

Revenue Reserves Policy

January 2024

1. Purpose of this Policy

- 1.1 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure.
- 1.2 It is the 'Chief Finance Officer's (Finance Director), duty to report on robustness of estimates and adequacy of reserves (under Section 25 of the Local Government Act 2003) when the authority is considering its budget requirement.
- 1.3 However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the Chief Financial Officer (CFO) to advise the Council about the level of reserves and to ensure that there are procedures for their creation, maintenance and use.
- 1.4 Torbay Council will hold reserves for the following main purposes:
 - Earmarked funds to meet known or predicted time limited spend requirements or improvement projects;
 - funds earmarked for statutory reasons (e.g. Elections and Insurance);
 - funds being held on behalf of partner organisations and/or ring-fenced activity (e.g. Public Health, Harbours and Adult Social Care);
 - holding of specific grant funding in advance of drawing down spend and,
 - a General Reserve (or working balance), to help cushion the impact of uneven cash flows, provide contingency, and avoid any unnecessary temporary borrowing.
- 1.5 This policy on the establishment, maintenance and adequacy of reserves and balances will be reviewed annually.

2. General Fund Reserves

- 2.1 The use of general fund reserves is not restricted. They can be used to smooth the impact of uneven cash flows, offset the budget requirement, or can be used to respond to unexpected events or emergencies.
- 2.2 In line with CIPFA advice, it is recommended that the Council maintains its General Fund Reserve, (or 'Working Balance'), at 5% of the net revenue budget at the commencement of any given financial year. If any of the General Fund reserve is drawn down in any given year, replenishment should be provided for in the next annual budget setting process.
- 2.3 As the Council budget increases year on year, the objective is that the General Fund Reserve should also grow on a proportionate basis to remain at the desired level of at least 5%. For 2024/25, 5% would represent circa £7m required, increasing to £7.6m by 2026/27.

2.4 In addition to the General Fund Reserve the Council, for a number of years, has maintained a Comprehensive Spending Review (CSR) Reserve. This reserve acts as a 'buffer' for the General Fund Reserve and is utilised in a flexible way, to respond to any significant unforeseen or emergency one-off spend within any given financial year, as well as being used to provide funding for transformational activities that will result in long term revenue savings.

2.5 Wherever possible, the Council will strive to maintain a CSR Reserve of £3m at the commencement of each financial year in order to 'smooth' and manage the Council's overall revenue budget.

Financial Risks faced by the Council

2.6 Revenue budgets are set to reflect known and anticipated service demands and costs. However, there are number of financial risks that the Council do not 'budget' for, but keep under constant review and scrutiny.

2.7 The major financial risks faced by the Council as at March 2024 include:

- Delivery of the Dedicated School Grant (DSG) 'Safety Valve' Improvement Plan (addressing a £12m legacy DSG deficit);
- Re-negotiation of the Adult Social Care services contract with the Integrated Care Organisation (ICO). With an annual spend, as at March 2024, being circa £15m above budgeted levels. The contract is due for renewal at the end of March 2025;
- High, and escalating, cost of Children Social Care placements and the potential impact of legislation that will require the Council to subscribe to a 'Regional Care Co-operative';
- The high and rising costs, over and above budget levels, of tackling the housing crisis – supporting local residents through the 'cost of living crisis' and addressing homelessness across the Bay;
- The viability and volatility of numerous capital investment projects that the Council is striving to deliver and the associated risk of abortive revenue costs for any potential undeliverable schemes;
- Security and uncertainty regarding future revenue income streams. With a dwindling Revenue Support Grant from Government, emphasis is placed firmly on generating income through local sources but there is a significant risk that service demand, costs and pressure will outweigh our ability to raise additional income over the medium term through extra Council Tax, Business Rates and/or local Fees and Charges (such as Planning and Car Parking)

- 2.8 At any point of time, any such risk could materialise which would significantly impact on the Council's ability to maintain a balanced revenue budget hence the requirement to maintain adequate and reasonable General Fund and CSR Reserves.

3. Procedure and Governance

- 3.1 The Council's Chief Finance Officer, (Section 151 Officer), holds responsibility for creating and reviewing a reserve with a requirement for regular reporting (at least annually) to Cabinet, Overview and Scrutiny Board and Council. When instigating a new reserve, the following will always be considered:
- The reason for / purpose of the reserve;
 - how and when the reserve can be used;
 - procedures for the reserve's management and control and
 - a process and timetable for a review of the reserve to ensure continuing relevance and adequacy.
- 3.2 A statement of all significant reserves held, with their anticipated balance at financial year end will be produced annually as part of the Council's budget setting papers for approval by Council. This statement will represent formal sign off from the Council's Section 151 Officer confirming the adequacy of reserve holdings and that the reserves have been reviewed.
- 3.3 Any drawdown exceeding £100k, within year, from an earmarked reserve, or General Fund reserve, will require the Section 151 Officer to issue a formal 'Record of Decision' with the drawdown subsequently reported within the next scheduled budget monitoring report presented to Cabinet (and Council).
- 3.4 Any new reserve(s) exceeding £100k, created from approved budgeted funds, also requires the Section 151 Officer to issue a formal 'Record of Decision' (ROD). However, any new reserve(s) created in year as a result of receiving specific grant funding will be incorporated and reported in the next scheduled monitoring report to Committee without the need for a ROD.
- 3.5 The Section 151 Officer will maintain a detailed schedule of all reserves, as required, forming part of the statutory accounts process.

Principles applied to the holding of Reserves

- 3.6 The Council will adopt the following principles with regards to the holding of reserves:
- All Reserves must have a clearly defined purpose with evidence supporting its requirement and desired value of holding;
 - the Council's Section 151 Officer maintains overall responsibility and management of the Council's reserves – but each specific earmarked reserve must have a designated

Senior Officer who will maintain regular overview of the reserve's required drawdown and on-going adequacy;

- where possible, the Council will rationalise and simplify the holding of Reserves, holding a fewer number of strategic reserves supported by a clear rationale and purpose;
- reserves will be reviewed annually as part of the budget setting process. There will be specific challenge of the on-going need for any reserve that has not had financial movement in excess of two consecutive financial years;
- where reserves are identified as no longer needed, if feasible and allowable, (e.g. specific grant requirements), remaining funds will be absorbed back within the Council's General Fund and/or CSR Reserve;
- reserves can only be used to fund 'one-off', unforeseen, costs and not offset, or underpin, any on-going revenue service delivery or pressure and
- similarly, reserves will not be used to offset any future year Medium Term Resource Plan pressures (unless there are clear action plans to address any funding gaps and the reserve is used to smooth any implementation of such plans)

3.7 Reserves can be used to 'pump prime' and/or provide limited capacity to deliver future year efficiencies (invest to save) subject to the approval (from the Section 151 Officer), of a supporting business case.

4. Earmarked (Specific) Reserves

4.1 For statutory purposes, there is only the need to maintain a single revenue reserve, the 'General Fund' Reserve. However, the Chartered Institute of Public Finance and Accountancy, (CIPFA) Code of Practice states that when reviewing medium-term financial plans and preparing annual budgets, local authorities should consider the establishment of sub reserves (known as earmarked reserves).

4.2 Earmarked reserves may be reported separately but remain legally part of the General Fund. Separate reporting of earmarked reserves has no financial reporting or legislative necessity though they are used extensively by local authorities and as such the Code requires separate disclosure of material earmarked reserves.

4.3 The main 'earmarked reserves' that are held by the Council are detailed below:

(a) Collection Fund

For NNDR the Council bears a 49% share of the risk and reward of changes in the level of National Non-Domestic Rate income and year changes in yield and collection of

National Non-Domestic Rate will result in a Collection Fund surplus or deficit which will impact on the following financial year. The Council holds a Collection Fund reserve to help smooth the volatility of income. Estimates of future year surpluses or deficits are included in the Budget Setting process and reflected in the Medium-Term Resource Plan. Any shortfall incurred in a given year is made good through the Collection Fund Reserve with a corresponding adjustment made to the budgeted income levels in the following financial year.

Collection Fund income, (Council Tax and NNDR), has been volatile in recent years and is likely to continue to be volatile in future years both from the ever-changing NNDR reliefs and from the collectability of the taxes due to the cost of living crisis and economic circumstances.

(b) Adult Social Care (ASC);

Under the existing Adult Social Care contract with the Integrated Care Organisation, (ICO), the Council has maintained an element of the Council Tax precept in order to invest in future transformation and improving sustainability of the service. With the current ICO contract expiring in March 2025, a number of 'invest to save' proposals are being considered as part of the contract negotiations with colleagues from Health. These include targeted support for learning disabilities, increased capacity of the existing reablement service, improved governance and commissioning of services and capital investments to enable the building of extra care placements.

In addition to the core ASC reserves as maintained and managed by the Council, there is also a designated Section 256 reserve which is passported Health funding held by the Council in advance of required drawdown.

(c) Childrens Social Care

As part of the 2022/23 budget, to mitigate against volatility of cost and demand for placements, a new earmarked reserve was established with an initial level of £1.0m. Despite further investment into the 2023/24 base revenue budget, the service continues to spend above set budget by approx. £2m. The difficult provider market, with the associated high cost of placements, continues to be a regional and national issue and pending legislation which could lead to a Regional Care Co-operative provides another significant financial risk on the service moving forwards.

The key objective of this reserve is to focus on relevant 'invest to save' opportunities for the service whereby investment in one-off transformational activity can seek to drive efficiencies in relation to future on-going spend.

(d) Schools and Private Finance Initiative

The Council holds a revenue reserve which represents the end of year delegated Schools budget share balances across the Bay's Schools. Although this features within the Council's Reserve analysis, any drawdown, or top up, within this reserve is wholly reliant on, and managed by, the Schools.

In addition, the Council needs to account for the remaining time limited costs that will be incurred (above set revenue budget) for the Private Finance Initiative, (PFI), funding which expires in 2027.

(e) Reserves linked to specific funding streams

There are a number of reserves whereby the Council is required to hold funding, and account for spend, specific to the funding's required purpose. Two such reserves are the **Harbours Reserve** where a separate ring-fenced budget is maintained, reporting into the Harbour Committee, and the **Public Health Reserve** against which the Council has to evidence spend linked to identified public health outcomes, which has to be formally evidenced through annual reports.

(f) Capital Reserves

This Capital reserve is maintained to cover the risk of higher construction costs, contractor instability and higher borrowing costs in relation to projects within the approved capital programme. For some projects, there is also a risk of abortive revenue costs in relation to projects that do not proceed to completion.

The Capital reserve also contains the £400k surplus, which was delivered in 2022/23, which Full Council approved to be allocated to commission much needed staff capacity to help deliver the Council's capital investment aspirations.

A separate, IT (Capital) Replacement Reserve, is also maintained to meet the costs of priority driven replacements, and required upgrades, to the Council's ICT infrastructure. Annual charges are made to the revenue account with subsequent drawdowns from the accumulated funding subject to business case approval.

(g) Investment Reserve

The Council has invested over £235m in investment property and capital loans. Following on from HM Treasury updated guidance, the Council is no longer purchasing such assets, but it retains its previous investments.

The Investment Reserve mitigates any variations in income or costs associated with Investment Fund properties such as void and rent-free periods. The reserve was created, and is maintained, through financial contributions from the rental income received.

Any variations in rent, either from market conditions, voids or rent-free periods are regularly monitored to ensure any potential issues are mitigated in advance. Annual valuations of Commercial Assets are undertaken and included in Treasury Management reports to Audit Committee and Council.

Alongside the Investment Reserve, the Council also maintains a specific 'retail reserve' in terms of the operations and required investment in Fleet Walk.

(h) Developer Contributions

Section 106 and Community Infrastructure Levy are funds received from developers towards the cost of providing the required infrastructure linked to the delivery of specific developments. A reserve is maintained which holds the funds prior to approved drawdown and spend.

(i) Service Transformation / Re-design

Specific reserve targeted at delivering significant re-design / efficiencies through different ways of working. Recent holding, and drawdown, includes the move to an integrated Customer Relationship Management service and write-off of TorVista working capital loan (as approved by Council in September 2023)

(j) Events Reserve (including Torbay airshow)

The previous three-year reserve, which was set up to support the facilitation of various events across the Bay, was exhausted in 2023/24. A further allocation has been provided, through the January 2024 review of reserves, which will provide much needed certainty, over the medium term, for event sponsors and providers whilst enabling the Council to explore a different blend of commercial opportunities alongside public sector financial support.

(k) Housing Related Reserves

The Housing Reserves have three main components. The first is to mitigate any significant variations to the Council's Housing Benefit subsidy, (which is highly volatile and difficult to predict), with a separate sub reserve held for making discretionary housing benefit payments, (against set criteria), for our residents. Some, (residual grant), funding is also maintained for 'crisis support' grants which supplements the Council's 'exceptional hardship' budget.

(l) Highways Reserve

Funding is received for Highways capital investment works which can often be spread over more than one financial year. The reserve is maintained which holds the government funding received prior to drawdown of spend which mainly relates to works under Section 38 and 278 agreements.

(m) Treasury Management 2024/25 surplus / Oldway Maintenance Reserve

Throughout the 2023/24 financial year, as detailed in budget monitoring reports to Council, we have been achieving a surplus from financial returns on cash balances held. This has mainly been due to the exceptionally high interest rates alongside the holding of reserves and grant funding in advance of drawdown of associated spend. However, as at January 2024, interest rates have started to fall with predictions of further significant reductions in rates over the next 18 months. In addition, our holding of cash balances will significantly reduce, particularly around pump priming Adult Social Care Transformation work, (in advance of a new contract with Health from April 2025), and planned capital investment.

Due to forward investment transactions made in 2023/24, we are forecasting a further surplus of circa £950k in the 2024/25 financial year. However, it is anticipated that, from 2025/26, the annual income achievable from Treasury Management will be much more in line with the existing base revenue budget.

In December 2023, Full Council approved the masterplan outlining the future for Oldway Mansion with a corresponding recommendation to identify funding of circa £1m to proceed with the first stage of urgent repairs and maintenance work on the asset. As the proposed spend on Oldway does not reflect any 'enhancement' to the value of the asset, it is highly probable that the funding will need to be sourced through revenue, (as opposed to capital). Therefore the £950k forecasted Treasury Management surplus will be utilised to fund the required works on Oldway over the next three years whilst a funding strategy is developed for the required wider restoration works. It is anticipated that the first £200k of this funding will be drawn down within the 2024/25 financial year.

Provisions

- 4.4 In addition to earmarked and general reserves the Council also holds provisions, where appropriate, for issues where the Council has a potential 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 where there is a risk of future claims being made in areas such as **insurance** and NNDR appeals.

5. 2024/25 Review of Reserves

- 5.1 Adopting the principles as detailed in this Policy, the Finance Director (Section 151 Officer) has undertaken a thorough review of all reserves held by the Council as at January 2024. This review has resulted in the following action:
- Any reserves showing no financial movement over a period of two years or more, without a clear future spend commitment, have been absorbed into the General Fund Reserve or Comprehensive Spending Review Reserve;
 - the General Fund Reserve has been 'topped up' to represent 5% of the Council's proposed 2024/25 Revenue budget;
 - the balance of the Comprehensive Spending Review Reserve has been restored to its recommended level of £3m and,
 - the Collection Fund Reserve has been thoroughly reviewed regarding the likelihood of future liabilities, (such as NNDR appeals), with a corresponding reduction in the amount now maintained;
 - Known significant liabilities have been addressed, and accounted for such as £2.4m for the remaining School's PFI costs and £1.6m for the write off of TorVista Homes 'working capital' loan (as approved by Council in September 2023)
- 5.2 With these actions taken, and with the Principles detailed above consistently applied, as Section 151 Officer, I believe the reserves to be adequate.
- 5.3 The Council's Reserve Statement, as at January 2024, is detailed in Appendix 1.

Appendices

Appendix 1: Council Reserve Statement as at January 2024

Report clearance:	This Policy has been reviewed and approved by:	Date:
Director of Finance	Malcolm Coe	

Torbay Council Reserves Statement (January 2024)

Reserve Narrative	Actual 1/4/23 £000	Estimate 31/3/24 £000	Forecast 31/3/25 £000	Forecast 31/3/26 £000	Forecast 31/3/27 £000
General Fund Reserve	5,744	7,600	7,600	7,600	7,600
Comprehensive Spending Review	3,944	3,400	2,800	2,300	1,900
	9,688	11,000	10,400	9,900	9,500
Earmarked Reserves					
Collection Fund	4,526	3,200	3,000	3,000	3,000
Adult Social Care (Revenue)	4,701	4,000	2,000	1,000	0
Adult Social Care (Health Funding)	8,418	5,000	0	0	0
Children's Social Care	1,000	900	600	500	500
Schools related (incl. balances held)	3,073	3,000	3,000	3,000	3,000
(Schools) Private Finance Initiative	0	2,400	1,600	800	0
Harbours (ring-fenced)	1,038	500	600	700	800
Public Health (ring-fenced)	3,240	3,000	2,600	2,300	2,000
Other Ring-fenced funding held	472	260	0	0	0
Capital Funding Reserve	2,128	2,000	1,700	1,500	1,500
ICT Replacement	291	500	300	100	0
Investment (Commercial Assets)	3,120	3,000	3,000	3,000	3,000
Regeneration & Retail Reserve	1,019	500	500	500	500
Developer Contributions	1,115	1,000	800	800	800
Insurance Reserve / Provision	3,490	3,500	3,500	3,500	3,500
Transformation / Service re-design	1,200	1,000	400	0	0
TorVista - loan write off & 23/24 costs	0	1,615	0	0	0
TDA / TorVista transition	0	250	0	0	0
Torbay Events	0	1,000	750	500	250
Housing related reserves	1,809	1,000	750	500	250
Highways	1,155	1,000	1,000	1,000	1,000
Service Carry forwards	5,204	2,500	1,500	1,000	500
Treasury Management 24/25 (Oldway)	0	0	750	500	250
Grants received not yet spent	8,695	4,000	4,000	4,000	4,000
Other Earmarked (under £500k)	2,289	2,000	2,000	2,000	2,000
Total (Earmarked Reserves)	57,983	47,125	34,350	30,200	26,850
Total (all Reserves held)	67,671	58,125	44,750	40,100	36,350

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