least £2m.

A4.4 Committed Reserves

These reserves arise as a result of differences in timing between the reserve being established and the expenditure being incurred and are therefore, in effect, committed reserves. Some of these are short term, such as service carry forwards, unspent revenue grants and the collection fund, where the expenditure should be incurred within 12 months. Other reserves are spreading costs over a number of years, such as the PFI sinking fund that equalises the costs of the annual unitary charge over the 25 years of the contract.

Within revenue grants, the reserve for Dedicated Schools Grant is estimated to be “negative” by £3m by the end of 18/19. Funding for schools activities are primarily funded through the dedicated schools grant (DSG). The Council does not receive any schools funding within its own grant and funding allocations. This grant is allocated in “blocks” to cover different activities – in 18/19 these “blocks” are early years, higher needs and schools. The higher needs block has in the past two years have been under financial pressure as a result of an increasing level of referrals from schools for higher needs support for children resulting in a cumulative over spend of £3m.

The Council does not receive any funding for schools therefore the over spend will remain in the DSG to be funded in future years and is not a cost the Council will fund. As a recognition of this pressure the Schools Forum (who have a governance role in the allocation of schools funding) have been supportive and agreed an allocation of 0.5% of the 18/19 schools block of the DSG (approx. £0.350m) to part fund this overspend and set up a Higher Needs Recovery group.

For 2019/20 the Schools Forum, with support from the Higher Needs Recovery group have agreed both a package of funding and have supported the Council’s “disapplication” request to the Department of Education to move funding from the schools block to the higher needs block within the Dedicated Schools Grant. Consultation of these options commenced in October 2018. This will aim to set a balanced budget for the higher needs service in 2019/20.

The above is positive actions however, if the DFE reject the disapplication there will be a shortfall of at least £1m to fund in 2019/20. These action do not, at this stage, address the estimated accumulated deficit of £3m on the dedicated schools grant reserve.

A4.5 Partner/Ring Fenced Reserves

These reserves are outside the Council's direct control, in that the reserves are linked to funds held (or are managed by) by partner organisations, schools or ring fenced Council services such public health. The harbour reserves have been included in this category as the service operates as if it were ring fenced.

The balance of £0.8m held by schools as at 31st March 2018 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.

A4.6 Specific Issue Reserves

These are reserves set aside for specific expenditure purposes.

A4.7 Investment Fund Reserve

The Council has now invested £150m in investment property and capital loans (as at October 2018) and based on approvals to date could invest another £50m. This, more commercial activity, introduces new risks and rewards for the Council to manage. The risks in relation to variations in income such as changes in rent, void periods, rent reviews, landlord costs etc. This is mitigated by making an annual contribution to a specific reserve that, as a principal is 0.25% per annum of the purchase costs. This will be reviewed by Head of Finance in light of any known or potential changes, such as a rent free period from a negotiated rent reviews, in future years.

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

The Investment and Regeneration Committee remit now includes regeneration. Future reserve levels to mitigate the risk from regeneration projects will be assessed as schemes are progressed.

A4.8 IT Replacement Reserve

The 2019/20 revenue budget proposals include a level of investment in IT. Over the next 10 years, on average, £0.1m will be required each year for replacement of PCs, iPads and tablets. In addition a further £0.1m (on average) will be required each year for replacement of IT infrastructure. This spend may however be within an IT outsourced contract. Due to the ongoing demand for both improved and replacement hardware and service specific software a further £0.5m is proposed to be allocated to this reserve.

As referred to in paragraph A2.20 above, there is a need to replace the current case management system. The costs are yet to be confirmed and will depend, in part, on whether it is a joint procurement with Plymouth. To support the funding the existing balance on the transformation reserve of £0.5m is to be transferred into the IT reserve for this purpose along with an additional allocation of £0.5m to a total of £1m for the purchase and implementation of the new system.

The two proposal above increase the IT replacement reserve by £1.5m, of which £0.5m

is from an existing reserve and £1m is an additional allocation.

A4.9 Insurance Reserve

The balance as at March 2018 for both the insurance reserve was £3.3 million. The Council's insurance team in consultation with the Head of Finance reviews the earmarked amounts on an annual basis and takes advice from an insurance actuary to ensure the adequacy of the reserves.

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

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

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

The Council has provided a number of guarantees for pension liabilities to services now outsourced, such as TOR2 and the TDA, however it is unlikely that these guarantees will result in a cash payment from the Council. In the exceptional case of the pension liability being realised it is likely the liability will be transferred to the Council's own pension liability which will be reflected in future employer contribution rates.

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".

The TDA, 100% owned by the Council, has now established a trading subsidiary Complete Cleaning Solutions Limited and intends to establish further companies during 2018/18. Although there are no significant risks from these companies expected, these companies are owned by the Council therefore the Council must ensure it reviews the Company's performance.

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

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

As at 31/03/2018 Torbay Council's provisions were as follows:-

31/3/17		31/3/18	Change
£m		£m	£m
0.4	Insurance Provision	0.3	(0.1)
1.5	NNDR Appeals	1.8	0.3
1.9	Total Provisions	2.1	0.2

The provisions above were based on the latest information as to the value of the potential liability, as such no changes in the value of these are proposed. It is expected that provisions will be typically used within 2018/19 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.

The provision for NNDR appeals as at 31st March 2018 is part of the NNDR Business Rates Retention Scheme and forms part of the Collection Fund. The Council gains or loses a 49% share of any movements in NNDR income (no impact from the 100% Pilot in 18/19 only). This includes the ongoing impact and repayment from any successful NNDR appeals made.

A6 Collection Fund

The Collection Fund Adjustment Account (formally Collection Fund Reserve) is slightly different from all other reserves and includes both Council Tax and NNDR. For Council Tax, legislation requires any balance (surplus or deficit) to be applied at the next Council Tax setting to the three major precepting authorities (Torbay, Devon & Cornwall Police Authority and Devon and Somerset Fire Authority). (Note Brixham Town Council as a minor precepting body does not bear any share of surplus or deficit).

For NNDR, as a result of the introduction of the new Local Government funding arrangements from April 2013, the Council bears a 49% share of the risk and reward of changes in the level of National Non Domestic Rate income. Changes from the Council's initial National Non Domestic Rate income estimate arising from changes in yield and collection will now also result in a Collection Fund surplus or deficit. The Council's share of any surplus or deficit will impact on the forthcoming year. The Council holds a NNDR equalisation reserve to help smooth the volatility of income, set at 5% of the Council's annual NNDR retained income under a 49% retention scheme.

Estimates of future year surpluses are included in the 2019/20 Budget Setting process and reflected in the Medium Term Resource Plan.

The Council, as part of a joint submission with all other Councils in Devon, applied to be a NNDR pilot area for 2018/19. This bid approved by DCLG for 2018/19 only, as only one year "pilot status" was confirmed, as a result the Councils risk on NNDR volatility and growth will be a shared risk between all Devon Council's. This should provide a level of certainty for Torbay's NNDR income in 2018/19, before returning to a 49% NNDR scheme in 2019/20.

A7 Pensions and Loans (Non Treasury Investments)

Pensions: The Council has provided a number of 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. As such, under accounting standards (IFRS), these are accounted for as insurance contracts.

Loans: The Council has provided a number of loans to the private sector and to its 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 £0.9m Torbay Coast and Countryside Trust, £1.4m TDA, £9m to That Group for Torwood Street (when drawn down), £1.7m to Parkwood Leisure and £1.2m to Harbour Care. 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 a number of investment properties. Risk and reserve management of these is discussed in paragraph A4.15 above.

A8 General Fund Reserve -Risk Assessment and Sensitivity/Scenario Appraisal

The Council's General Fund Reserves of £4.6 million represents 4.2% of the Council's net 2018/19 budget. This level of "unallocated financial reserves" is lower than average compared to other unitary Councils.

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 2018/19 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 £7.4 million or 7% of 2018/19 net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning), to reflect the financial risks inherent in any significant new partnerships such as Housing Company and Children's services partnership with Plymouth City Council, investments, funding changes, outsourcing or capital developments, say £1.0 million. This would result in a required General Fund reserve of £8.4 million or 8% of net budget. The current level of General Fund Reserve will cover just over 50% of this sum.

The risk above has been mitigated as the council has a fixed payment to for Adult Social care in 2018/19 and 2019/20. This fixed payment (agreed October 2017) does remove volatility from the largest budget/service the Council has. However if this fixed payment does not exist, say after the contract period, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service. In addition the challenges of achieving the ongoing significant budget reductions from central government create a major risk of budget variations.

A prudent risk based approach to budget setting and reserve levels will have mitigated some risks of an overspend, although it should be noted that in areas of high risk such as,

Children's Social Care, have already declared significant budget pressures over the past few years. It is vital that the improvement plan and medium term financial strategy for this service is delivered to reduce the levels of (financial) risk around this service. The 2019/20 Mayor's final budget proposals include an additional £4.4m or 13% additional funds for this service which will help mitigate risks of a significant overspend.

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 3.8% of estimated 2018/19 net revenue budget). This for 2018/19 will result in a required general fund reserve balance of £4.2 million. At this stage the current general fund balance of £4.6 million is in line with that assessed target.

However following consideration of the above, in the opinion of the Head of Finance, as the level of Council's reserve is low compared to other Councils and the continued spending pressures within children social care, therefore any option to increase this balance should be made.

The 2019/20 budget to be presented in February 2019 to Members will also include an assurance statement from the Head of Finance about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the Local Government Act 2003.

A9 **Capital Investment Plan**

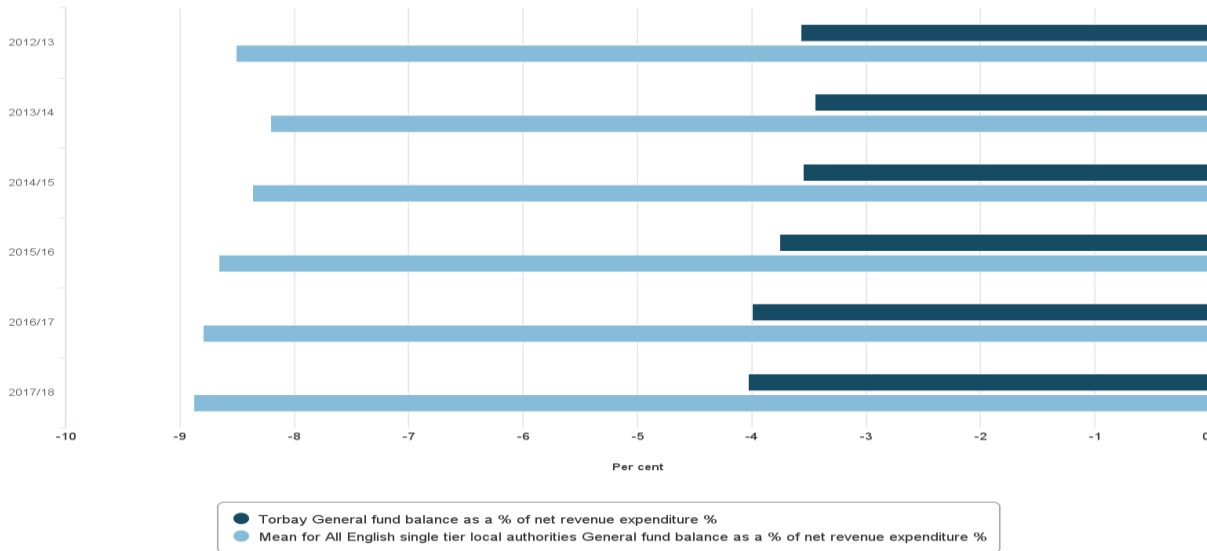
It is assumed that in the circumstances of a significant overspend within the Council's capital programme this will be covered by alterations to the timing of the Council's capital investment plan; use of the capital contingency or from additional borrowing within the Council's approved Prudential Indicators. 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.

A10 **Comparison with Other Councils:**

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

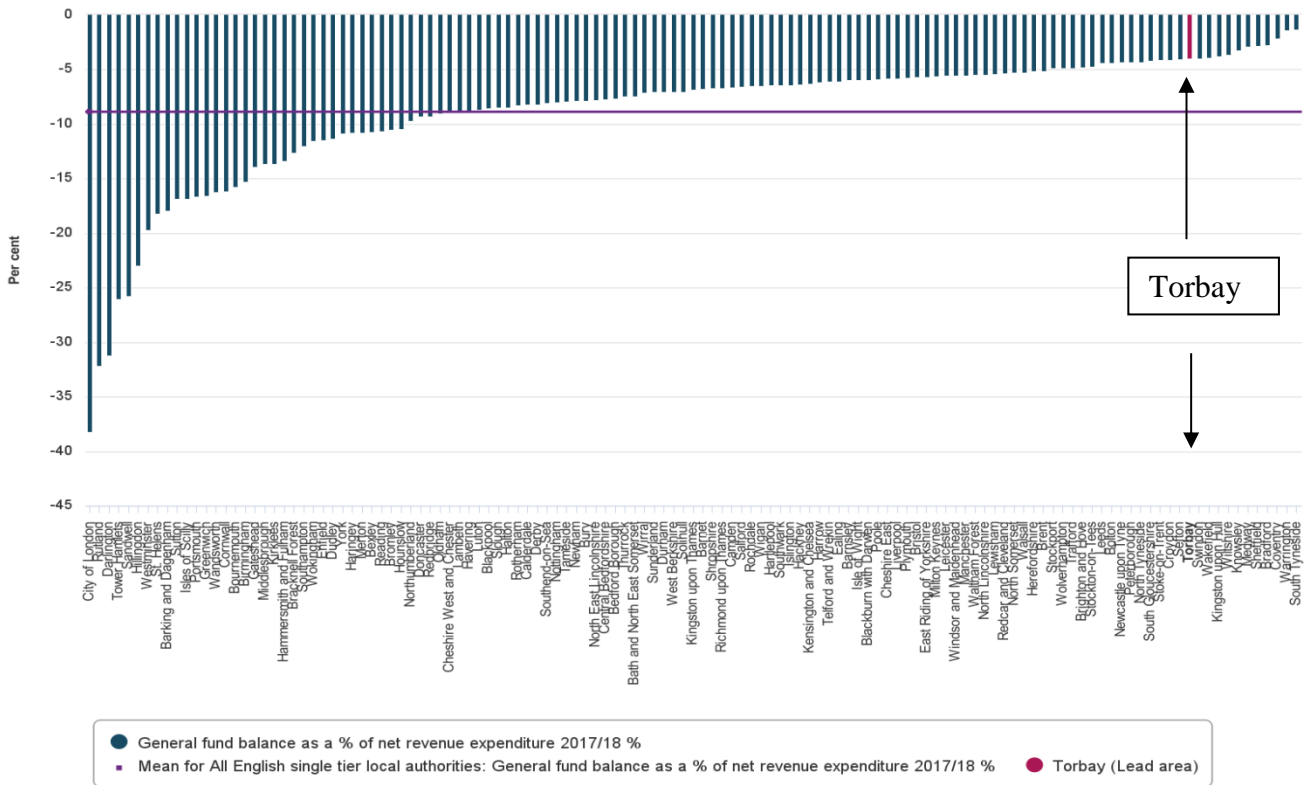
General fund balance as a % of net revenue expenditure (%) (from 2012/13 to 2017/18) for Torbay & All English single tier local authorities



Source: Local Government Association

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



Source: Local Government Association

Powered by LG Inform

A11 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. Councilors 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.

A12 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 extremely challenging budget reductions as part of the Government's Comprehensive Spending Review and ongoing financial pressures from both Children's social care and, in the longer term, adults' social care.

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

Appendices

Appendix 1	Review of Reserves 2019/20
Appendix 2	Summary of Council Reserves

APPENDIX 1

2019/20 - Review of Reserves

<u>Reserves</u>	Balance as at at 1/4/18	Balance as at at 1/4/19	Balance as at at 1/4/20	Balance as at at 1/4/21	Balance as at at 1/4/22
	£'000	£'000	£'000	£'000	£'000
General Reserves					
General Fund	-4,623	-4,623	-4,623	-4,623	-4,623
	-4,623	-4,623	-4,623	-4,623	-4,623
Earmarked Reserves					
CSR Reserve					
Comprehensive Spending Review	-3,642	-2,331	-2,331	-2,431	-2,331
	-3,642	-2,331	-2,331	-2,431	-2,331
Committed Reserves:					
Approved Service Carry Forwards	-495	-193	-141	-84	-44
Capital Funding Reserve	-2,937	-1,500	-500	-200	0
Council Elections	-90	-128	0	-63	-125
Grants	-858	2,690	2,814	2,840	2,865
NNDR Collection Fund	-1,255	-755	-755	-755	-755
PFI Sinking Fund	-818	-788	-758	-591	-424
	-6,452	-673	660	1,147	1,517
Partner/Ring Fenced Reserves					
Adult Social care	-1,552	0	0	0	0
Devon Audit Partnership	-21	-21	-21	-21	-21
EDC Reserves (Funds paid in advance)	-805	-281	-131	-131	-131
Education Schools Exit Packages	-165	-150	-112	-84	-63
Harbours Reserves	-811	-695	-417	-201	-50
Public Health Reserve	-1,409	-1,121	-1,121	-1,121	-1,121
School Balances	-840	-1,022	-920	-828	-745
	-5,602	-3,289	-2,721	-2,385	-2,131
Specific issues					
Art Objects Purchased Fund	-25	0	0	0	0
Crisis Support Reserve	-594	-494	-394	-294	-194
Employment Fund	-163	-40	-19	0	0
Employment Issues	-24	0	0	0	0
Equipment Reserves	-188	-188	-168	-168	-168
Geopark	-46	-36	-26	-16	-6
Green Travel Plan	-106	-94	-82	-70	-70

Highway Reserves	-340	-300	-260	-235	-210
Insurance Reserves	-3,260	-2,760	-2,760	-2,760	-2,760
IT Equipment Reserve	-298	-1,500	-500	-500	-500
Investment Fund	-1,551	-1,736	-1,603	-1,635	-1,667
Museum	-25	-25	-25	-25	-25
Office Accommodation Reserve	-249	0	0	0	0
Oldway Mansion Reserve	-489	-301	-113	0	0
Planning Reserve	-318	-372	-132	-72	-72
Regeneration Reserve	-197	-47	-47	-47	-47
Salix Reserve	-103	-70	-142	-188	-232
Swimming Pool Reserve	-50	-50	-50	-50	-50
Town Centre Regeneration	-284	-85	-15	-20	-25
Sction 106	-35	-35	0	0	0
Tourism	-22	-12	-12	-12	-12
Training and Development Reserve	-34	0	0	0	0
Transformation Reserve	-567	-267	-67	-67	-67
Waste Strategy	-425	-425	0	0	0
	-9,391	-8,835	-6,415	-6,158	-6,104
Total Earmarked Reserves	-25,088	-15,128	-10,807	-9,827	-9,049
TOTAL RESERVES	-29,711	-19,751	-15,430	-14,450	-13,672

Appendix Two

<u>Name of Reserve</u>	<u>Description of Reserve</u>	<u>Responsible Officer</u>
Adult Social Care	Reserve for any adult social care funding to be used to support adult social care	Caroline Taylor Director of Adult Social Care
Capital Funding	To reserve funding for items in the approved Capital Plan Budget.	Martin Phillips Head of Finance
Carry Forwards	Balance of any Service specific Carry Forward of budget	Martin Phillips Head of Finance
Comprehensive Spending Review Reserve	To fund costs associated with meeting budget reductions as a result of the Government's comprehensive spending review.	Martin Phillips Head of Finance
Crisis Fund	Reserve to support the costs of social fund and exceptional hardship	Bob Clark Executive Head Customer Services
Regeneration/TDA Reserve	Reflects the value of funds awarded to the TDA where the work has yet to be completed.	Kevin Mowat Executive Head Business Services
Employment Issues Reserve	To support employment related issues, such as equal pay and payroll related issues.	Anne-Marie Bond Assistant Director Corporate and Business Services
Employment (Growth Fund) Reserve	Reserve established from the New Homes Bonus grant to create a Growth Fund to support employment opportunities.	Kevin Mowat Executive Head Business Services
Equipment Fund	To facilitate renewal of equipment within services where the replacement is at irregular periods.	Various
Geo Park Conference	To support costs of Geo Park activities	Kevin Mowat Executive Head Business Services

Grants recognised but not used	Reflects the value of revenue grants (without conditions) received by 31 st March but not yet used to support expenditure	Martin Phillips Head of Finance
Harbours	Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users.	Kevin Mowat Executive Head Business Services
Highways Act Reserves	Reserve holding funds received under Highways Acts and other legislation where the Council holds funds to do works.	Ian Jones Head of Highways
Insurance Reserve	To set aside amounts to cover the future cost of past uninsured events which result in a loss to the Council. This reserve covers potential future liabilities arising from the Council's previous insurers Municipal Mutual Insurance Ltd not having sufficient solvency, to meet pre 1998 claims from Devon County Council, amounts for specific uninsured risks and a general reserve to meet as yet unknown insurance claims	Anne-Marie Bond Director Corporate Services
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	Bob Clark Executive Head Customer Services
Investment Fund Reserve	Reserve to mitigate any variations in income or costs associated with Investment Fund properties such as void and rent free periods	Kevin Mowat Executive Head Business Services
NNDR Equalisation Reserve	Reserve to smooth the volatility of NNDR income including appeals, s31 grant and the performance of the Devon wide NNDR pool.	Martin Phillips Head of Finance
Office Accommodation Reserve	Reserve to help meet the short term revenue costs of the rationalisation of office accommodation.	Kevin Mowat Executive Head Business Services
Oldway Mansion Reserve	Reserve funded from the developer contribution to be used for the benefit of the Mansion.	Kevin Mowat Executive Head Business Services
Misc. Specific Reserves	Includes: Council Elections, , Art Objects, Devon Audit Partnership, Green Travel Plan and Salix (energy initiatives).	Various

PFI Sinking Fund	To provide funds to meet the liabilities under the PFI agreement over 25 years (The Spires and Homelands Schools) and to provide funding towards Paignton Community College expansion project.	Alison Botham Director of Children's Services
Planning Reserve	To provide for costs of Local Plan Inquiry held every 4/5 years and Masterplan delivery.	Kevin Mowat Executive Head Business Services
Public Health	Reflects carry forward of ring fenced funds for Public Health	Caroline Dimond Director Public Health
Regeneration Reserve	A reserve to support economic regeneration and employment initiatives	Kevin Mowat Executive Head Business Services
School Balances	Reflects the carry forward by schools of their delegated school budget share.	Rachel Williams Head of Schools
School Redundancy Reserve	Reserve to support the costs of redundancies for schools based staff	Alison Botham Director of Children's Services
Swimming Pool Reserve	Reserve established as part of 2018/198 budget proposals to support unplanned expenditure or income variances for community run internal swimming pools.	Kevin Mowat Executive Head Business Services
Tourism (Strategic Events) Reserve	Reserve established in 2012/13 to support tourism and events.	Kevin Mowat Executive Head Business Services
Town Centre Regeneration	Reserve established to fund the staffing and feasibility costs associated with the Town Centre Regeneration project	Kevin Mowat Executive Head Business Services
Training and Development Reserve	New reserve to support the training and development needs of senior staff and members.	Anne-Marie Bond Director Corporate Services
Transformation Reserve	Reserve to support expenditure on projects associated with the Council's transformation programme.	Anne-Marie Bond Director Corporate Services

Waste Disposal Strategy Reserve	Reflects the reclassification of part of the equipment fund as a specific reserve for Waste Disposal Initiatives.	Kevin Mowat Executive Head Business Services
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