



POLICY AND RESOURCES SCRUTINY COMMITTEE – 15TH JANUARY 2019

SUBJECT: UPDATE ON RESERVES

REPORT BY: CORPORATE DIRECTOR EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To present the Scrutiny Committee with details of the usable reserves held by the Authority.
- 1.2 To present details of proposals for the use of reserves prior to consideration by Cabinet.

2. SUMMARY

- 2.1 The report provides details of the usable reserves held by the Authority as at the 1st April 2018 totalling £109.796m.
- 2.2 The report also includes proposals for the use of Service reserves in respect of the Directorate for Education and Corporate services, along with a proposed release of reserves for one off spend. The Scrutiny Committee is asked to consider these proposals prior to the proposals being presented to Cabinet.
- 2.3 Members are reminded that reserves can only be used once. The use of reserves would typically include capital expenditure, contingent sums for potential unforeseen liabilities i.e. BREXIT and Invest to Save.

3. LINKS TO STRATEGY

- 3.1 Ensuring that adequate General Fund balances are maintained to meet any unforeseen expenditure and the establishment of specific reserves to meet known future financial commitments are key elements of prudent financial management.
- 3.2 Prudent financial management contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015:-
 - A prosperous Wales.
 - A resilient Wales.
 - A healthier Wales.
 - A more equal Wales.
 - A Wales of cohesive communities.
 - A Wales of vibrant culture and thriving Welsh Language.
 - A globally responsible Wales.

4. THE REPORT

4.1 Appendix 1 provides details of the Authority's usable reserves as at the 1st April 2018 totalling £109.796m. Members are asked to note that this reserve is £10.8m lower than the previous year. The following paragraphs provide a detailed commentary on the balances held.

4.2 General Fund

4.2.1 The opening balance on the General Fund as at the 1st April 2018 was £13.2m. After adjusting for 2018/19 in-year use of General Fund balances the projected position as at the 31st March 2019 is a balance of £10m. This is summarised in the table below: -

	£m	£m
General Fund Opening Balance as at 01/04/18		13.200
In-Year Use of General Fund Balance: -		
- 2017/18 Council Tax Surplus to Support 2018/19 Budget (Special Council 22/02/18)	(1.400)	
- MTFP savings delivery fund (Cabinet 27/06/2018) (Council 31 st July 2018)	(1.800)	
		(3.200)
Projected General Fund Balance as at 31/03/19		10.000

4.2.2 In line with the Council's Reserves Strategy the Section 151 Officer provides advice on the appropriate level of the General Fund Reserve annually as part of the budget setting process and this is subject to approval by Cabinet and Full Council. Typically, the Section 151 Officer has recommended in previous budget reports to Council that the minimum balance on the General Fund Reserve should be £10m i.e. circa 3% of the Council's net revenue budget. The 2019/20 budget report will be presented to Council on the 21st February 2019 and this will include recommendations on the use of the General Fund balance.

4.3 Housing Revenue Account (HRA)

4.3.1 HRA funds must be ring-fenced and cannot be transferred into General Fund balances. The balance on the HRA usable reserves as at the 1st April 2018 was £5.090m. Most of this funding will be utilised for the Welsh Housing Quality Standard (WHQS) Capital Programme.

4.4 Capital Reserves

4.4.1 The total capital reserves of £39.808m as at the 1st April 2018 are ring-fenced for the Authority's Capital Programme. These reserves have been subject to a detailed review over the last six months and the outcome of this review has identified that there are £16.2m of reserves that are not allocated to any capital schemes. During the next few months Cabinet will need to be presented options to consider in respect of capital schemes that they wish to support financially. Scrutiny committees are able to discuss these reports, if they so wish, prior to Cabinet approval as they should be included in the Cabinet forward work programme.

4.5 Corporate Services

4.5.1 The balance on Corporate Services reserves as at the 1st April 2018 totalled £31.605m. The following table provides details of individual balances and the purpose of the reserves. Where funds are proposed for release they are highlighted as bold:-

Reserve	Amount £m	Description
Trehir Reserve	0.585	Required for potential works on former landfill site. It has been established that £350k can be released from this reserve.
Invest to Save Reserve	0.431	To provide repayable one-off financial support for service initiatives that deliver cashable savings. £250k of this balance is currently committed to purchase a Velocity Patcher for carriageway resurfacing works (agreed by Cabinet on the 1 st October 2014).
Insurance Earmarked Reserve	5.935	Self-insurance facility. The Authority's insurance excess is £250k. All claims below this level are funded through the insurance earmarked reserve.
Risk Management Reserve	0.564	To support risk management initiatives that mitigate insurance claims. Annual contributions to this reserve from Directorate revenue budgets have been reduced from 2016/17 onwards as part of approved savings to support the MTFP.
Corporate Property Service Initiatives Reserve	0.157	To support Corporate building schemes.
Electoral Admin Reserve	0.276	Cumulative balance on funding set aside annually for local elections.
Health & Safety Initiatives	0.262	To meet unavoidable cost pressures in Council establishments.
PC Replacement Reserve	0.797	This reserve funds the ongoing replacement of essential IT hardware and software across the Authority.
Private Finance Initiative (PFI) Equalisation Reserves	11.140	Committed to funding approved PFI Schemes.
Corporate Services Service Initiatives Reserves	9.767	<ul style="list-style-type: none"> • Care-line (£245k) – Retained underspends on the Care First budget. • Counsel Fees (£608k) – Retained underspends on the Counsel Fees revenue budget. • Council Tax Reduction Scheme (£3.367m) – Retained underspends on the CTRS budget. The Welsh Government has currently only committed to a fully funded scheme until the end of 2019/20. It is considered that £3m can be released from this reserve. • Apprenticeship Scheme (£852k) – Committed to ongoing apprenticeships (£530k) and for match-funding the ESF Inspire to Work project. (£322k). • Member Services (£606k) – Ring-fenced retained underspends on the Member Services budget. It has been established that £506k can be released from this reserve.

		<ul style="list-style-type: none"> • Voluntary Sector Grants (£141k) – Retained underspends on the Grants to the Voluntary Sector budget. This budget is monitored by Members on the Grants to the Voluntary Sector Panel. • Municipal Mutual Insurance (MMI) Levy (£425k) – Funding set aside to meet future liabilities arising from the MMI Scheme of Arrangement. • Senior Officer Investigation (£220k) – Previously approved funding in respect of the ongoing investigation. • Replacement of IDOX Document Management System for Council Tax/Housing Benefits (£150k). • Contingency for one-off cost of MTFP staffing reductions (£381k). • Contingency for cost pressures in Waste Management (£800k). • Cwmcarn High Funding Deficit - funding set aside to meet the anticipated financial deficit that will remain following the closure of Cwmcarn High School.(£1.4m) • 2Yr fixed term grade 6 post HR (Sickness Absence Monitoring)(£60k) • 1yr Fixed Term Post Grade 7 in Corp Property (Electrician)(£35K) • 1yr Fixed Term Post Grade 10 in Corp Property (Land Sales)(£48K) • General Ledger Upgrade - funding of upgrade in 2018-19 to v5.5.(£189K) • AP Forensics Software (Fraud Monitoring) - Renewal of three year software licence to 2021.(£34K) • Income Management System Upgrade - cost of introducing new cash income system supplied by Capita in 2018-19.(£101K) • Access Rights Management Solutions (To aid GDPR)(£80K) • Welsh Community Care Information System (WCCIS) maintenance. (£25K)
Salix Finance	0.289	To support energy saving initiatives.
Retained Underspends Reserves	1.402	Accumulated service underspends. It has been established that £500k can be released for 21st Century Band B match funding.
Total: -	31.605	

4.5.2 Members will note from the above that £1.402m is held in 'Retained Underspends Reserves'. Cabinet has previously agreed a policy whereby service areas retain 50% of reported underspends at the financial year-end. Conversely, any service based overspends are carried forward by the service areas responsible for generating the overspends. This approach has worked well as there is full ownership and accountability by budget holders in respect of delivering a balanced budget. At its meeting on the 27th July 2016, Cabinet agreed a Reserves Strategy which included the introduction of a cap on the cumulative amount that can be held by Directorates in service underspend reserves. This will be covered in more detail in section 4.9 of this report.

4.6 Communities

4.6.1 The balance on Communities reserves as at the 1st April 2018 totalled £4.679m. The following table provides details of individual balances and the purpose of the reserves:-

Reserve	Amount £m	Description
DLO Surplus/Deficit	0.371	Retained cash surplus for Network Contracting Services (NCS) work arising from the Sirhowy Enterprise Way PFI contract.
Planning - Community Infrastructure Levy	0.533	Revenue generated from the Community Infrastructure Levy.
Planning - LDP Related Expenditure	0.131	Ring-fenced reserve for completion of a new CCBC Local Development Plan.
Highways – Service Specific Reserve.	0.500	Ring-fenced winter maintenance reserve.
Community Regeneration Fund	0.141	Approved grants to be drawn down.
Economic Development – Service Initiative Reserve.	0.027	£2k relates to footfall counters and £25k is ring-fenced for capital works to the Hafod Deg building.
Area Forum Reserve	0.044	This is being utilised to support agreed MTFP savings in this area.
Cemeteries Reserve	1.141	Funds set-aside to meet the capital cost of future land acquisition for Cemeteries and the development of that land..
General Fund Housing Service Initiatives Reserve	0.460	<ul style="list-style-type: none"> • Renewal Fund for future building costs at Ty Croeso single persons' accommodation (£141k). • Renewal fund for the replacement of white goods and internal decoration at Ty Fesen family accommodation (£180k). • Shortfall in Shelter contract payments for 2017/18 to 2019/20 (£41k). • Homelessness prevention (£98k).
Communities - Service Specific	0.300	Project Development Fund - fund created to develop City Deal projects to stimulate economic development in the area.
Retained Underspends Reserves	1.031	Accumulated service underspends. (Includes General Fund Housing of £758k)
Total: -	4.679	

4.7 Education & Lifelong Learning

4.7.1 The balance on Education & Lifelong Learning reserves as at the 1st April 2018 totalled £8.419m. The following table provides details of individual balances and the purpose of the reserves:-

Reserve	Amount £m	Description
Service Initiatives Reserve	1.726	<ul style="list-style-type: none"> • ESF Bridges into Work (£537k) – Match-funding contribution (agreed by Cabinet 27/07/15). • ESF Working Skills for Adults (£267k) - Match-funding contribution (agreed by Cabinet 27/07/15). • Voluntary Early Release (VER) costs (£553k) – Required to meet ongoing liabilities in schools. • Fire Safety (£14k) – Earmarked reserve to fund fire alarm upgrades. • Transport Equalisation Account (£23k) • Inspire to Work (£22k) • Contribution to Grade 9 Fire Officer (£23k) • Traffic Calming Islwyn High. (£1k) • School Condition Surveys. (£74k) • Budget Pressures - Behaviour & Mental Health (£173k) • Relief Supply Equalisation Account. (£39k)
Schools PFI Earmarked Reserves	1.004	Contingent sum for unforeseen cost pressures for 2 PFI schools.
School Balances	2.039	Net overall retained underspends ring-fenced to schools.
Local Management of Schools (LMS) Contingency.	2.731	Accumulated underspends on LMS revenue budget. This reserve is maintained to support potential redundancy costs in schools, statutory maintenance costs and other unforeseen unavoidable cost pressures. It has been established that £500k can be released to support 21 st Century schools Band B match funding.
Accumulated Service Underspends	0.919	As per agreed policy (see paragraph 4.5.2).It has been established that £500k can be released for 21 st Century schools Band B match funding.
Total: -	8.419	

4.8 Social Services

4.8.1 The balance on Social Services reserves as at the 1st April 2018 totalled £6.995m. The following table provides details of individual balances and the purpose of the reserves:-

Reserve	Amount £m	Description
Community Activities Reserve	0.069	To support trading activities in Day Centres.
Service Initiatives Reserve	1.686	<ul style="list-style-type: none"> • Therapeutic Fostering Service (£624k). Approved by Cabinet 13/04/16. • Operation Jasmine (£109k). • Finance IT System (£26k) – Required to deal with any unforeseen costs arising from the implementation of the Welsh Community Care Information System (WCCIS). • Gwent Frailty Programme (£200k) – To meet future Invest to Save loan repayments to the Welsh Government. • Gwent Safeguarding Partnership (£280k) – Contribution to partnership to 2018/19. • Children Services Pressures. (£158k) • Legal Administration re. Children Services Pressures. (£20k) • Invest to save trials. (£251k) • Solicitor Post. (£18k)
Reserves Held for Partnerships	3.365	Reserves held on behalf of partnerships led by Caerphilly CBC: - <ul style="list-style-type: none"> • North Resource Centre (£50k). • SE Wales Shared Lives Scheme (£175k). • Youth Offending Service (£609k). • SE Wales Safeguarding Children Board (£299k). • SE Wales Emergency Duty Team (£51k Deficit). • Gwent Frailty Programme (£2.283m).
Accumulated Service Underspends	1.875	As per agreed policy (see paragraph 4.5.2)
Total: -	6.995	

4.9 Cap on Retained Underspend Reserves

4.9.1 As mentioned in paragraph 4.5.2, at its meeting on the 27th July 2016 Cabinet agreed a Reserves Strategy which included the introduction of a cap on the cumulative amount that can be held by Directorates in service underspend reserves. This cap is set at 3% of the net revenue budget for each Directorate and where this is exceeded then proposals must be presented to utilise the excess or a justification must be made to hold the reserves above the 3% level. The following table summarises the 2018/19 net budget for each Directorate, the balance on underspend reserves as at the 1st April 2018 and whether the cap has been exceeded:-

Directorate	2018/19 Net Budget £m	Reserve Balance £m	3% Cap £m	Excess Above Cap £m
Corporate Services	21.262	1.402	0.638	0.764
Communities	44.423	1.031	1.333	-
Education & Lifelong Learning	32.994	0.919	0.990	-
Social Services	89.262	1.875	2.678	-

4.9.2 The following table summarises proposals to utilise or retain the excess accumulated underspend reserves for Corporate Services: -

Directorate/Proposal	£m
1) Corporate Services Excess	0.764
Proposals: -	
- Support Capital Programme 21st Century Band B match funding	(0.500)
- Post 16/Single Sex Review Resourcing	(0.064)
- Digital Strategy Implementation	(0.100)
- Caerphilly 2022 Leadership training and Development	(0.100)
	0.764

5. WELL-BEING OF FUTURE GENERATIONS

5.1 The establishment and management of reserves are key elements of effective financial management which assists the achievement of the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015.

6. EQUALITIES IMPLICATIONS

6.1 An EIA screening has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact has been identified regarding this report; therefore a full EIA has not been carried out.

7. FINANCIAL IMPLICATIONS

7.1 As detailed throughout the report.

8. PERSONNEL IMPLICATIONS

8.1 There are no direct personnel implications arising from this report.

9. CONSULTATIONS

9.1 There are no consultation responses that have not been reflected in this report.

10. RECOMMENDATIONS

10.1 Members of the Scrutiny Committee are asked to:-

- 10.1.1 Note the content of the report.
- 10.1.2 Support a recommendation to Cabinet that accumulated underspend reserves above the 3% cap for Corporate Services and Education & Lifelong Learning be utilised as detailed in the table in paragraph 4.9.2 of this report.
- 10.1.3 Support a recommendation to Cabinet that specific reserves relating to the Directorate of Education and Corporate services totalling £1.5m be released and allocated towards 21st Century Schools Band B match funding.
- 10.1.4 Support a recommendation to Cabinet that funding totalling £20.08m(Capital reserves £16.227m,CTRS £3m,Treher reserve £350k,Members reserve £506k) is released from various reserves detailed throughout the report and set aside in the balance sheet for one off expenditure.

11. REASONS FOR THE RECOMMENDATIONS

- 11.1 To ensure that the Scrutiny Committee is provided with details of the usable reserves held by the Authority and is able to consider specific proposals to Cabinet.

12. STATUTORY POWER

- 12.1 The Local Government Acts 1998 and 2003.

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Consultees: Corporate Management Team
Andrew Southcombe, Finance Manager, Corporate Finance
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Mike Eedy, Finance Manager, Environment
Jane Southcombe, Finance Manager, Education & Lifelong Learning
Mike Jones, Interim Financial Services Manager, Social Services
Lesley Allen, Principal Accountant, Housing
Steve Harris, Interim Head of Business Improvement services
Rob Tranter Head of Legal services and Monitoring Officer
Cllr David Poole, Leader
Cllr Barbara Jones, Deputy Leader & Cabinet Member for Finance, Performance and Governance

Background Papers:
Cabinet (27/07/16) – Reserves Strategy
Special Council 31st July 2018 –Financial Accounts 2017/18

Appendices:
Appendix 1 List of Usable Reserves

List of Usable Reserves**Appendix 1**

Directorate / Service Area	Description	Opening Balance 1.4.2017	Opening Balance 1.4.2018	Earmarked For Potential One Off Funding of Capital Schemes
1 General Fund				
Corporate	General Fund	-17,832,917	-13,199,563	0
Total General Fund		-17,832,917	-13,199,563	0
2 Housing Revenue Account				
Housing Revenue Account	Various	-16,821,209	-5,089,887	
Total HRA		-16,821,209	-5,089,887	0
3 Capital Reserves				
Capital Earmarked Reserves	Various	-16,357,993	-22,135,481	12,226,452
Useable Capital Receipts	Various	-11,538,476	-8,523,024	2,849,235
Capital Grants Unapplied	Various	-9,812,874	-9,149,391	1,151,363
Total Capital Reserves		-37,709,344	-39,807,896	16,227,050
4 Corporate Services				
Corporate	TREHIR RESERVE	-584,549	-584,549	350,000
Corporate - Capital	RESERVE - INVEST TO SAVE	-271,829	-430,936	
Insurance Fund	INSURANCE EARMARKED RESERVE	-5,903,893	-5,935,367	
Insurance Fund	RISK MANAGEMENT RESERVE	-690,285	-563,980	
Property Services	SERVICE INITIATIVES RESERVE	-157,392	-157,392	
Corporate Services	ELECTORAL ADMIN RESERVES	-460,999	-276,144	
Corporate Services	HEALTH & SAFETY INITIATIVES	-262,606	-262,606	
Corporate Services	CORPORATE PC REPLACEMENT RESER	-1,080,668	-797,407	
Corporate Services	SEW PFI EQUALISATION RESERVE	-2,266,095	-1,880,206	
Corporate Services	EDUC PFI EQUALISATION RESERVE	-9,634,173	-9,259,726	
Corporate	SERVICE INITIATIVES RESERVE	-1,609,218	-2,844,240	
Corporate Services	SERVICE INITIATIVES RESERVE	-5,128,875	-6,921,650	3,506,000
Property - Capital	SALEX FINANCE	-223,963.03	-288,892.10	
Property Services - Building Consultancy	RESER - UNDER/ OVER SPEND C/F	-54,203	-54,203	
Corporate Services	RESER - UNDER/ OVER SPEND C/F	-1,303,896	-1,347,599	500,000
Total Corporate Services		-29,632,644	-31,604,898	4,356,000

5 Communities

Infrastructure	DLO SURPLUS / DEFICIT C/F	-300,750	-370,975	
Planning	COMMUNITY INFRASTRUCTURE LEVY	-251,143	-533,173	
Planning	SERVICE INITIATIVES RESERVE	-130,527	-130,527	
Infrastructure	SERVICE INITIATIVES RESERVE	-500,000	-500,000	
Economic Development and Tourism	RESERVE - COMMUNITY REGEN FUND	-135,693	-141,611	
Economic Development and Tourism	SERVICE INITIATIVES RESERVE	-12,835	-26,542	
Planning	RESERVE - AREA FORUM	-70,499	-44,085	
Community and Leisure Services	RESERVES - CEMETERIES	-932,453	-1,141,020	
General Fund Housing	SERVICE INITIATIVES RESERVE	-329,208	-460,107	
Communities Directorate	SERVICE INITIATIVES RESERVE	0	-300,000	
Communities Directorate	RESER - UNDER/ OVER SPEND C/F	-339,012	-688,367	
Economic Development and Tourism	RESER - UNDER/ OVER SPEND C/F	-4,152	-198	
General Fund Housing	RESER - UNDER/ OVER SPEND C/F	-162,760	-195,824	
Private Housing	RESER - UNDER/ OVER SPEND C/F	-115,950	-102,235	
Trading Standards	RESER - UNDER/ OVER SPEND C/F	-31,011	-31,011	
Environmental Health	RESER - UNDER/ OVER SPEND C/F	-13,720	-13,720	

Total Communities		-3,329,712	-4,679,395	0
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6 Education & Lifelong Learning

Education and Lifelong Learning	SERVICE INITIATIVES RESERVE	-1,055,595	-1,725,825	
Education and Lifelong Learning	PFI SCHOOLS EARMARKED RESERVES	-869,921	-1,004,683	
Schools	RESERVES - DELEGATED SCHOOLS	-2,331,965	-2,038,810	
Education and Lifelong Learning	RESERVES LMS EARMARKED	-2,657,113	-2,731,165	500,000
Education and Lifelong Learning	RESER - UNDER/ OVER SPEND C/F	-1,369,571	-918,866	500,000

Total Education and Lifelong Learning		-8,284,164	-8,419,349	1,000,000
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7 Social Services

Social Services	RESER - SOC SERV COMM ACTIVI	-65,858	-68,621	
Social Services	SERVICE INITIATIVES RESERVE	-1,906,344	-1,686,129	
Social Services	RESERVES HELD FOR PARTNERSHIPS	-2,121,413	-3,365,471	
Social Services	RESER - UNDER/ OVER SPEND C/F	-2,872,587	-1,875,152	

Total Social Services		-6,966,202	-6,995,373	0
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Grand Total		-120,576,193	-109,796,360	21,583,050
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