



Meeting:	Cabinet	4 February 2020
	Council	6 February 2020
Wards Affected:	All	
Report Title:	Review of Reserves 2020/21	
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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.

2. Proposed Decision

- 2.1 That, in support of the 2020/21 budget setting process, Council note the Council’s reserves position.

3 Reasons for Decision

- 3.1 A Review of Reserves is a key part of the Council’s budget setting process. Consideration of reserve levels is linked to legislation for budget setting contained in both the Local Government Acts of 1992 (section 31A & 42A) and 2003 (section 25) and linked to section 114 of the Local Government Finance Act 1988.
- 3.2 The Council is facing significant financial pressures in 2019/20 from children’s social care with the current predicted overspend on this service of £6.7m (as at quarter three 2019/20). A number of earmarked reserves have been used to support expenditure in 2019/20 to leave an estimated balance of £1.5m to be funded from the Comprehensive Spending Review (CSR) Reserve. This will reduce the forecast level on this reserve to be below the target level.
- 3.3 The Council’s unallocated (general) reserve levels are at a low level. Funding the significant overspend on children’s social care in 2019/20 has reduced the flexibility on Council reserves to below minimum target levels. However the Council has, to date, avoided any use of its general fund reserve. As some mitigation the 2020/21 budget proposals includes an increase of £0.5m to the CSR reserve to maintain the previous £2m target level. As context however the projected 2019/20 overspend for children social care of £6.7m, if repeated in 2020/21, would clear the combined values of the CSR Reserve and the General Fund reserve. This would be a major concern for the Council. As further mitigation to this service’s demand and therefore its financial pressures, the 2020/21 budget proposes a real terms increase in the children’s social care budget of £9m (over 25% increase).
- 3.4 As a direct result of the low level of general reserves it is an option for the Council to approve prudential borrowing of up to £3m to fund items in the capital plan that were to have been funded from revenue or reserves. This results in ongoing borrowing costs which will need to be included in future year budgets, but does give a boost to reserves that are very low. This funding could be added to both the General Fund Reserve and the Comprehensive Spending Review Reserve. This will then provide a higher level of mitigation for the Council by increasing the general fund reserve and increase the Comprehensive Spending Review Reserve to above minimum target levels. This option can be taken by Council in year if financial issues materialise in 2020/21 or future years.

- 3.5 The total balance of reserves may seem adequate however an examination of the individual reserves shows the majority of reserves where the balance is ring fenced, links to a partner or is for a specific future funding issue or a specific future risk, therefore the flexibility to use those reserves to apply to an overspend position is limited.
- 3.6 The other significant reserve risk the Council is holding is in relation to the deficit balance on the Dedicated Schools Grant due to higher demand and cost in relation to children who require additional support. The “negative reserve” is expected to be £3.7m by the end of 2019/20. This deficit, based on DfE guidance, is not a Council issue to fund but should be “made good” from the Dedicated School Grant in future years. However it is unlikely that the deficit will be recovered in the next few years so this is a rising deficit of significant value that the Council will have to cash flow and hold as a negative reserve. It is unclear how the DfE intend to ultimately resolve this issue, therefore this is still an underlying unfunded risk.
- 3.7 Due to the significant financial risks facing the Council in 2020/21 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. Following previous 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 now target to maintain the balance of the CSR Reserve at a minimum of £3m.
- 3.8 In addition to the rising demand pressures for social care, the future financial risks facing the Council are compounded by the uncertainty, beyond the one year Spending Round 2019, 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 2021/22 onwards
 - b) Impact of Spending Review 2020 in 2021/22 onwards
 - c) Impact on new funding formula for Councils in 2021/22
 - d) (Probable) Ending of New Homes Bonus Grant in 2021/22
 - e) No allocations for specific grants such as Improved Better Care Fund or Troubled families for 2021/22
 - f) Impact of relative resource (council tax and service) equalisation in 2021/22
 - g) Impact of the new 75% NNDR retention scheme in 2021/22
 - h) Impact of the revised NNDR baselines in 2021/22
 - i) Future funding of Higher Needs Block in new schools funding formula 2021/22
- 3.9 The Council is undertaking a number of activities that have a higher level of risk associated with them. This includes the Investment Fund and 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.
- 3.10 It is clear that the Council has lower levels of General Fund reserves than most other councils.
- 3.11 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.
- 3.12 Head of Finance Statement.**
- 3.13 The Council is continuing to face financial challenges. I am satisfied that the Council’s General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council’s Financial Plans for 2020/21 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.
- 3.14 This view has to be caveated that if the Council has unforeseen financial pressures, such as an in year budget overspend, then the Council’s ability to fund these variations is limited. However this view can be mitigated if the following actions are undertaken:
- a) The 2020/21 budget plans for an increase to the CSR reserve to achieve a minimum ongoing balance of £3m over the next two years.
 - b) That the Council continues to focus on children’s social care as the biggest financial risk to the Council to deliver the identified improvements supported by a robust financial recovery plan and the sufficiency strategy

- c) That a balanced revenue budget can be set for 2020/21 including a significant increase in the children's' social care budget to reflect actual levels of cost and demand.
- d) That the budgeted Investment Property surplus for 2020/21 is achieved.
- e) That the Council continues to delivers its transformation programme at pace
- f) That Council recognises the option of using borrowing to fund capital plan to enable an increase to reserve levels by £3m if needed

3.14 At this stage with the significant uncertainty in relation to central government funding for 2021/22 I am currently unable to give any assurance in relation to 2021/22. 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 £3m
- b) Protection to current level of General Fund Reserve
- c) No reserves used to balance 2020/21 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

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.

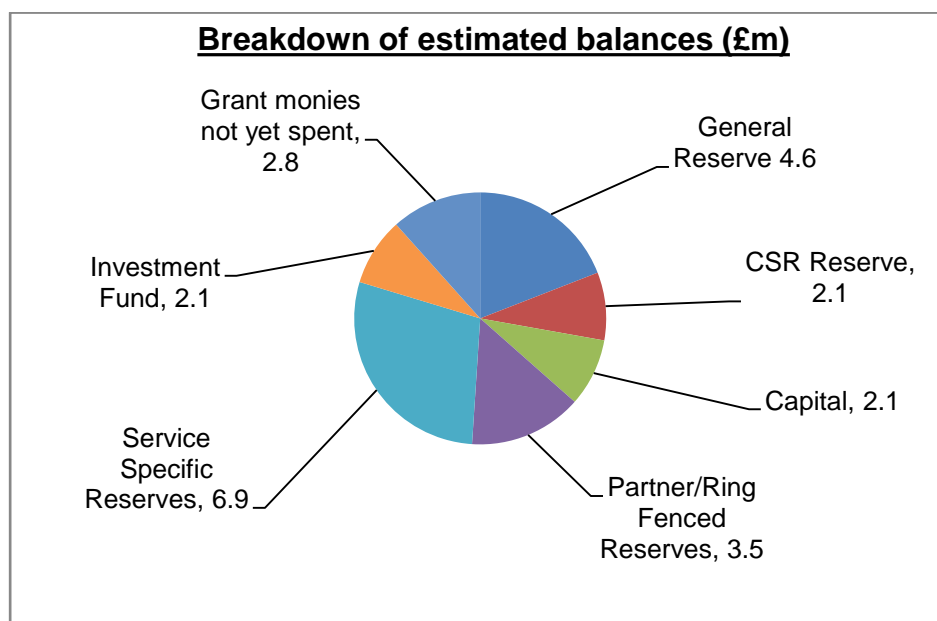
A2 Review of Reserves 2020/21

A2.1 Overview

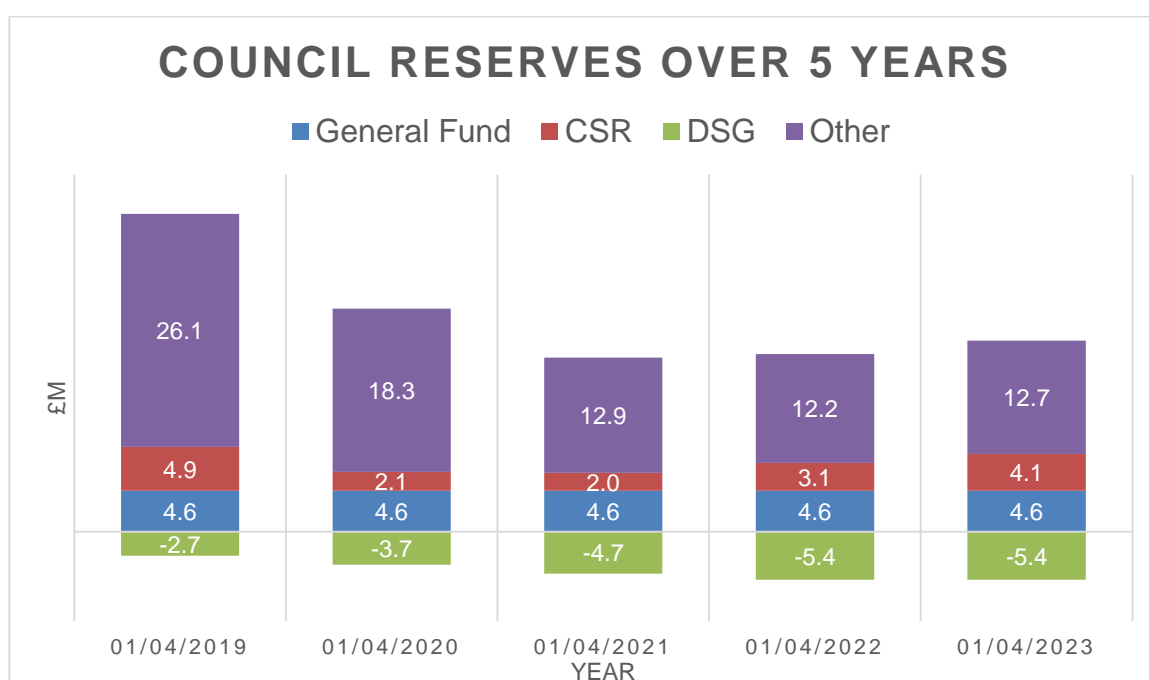
A2.2 As at 31/03/2019 Torbay Council's reserves were as follows:-

	31/3/19 actual	Change in year	31/3/20 estimate
	£m	£m	£m
General Fund Reserve	4.6	0	4.6
Sub Total - General Reserves	4.6	0	4.6
Comprehensive Spending Review Reserve	4.9	(2.8)	2.1
Capital Funding Reserves	3.4	(1.3)	2.1
Grant monies – received, not yet spent	5.6	(2.8)	2.8
Schools	1.0	(0.1)	0.9
Dedicated Schools Grant (NEGATIVE)	(2.6)	(1.1)	(3.7)
Partner/Ring Fenced Reserves	3.6	(0.1)	3.5
Investment Fund Reserve	1.8	0.3	2.1
Other Service Specific Reserves	10.7	(3.8)	6.9
Sub Total – Earmarked Reserves	28.4	(11.7)	16.7
Total Reserves	33.0	(11.7)	21.3

A2.3 From the table above, the estimated balances (in £m) as at 31/3/20 is as follows. The negative balance of on school related grants is excluded but is linked to the higher needs overspend of £3.7m in the dedicated schools grant.



- A2.4 A list of the Council's Reserves as at 31/03/2019 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 the next three years from 2020/21 the financial risk from Adults Social care will be mitigated by the revised ICO contract that limits the Council's exposure to financial risk.
- A2.6 The Council's prudent approach to its reserves has enabled the Council to fund the overspend arising in children's social care over the past few years and to part fund the significant £6.7m forecast overspend in 2019/20. However the Council's ability to fund future deficits of that value is now limited and if that occurs will result in a serious financial position for the Council.
- A2.7 Following consideration of the Review of Reserves in previous years, that was approved by Council, it was 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 albeit with a revised target level of £3m.
- A2.8 The Council has had unprecedented financial challenges from reduced funding levels over the past few years and had 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. Although the Spending Round 2019 will result in a modest funding increase for the Council, there are no funding announcements for 2021/22 onwards.
- A2.9 As outlined in paragraph 3.2 above, given the significant uncertainty facing the Council it is clear that the Council needs to mitigate and plan for variations in income as well as expenditure.
- A2.10 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.
- A2.11 Each reserve has been assessed for its estimated balance as at 31st March 2020 and for the estimated additions or withdrawals from the reserve during 2020/21 and future years. This is included in the table at Appendix 1.



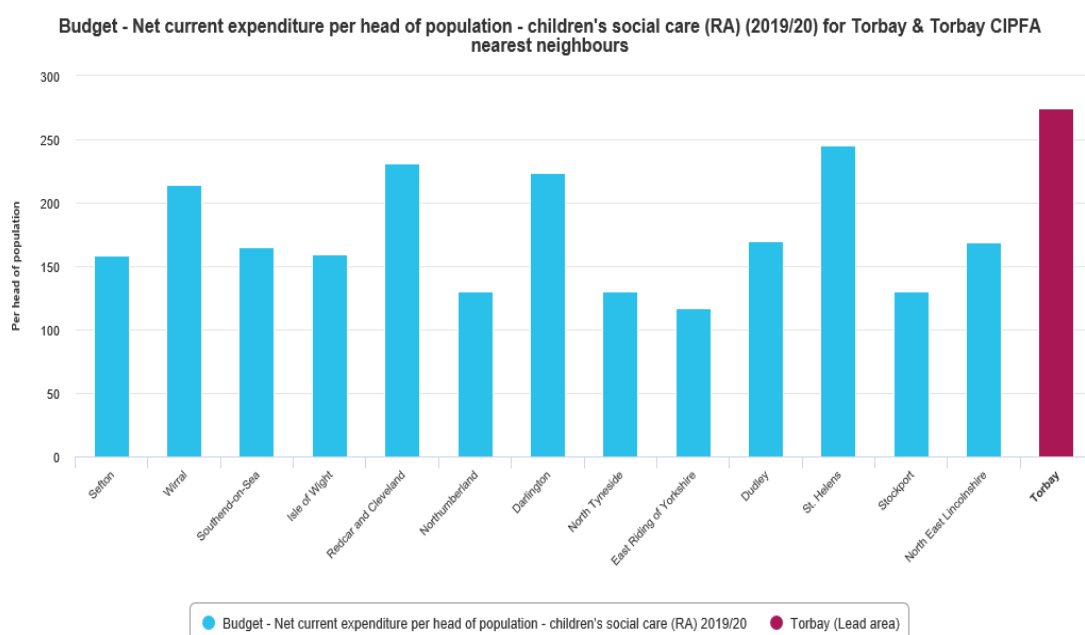
A2.12 The table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £12m during 2019/20 to £21m. The actual balance at year end will depend on spend during the year and any year end service carry forwards from unspent revenue funds and/or unspent grant allocations which usually results in higher reserve levels than predicted.

A2.13 Adults Social Care

A2.14 A new three year agreement has been signed with both the Integrated Care Organisation (ICO) and Clinical Commissioning Group (CCG) with the Council funding a “fixed” annual payment in exchange for no exposure to the risk of changes in cost. This therefore reduces the exposure to financial risk on this service to nil. 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.

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 £6.7m in 2019/20 (quarter three). This higher cost is top of an existing level of numbers/cost which are significantly above the “benchmark” for similar councils.



A2.17 The proposed budget for 2020/21 for the service is being increased by £7m to reflect the current year financial position for children’s services with the aim of setting a robust budget for that service and allow an additional £2.8m for investment in capacity to deliver future service and financial improvements.

A3.0 Guidance on the Management of Reserves

A3.1 The CIPFA guidance on reserves is to be updated with the introduction of the CIPFA Financial Management Code of Practice in 2020.

A3.2 The Code is expected to state that:

- The aim of reserves is to provide funding for investment in future activities and to act as a safety net in case of short term financial challenges
- Using reserves to fund otherwise unsustainable services or to defer the need to make difficult decisions about service delivery is to be avoided
- The Council should have a policy on the level of reserves it wishes to retain and how these reserves may be used
- The Council should be able to demonstrate that it has used its reserves only for investment in future activities or in the implementation of savings plans rather than to plug funding gaps in the delivery of services

- A3.3 In undertaking a detailed annual review of reserves that is presented to Council, Torbay Council is largely complying with the CIPFA guidance.
- A3.4 It is important to differentiate between general and uncommitted reserves and reserves held for a specific purpose. It is only the general and uncommitted reserves that could be used to support “short term costs”. As shown in the table above, as at 31st March 2019 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.
- A3.5 The Head of Finance is reluctant to use any reserve funds, which can only be spent once, to support ongoing expenditure as this is not financially sustainable, as it only delays the impact of the required budget reductions.
- A3.6 This position taken by the Head of Finance is similar to CIPFA guidance which says “Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as how such expenditure will be funded in the medium to long term”.

A4 Earmarked Reserves

- A4.1 The following paragraphs make specific comments on a number of reserves. A summary of each reserve and their purpose is included as Appendix Two. During 2019/20 a number of balances have been identified by Head of Finance as surplus and these have been transferred to fund the 2019/20 overspend in children’s social care. 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

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.

In addition to the need to part fund the 2019/20 overspend from this reserve, a number of specific issues are also to be addressed from this reserve including SWISCO set up, youth trust set up, transition costs of both the libraries and toilet contracts, fostering support, 19/20 budget approved transfers and funding for additional posts in the SEN team.

As part of the 2020/21 budget proposals it £0.5m will be allocated to the CSR reserve. However given the levels of budget variation the Council has experienced in recent years, the minimum target reserve level should now be £3m. The contribution of £0.5m with additional contributions in future years will help to provide a higher level of risk mitigation for the Council.

A4.3 Dedicated Schools Grant Reserves

The reserve for Dedicated Schools Grant is estimated to be “negative” by £3.7m by the end of 2019/20. 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 2019/20 these “blocks” are early years, higher needs and schools. The higher needs block has in the past three 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 £3.7m at the end of 2019/20 expected to rise in the next two years to over £5m which a significant value, which ultimately will need to be funded.

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 the DFE have confirmed that this 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 2020/21 schools block of the DSG (approx. £0.4m) to part fund this overspend and set up a Higher Needs Recovery group.

DfE have allocated additional funding to the Higher Need Block in the Spending Round 2019 a further £0.7m billion nationally for this issue, which is welcome. However this funding is not expected to be enough to meet the current annual deficit in funding. Confirmation of Torbay's share of this additional funding will be confirmed later in 2019.

The ongoing use of a negative reserve which is likely to increase in future years is currently a significant financial risk that needs to be highlighted to Members.

A4.4 Investment Fund Reserve

The Council has now invested over £231m in investment property and capital loans (as at December 2019) and based on approvals to date could invest another £69m. 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 but will vary depend on the risks associated with each property. The key risk is in relation to rent "events" linked to lease renewals as a result the contribution on a number of properties is currently 1%. This will be continue to be reviewed by Head of Finance in light of any known or potential changes.

The projected balances currently reflect known contributions and known withdraws from the reserve. However if any future "rent event" linked to rent reviews or voids results in a cost then there will be higher use of the reserve.

A4.5 Insurance Reserve

The balance as at March 2019 for the insurance reserve was £3.0 million. The Council's insurance manager 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 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

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 has established or purchased further companies including a housing company (Tor Vista), Kings Ash Holdings and CASE consultancy.

New companies have been establish for some education services and a new company (SWISCO) for the re provision of services currently provided by TOR2.

As the number of council subsidiary companies and the range of activities they undertake expand, as 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, where appropriate, for issues where the Council has a clear liability which is likely to result in a payment but the amount and timing of the potential payment is uncertain. The council also holds provisions for future issues mostly in relation to insurance claims where the "time lag" on claims being notified and settled is often over one year and a provision for NNDR appeals. The Council gains or loses a 49% share of any movements in NNDR.

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 or deficits are included in the Budget Setting process and reflected in the Medium Term Resource Plan.

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. In the exceptional case of the pension liability being realised it is likely the liability will be transferred to the Council's own pension liability which will be reflected in future employer contribution rates. As such, under accounting standards (IFRS), these are accounted for as insurance contracts.

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 £1.4m TDA, £9m to That Group for Torwood Street and £4m to South Devon College. 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 above.

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

The Council's General Fund Reserves of £4.6 million represents 4.1% of the Council's net 2019/20 budget. This level of "unallocated financial reserves" is low compared to other unitary Councils and less than the 2019/20 in year variation in children's social care.

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 2019/20 budgets suggest that the maximum overspend in any year, if all services were subject to adverse pressures and where there isn't any specific service related earmarked reserve, would be £10.9m million or 9% of 2020/21 draft net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning), to reflect the financial risks inherent in any significant new partnerships such as Housing Company and TOR2 re provision, investments, funding changes, outsourcing or capital developments, say £1.0 million. This would result in a required General Fund reserve of £11.9 million or 10% of net budget. The current level of General Fund Reserve will cover just under 40% of this sum.

The risk above has been mitigated as the council is expecting to have a fixed payment to for Adult Social care in 2020/21. This fixed payment 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 2020/21 Partnership's draft budget proposals include an additional £9.8m 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 5.1% of estimated 2020/21 net revenue budget). This for 2020/21 will result in a required general fund reserve balance of £5.9 million. At this stage the current general fund balance of £4.6 million is below that assessed target.

The 2020/21 budget to be presented in February 2020 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.

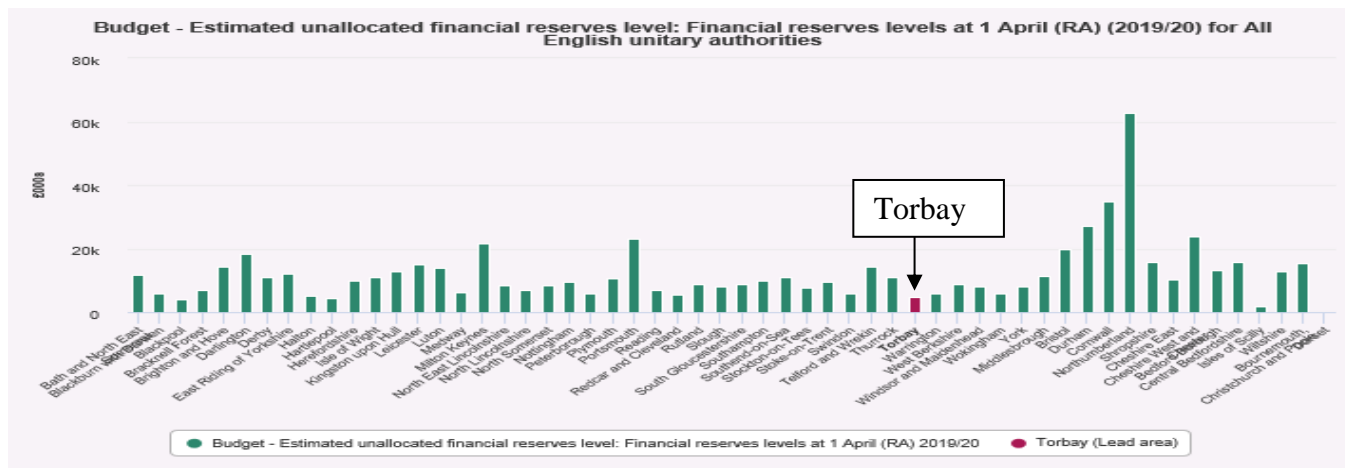
A9 Capital Investment Plan

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 "unallocated reserves balances" for unitary councils. Torbay's general fund reserve can be seen as low.



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. Councillors should consider the Council's General Fund Reserve as part of the annual budget setting process. Any quarterly reporting of issues relevant to earmarked reserves will be on an exception basis.

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

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 uncertainty of the Council's future funding from 2021/22 onwards and the ongoing financial pressures from both Children's social care and, in the longer term, adults' social care.

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

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

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

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

Appendices

Appendix 1	Review of Reserves 2020/21
Appendix 2	Summary of Council Reserves

Appendix 1 – Review of Reserves 2020/21

Reserves	Balance as at 1/4/19 £'000	Balance as at 1/4/20 £'000	Balance as at 1/4/21 £'000	Balance as at 1/4/22 £'000	Balance as at 1/4/23 £'000
General Reserves					
General Fund	-4,623	-4,623	-4,623	-4,623	-4,623
Total General Reserves	-4,623	-4,623	-4,623	-4,623	-4,623
Earmarked Reserves					
Comprehensive Spending Review					
Comprehensive Spending Review	-4,945	-2,134	-1,989	-3,064	-4,139
	-4,945	-2,134	-1,989	-3,064	-4,139
Capital Reserves:					
Capital Funding Reserve	-1,628	-2,093	-518	-268	0
IT Equipment Reserve	-1,798	0	0	0	0
	-3,426	-2,093	-518	-268	0
School Related Reserves					
Dedicated Schools Grant	2,655	3,655	4,693	5,358	5,358
Schools Exit Packages	-150	-112	-84	-63	-47
School Balances	-871	-766	-689	-620	-558
	1,635	2,777	3,919	4,675	4,753
Partner/Ring Fenced Reserves					
Adult Social Care	-914	-1,258	-56	0	0
Devon Audit Partnership	-24	-24	-24	-24	-24
TDA Reserves	-146	-146	-146	-146	-146
Harbours Reserves	-741	-532	-406	-352	-319
Public Health Reserve	-1,447	-1,005	-779	-536	-442
Museum Reserve	-25	-25	-25	-25	-25
Swimming Pool Reserve	-50	-40	-30	-20	-10
Salix Fund	-97	-129	-175	-219	-228
EU Exit Funding	-105	-315	-315	-315	-315
	-3,548	-3,474	-1,956	-1,637	-1,508
Specific issues					
Council Elections	-235	0	-63	-125	-188
Crisis Support Reserve	-564	-464	-364	-264	-164
Growth Fund	-3	0	0	0	0
Equipment Reserves	-199	-199	-199	-199	-199
Geopark	-36	-26	-16	-6	0
Green Travel Plan	-106	-106	-106	-106	-106
Highway Reserves	-384	-340	-300	-275	-250
Housing First	-518	-259	0	0	0
Housing Benefit	-475	-475	-475	-475	-475
Insurance Reserves	-3,049	-3,019	-2,989	-2,959	-2,929
NNDR Collection Fund	-1,307	-480	-480	-480	-480
Office Accommodation Reserve	-249	0	0	0	0
Oldway Mansion Reserve	-258	0	0	0	0
Planning Reserve	-298	-209	-69	0	0
PFI Sinking Fund	-791	-663	-299	0	0
Regeneration Reserve	-227	-27	-27	-27	-27
Town Centre Regeneration	-167	-75	-32	-5	-5
Section 106	-35	0	0	0	0
Service Carry Forwards	-1,082	-420	-297	-266	-257
Tourism	-12	0	0	0	0
Transformation Reserve	-252	-126	0	0	0
Waste Strategy	-446	-10	0	0	0
	-10,695	-6,900	-5,717	-5,189	-5,082

Investment Fund					
Investment Fund	-1,804	-2,093	-2,923	-3,759	-4,840
	-1,804	-2,093	-2,923	-3,759	-4,840
Grants - received not spent					
Grants - received not spent	-5,549	-2,776	-950	-597	-577
	-5,549	-2,776	-950	-597	-577
Total Earmarked Reserves	-28,330	-16,693	-10,134	-9,839	-11,393
TOTAL RESERVES	-32,953	-21,316	-14,757	-14,462	-16,015

Name of Earmarked Reserve	Description of Reserve	Responsible Officer
Comprehensive Spending Review		
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
Capital Reserves		
Capital Funding	To reserve funding for items in the approved Capital Plan Budget.	Martin Phillips Head of Finance
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 children's social care	Matt Fairclough-Kay Interim Head of IT
School Related Reserves		
Dedicated Schools Grant	Reserve to reflect the position on the ring fenced dedicated school grant – currently negative balance pending recovery plans.	Nancy Meehan Director of Children's Services
Schools Exit Packages	Reserve to support the costs of redundancies for schools based staff	Rachael Williams Head of Education
School Balances	Reflects the carry forward by schools of their delegated school budget share.	Rachael Williams Head of Education
Partner/ Ring Fenced Reserves		
Adult Social Care	Reserve for any adult social care funding to be used to support adult social care	Jo Williams Interim Director of Adult Social Care
Regeneration/TDA Reserve	Reflects the value of funds awarded to the TDA where the work has yet to be completed.	Kevin Mowat Director for Place
Harbours	Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users.	Kevin Mowat Director for Place
Public Health	Reflects carry forward of ring fenced funds for Public Health	Caroline Dimond Director Public Health
Museum Reserve		
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 Director for Place

Specific Issues		
Crisis Fund	Reserve to support the costs of social fund and exceptional hardship	Tara Harris Executive Head Community Services
Employment (Growth Fund) Reserve	Reserve established from the New Homes Bonus grant to create a Growth Fund to support employment opportunities.	Kevin Mowat Director for Place
Equipment Fund	To facilitate renewal of equipment within services where the replacement is at irregular periods.	Various
Geo Park Conference	To support costs of Geo Park activities	Kevin Mowat Director for Place
Highways Reserves	Reserve holding funds received under Highways Acts and other legislation where the Council holds funds to do works.	Ian Jones Head of Highways
Housing Benefit Subsidy	Reserve to mitigate variations to the Council's housing benefit subsidy	Tara Harris Executive Head Community Services
Insurance Reserve	To set aside amounts to cover the future cost of past uninsured events which result in a loss to the Council. This reserve covers potential future liabilities arising from the Council's previous insurers Municipal Mutual Insurance Ltd not having sufficient solvency, to meet pre 1998 claims from Devon County Council, amounts for specific uninsured risks and a general reserve to meet as yet unknown insurance claims	Anne-Marie Bond Director Corporate 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 Director for Place
Oldway Mansion Reserve	Reserve funded from the developer contribution to be used for the benefit of the Mansion.	Kevin Mowat Director for Place
Planning Reserve	To provide for costs of Local Plan Inquiry held every 4/5 years and Masterplan delivery.	Kevin Mowat Director for Place
PFI Sinking Fund	To provide funds to meet the liabilities under the PFI agreement over 25 years (The Spires and Homelands Schools) and to provide funding towards Paignton Community College expansion project.	Nancy Meehan Director of Children's Services
Regeneration Reserve	A reserve to support economic regeneration and employment initiatives	Kevin Mowat Director for Place
Town Centre Regeneration	Reserve established to fund the staffing and feasibility costs associated with the Town Centre Regeneration project	Kevin Mowat Director for Place
Service Carry Forwards	Balance of any Service specific Carry Forward of budget	Martin Phillips Head of Finance
Tourism (Strategic Events) Reserve	Reserve established in 2012/13 to support tourism and events.	Kevin Mowat Director for Place

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 Director for Place
Investment Fund		
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 Director for Place
Grants – received but not spent		
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
Miscellaneous		
Misc. Specific Reserves	Includes: Council Elections, Devon Audit Partnership, Green Travel Plan. Museums and Salix (energy initiatives).	Various