



POLICY AND RESOURCES SCRUTINY COMMITTEE – 15TH NOVEMBER 2016

SUBJECT: UPDATE ON RESERVES

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151
OFFICER**

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 2016 totalling £122.622m.
- 2.2 The report also includes proposals for the use of reserves in some areas. The Scrutiny Committee is asked to consider these proposals prior to them being presented to Cabinet at its meeting on the 14th December 2016.

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) 2016:-
 - 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 2016 totalling £122.622m. The following paragraphs provide a detailed commentary on the balances held.

4.2 General Fund

4.2.1 As part of the annual budget setting process the Section 151 Officer recommends to Council a prudent level of General Fund reserves. In recent years a minimum of £10m has been recommended which is circa 3% of the Authority's net revenue budget. Members will recall that at its meeting on the 24th February 2016 Council approved the budget for the 2016/17 financial year. This included the proposed use of General Fund balances resulting in a projected balance as at the 31st March 2016 of £10.105m.

4.2.2 The actual General Fund opening balance as at the 1st April 2016 is £12.615m. The main reason for the increase above the projected level is an increased take to working balances resulting from the 2015/16 revenue budget underspend being higher than anticipated. After adjusting for the approved use of General Fund balances during 2016/17 the projected balance as at the 31st March 2017 currently stands at £11.155m

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 2016 was £21.218m. 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 £39.156m are ring-fenced for the Authority's Capital Programme, including approved matched funding for 21st Century Schools. These reserves will be subject to a detailed review over the coming months and the outcome of this review will be reported to the Scrutiny Committee in due course.

4.5 Corporate Services

4.5.1 The balance on Corporate Services reserves as at the 1st April 2016 totalled £32.200m. The following table provides details of individual balances and the purpose of the reserves:-

Reserve	Amount £m	Description
Trehir Reserve	0.585	Required for potential works on former landfill site.
Invest to Save Reserve	0.600	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). New bids will be sought from Heads of Service to utilise the balance of this funding and these will be considered by Cabinet in due course.
Insurance Earmarked Reserve	6.046	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	0.795	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.

General Fund Housing Service Initiatives Reserve	0.268	<ul style="list-style-type: none"> • Renewal Fund for future building costs at Ty Croeso single persons' accommodation (£116k). • Renewal fund for the replacement of white goods and internal decoration at Ty Fesen family accommodation (£111k). • Shortfall in Shelter contract payments for 2017/18 to 2019/20 (£21k). • Homelessness prevention initiatives (£20k).
Corporate Property Service Initiatives Reserve	0.157	To support Corporate building schemes.
Policy	0.032	There are currently no commitments against this reserve. It is therefore recommended that the £32k should be released into the General Fund.
Electoral Admin Reserve	0.442	Cumulative balance on funding set aside annually for local elections.
Health & Safety Initiatives	0.652	To meet unavoidable cost pressures in Council establishments.
PC Replacement Reserve	1.260	This reserve funds the ongoing replacement of essential IT hardware and software across the Authority.
Private Finance Initiative (PFI) Equalisation Reserves	13.334	Committed to funding approved PFI Schemes.
Corporate Services Service Initiatives Reserves	5.224	<ul style="list-style-type: none"> • Careline (£208k) – Retained underspends on the Care First budget. • Counsel Fees (£508k) – Retained underspends on the Counsel Fees revenue budget. • Human Resources (£133k) - Cumulative underspends on HR recruitment advertising budget and legal costs. There are currently no commitments against this reserve. It is therefore recommended that the £133k should be released into the General Fund. • Council Tax Reduction Scheme (£1.146m) – Retained underspends on the CTRS budget. The Welsh Government has currently only committed to a fully funded scheme until the end of 2017/18. Options for the use of this reserve may need to be considered in future years in the event of funding reductions. • Housing Benefits (£100k) - There are currently no commitments against this reserve. It is therefore recommended that the £100k should be released into the General Fund. • Apprenticeship Scheme (£885k) – Committed to ongoing apprenticeships and for match-funding the ESF Inspire to Work project.

		<ul style="list-style-type: none"> • Member Services (£419k) – Ring-fenced retained underspends on the Member Services budget. • Voluntary Sector Grants (£124k) – 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 (£1m) – Funding set aside to meet future liabilities arising from the MMI Scheme of Arrangement. • Senior Officer Investigation (£701k) – Previously approved funding in respect of the ongoing investigation.
Ty Pontllanfraith	0.404	One-off costs associated with the closure of Ty Pontllanfraith and associated moves.
Salix Finance	0.203	To support energy saving initiatives.
Retained Underspends Reserves	2.198	Accumulated service underspends.
Total: -	32.200	

4.5.2 Members will note from the above that £2.198m 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 paragraphs 4.9.1 to 4.9.3 of this report.

4.6 Environment

4.6.1 The balance on Environment reserves as at the 1st April 2016 totalled £2.454m. The following table provides details of individual balances and the purpose of the reserves:-

Reserve	Amount £m	Description
DLO Surplus/Deficit	0.208	Retained cash surplus for Network Contracting Services (NCS) work arising from the Sirhowy Enterprise Way PFI contract.
Planning - Community Infrastructure Levy	0.040	This balance will be utilised in 2016/17 to part-fund agreed short-term financial support for Senghenydd Youth Drop In Centre (SYDIC).
Planning - LDP Related Expenditure	0.131	Ring-fenced reserve for the Local Development Plan.
Highways – Service Specific Reserve.	0.492	Ring-fenced winter maintenance reserve.
Community Regeneration Fund	0.178	Approved grants to be drawn down.
Economic Development – Service Initiative Reserve.	0.002	To be utilised in 2016/17 for gathering foot fall data in Town Centres.

Area Forum Reserve	0.115	This is being utilised to support agreed MTFP savings in this area.
Cemeteries Reserve	0.983	Funds set-aside to meet the capital cost of future land acquisition for Cemeteries.
Accumulated Service Underspends	0.305	As per agreed policy (see paragraph 4.5.2)
Total: -	2.454	

4.7 Education & Lifelong Learning

4.7.1 The balance on Education & Lifelong Learning reserves as at the 1st April 2016 totalled £9.240m. The following table provides details of individual balances and the purpose of the reserves:-

Reserve	Amount £m	Description
Service Initiatives Reserve	4.430	<ul style="list-style-type: none"> • Local Management of Schools (LMS) Contingency (£2.550m) – 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. At its meeting on the 30th March 2016 Cabinet approved £50k funding from this reserve to support the 2016/17 match-funding budget for maintenance projects in schools. Furthermore, it will be recommended to Cabinet on the 14th December 2016 that an earmarked reserve of £150k be established from the LMS Contingency in respect of targeted support to raise GCSE attainment levels. • 21st Century Schools (£750k) – Additional contribution agreed by Cabinet (27/07/15). • ESF Bridges into Work (£374k) – Match-funding contribution (agreed by Cabinet 27/07/15). • ESF Working Skills for Adults (£169k) - Match-funding contribution (agreed by Cabinet 27/07/15). • Voluntary Early Release (VER) costs (£479k) – Required to meet ongoing liabilities. • Fire Safety (£27k) – Earmarked reserve to fund fire alarm upgrades. • Home to School Transport Equalisation Reserve (£53k) – This will be utilised in 2016/17. • Other (£28k) – There are currently no commitments against this balance. It is therefore recommended that the £28k is released into the General Fund.

Schools PFI Earmarked Reserves	0.757	Contingent sum for unforeseen cost pressures for 2 PFI schools.
School Balances	2.887	Net overall retained underspends ring-fenced to schools.
Accumulated Service Underspends	1.166	As per agreed policy (see paragraph 4.5.2)
Total: -	9.240	

4.8 Social Services

4.8.1 The balance on Social Services reserves as at the 1st April 2016 totalled £5.739m. The following table provides details of individual balances and the purpose of the reserves:-

Reserve	Amount £m	Description
Community Activities Reserve	0.059	To support trading activities in Day Centres.
Service Initiatives Reserve	1.700	<ul style="list-style-type: none"> • Therapeutic Fostering Service (£875k). Approved by Cabinet 13/04/16. • Operation Jasmine (£112k). • Finance IT System (£34k) – Required to replace Microsoft Access databases. • Gwent Frailty Programme (£336k) – To meet future Invest to Save loan repayments to the Welsh Government. • Immediate Response Team (£343k) – See paragraph 4.8.2 below.
Reserves Held for Partnerships	0.807	Reserves held on behalf of partnerships led by Caerphilly CBC:- <ul style="list-style-type: none"> • North Resource Centre (£25k). • SE Wales Shared Lives Scheme (£117k). • Youth Offending Service (£416k). • SE Wales Safeguarding Children Board (£70k). • SE Wales Emergency Duty Team (£7k). • I.T. Consortium (£172k).
Accumulated Service Underspends	3.173	As per agreed policy (see paragraph 4.5.2)
Total: -	5.739	

4.8.2 £343k of the Service Initiatives Reserve was originally set aside to fund a pilot Immediate Response Team within Children's Services to deal with situations where children are at risk of becoming 'looked after' by the Authority. Due to revenue budget underspends across the Social Services Directorate in recent years the Team has been funded from core revenue budget and there has been no requirement to draw on the reserve. Funding for the Team was built into the Social Services base revenue budget from the 2015/16 financial year. However, increased demand is impacting on the Social Services revenue budget and will continue to do so in future years. It is therefore prudent to retain this reserve as a contingent sum to help deal with any spikes in demand.

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 2016/17 net budget for each Directorate, the balance on underspend reserves as at the 1st April 2016 and whether the cap has been exceeded:-

Directorate	2016/17 Net Budget £m	Reserve Balance £m	3% Cap £m	Excess Above Cap £m
Corporate Services	21.863	2.198	0.656	1.542
Environment	34.245	0.305	1.027	-
Education & Lifelong Learning	33.661	1.166	1.010	0.156
Social Services	84.520	3.173	2.536	0.637

4.9.2 Members should note that at its meeting on the 19th October 2016, Cabinet agreed to utilise £247k of the retained underspend of £305k for Environment to part-fund capital overspends.

4.9.3 The following table summarises proposals to utilise or retain the excess accumulated underspend reserves for Corporate Services, Education & Lifelong Learning and Social Services:-

Directorate/Proposal	£m
1) Corporate Services Excess	1.542
Proposals: -	
- Additional car parking at Ty Penallta (agreed by Cabinet 02/11/16)	(0.439)
- 2016/17 projected overspend for Policy Unit	(0.035)
- Replacement of IDOX for Council Tax/Housing Benefits	(0.150)
- Transfer Housing balances to Director of Communities	(0.249)
- Establish contingency for one-off cost of MTFP staffing reductions	(0.381)
- Balance to be released into the General Fund	(0.288)
	0.000
2) Education & Lifelong Learning Excess	0.156
Proposals: -	
- Contribution to one-off investment in Behaviour Support	(0.084)
- Contribution to one-off investment in EOTAS (Educ Other Than at Schools)	(0.072)
	0.000
Social Services Excess	0.637
Proposals: -	
- Contribution to the Gwent Safeguarding Partnership (2016/17 to 2018/19)	(0.210)
- Temporary staff in Adult Services (transformation projects)	(0.270)
- Retain balance of excess as a contingency for demographic pressures	(0.157)
	0.000

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) 2016.

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 an earmarked reserve of £150k be established from the LMS Contingency in respect of targeted support to raise GCSE attainment levels.

10.1.3 Support a recommendation to Cabinet to release the following reserves into General Fund balances:-

- Corporate Services – Policy (£32k).
- Corporate Services - Recruitment Advertising and Legal Costs (£133k).
- Corporate Services – Housing Benefits (£100k).
- Education & Lifelong Learning – Service Initiatives Reserve (£28k).

10.1.4 Support a recommendation to Cabinet that accumulated underspend reserves above the 3% cap be utilised as detailed in the table in paragraph 4.9.3 of this report.

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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Jane Southcombe, Finance Manager, Education & Lifelong Learning
Mike Jones, Interim Financial Services Manager, Social Services
Lesley Allen, Principal Accountant, Housing
Cllr B Jones, Deputy Leader & Cabinet Member for Corporate Services

Background Papers:

Council (24/02/16) – Budget Proposals 2016/17 and Medium-Term Financial Strategy 2016/2021
Cabinet (27/07/16) – Reserves Strategy

Appendices:

Appendix 1 - List of Usable Reserves

List of Usable Reserves**Appendix 1**

Directorate	Service Area	C.C.	Subj	Description	Opening Balance (01/04/16)
1) General Fund					
Corporate Services	CORPORATE BAL SHEET	9931	D781	GENERAL FUND	12,615,054
Total General Fund					12,615,054
2) Housing Revenue Account					
Housing Revenue Account	HRA			VARIOUS	21,217,748
Total HRA					21,217,748
3) Capital Reserves					
All	CAPITAL EARMARKED RESERVES			VARIOUS	17,773,742
All	USEABLE CAPITAL RECEIPTS			VARIOUS	11,910,898
All	CAPITAL GRANTS UNAPPLIED			VARIOUS	9,471,816
Total Capital Reserves					39,156,456
4) Corporate Services					
Corporate Services	CORPORATE BAL SHEET	9931	D861	TREHIR RESERVE	584,549
Corporate Services	B/S CAP - CORPORATE	9985	D857	RESERVE - INVEST TO SAVE	600,135
Corporate Services	INSURANCE FUND	9987	D911	INSURANCE EARMARKED RESERVE	6,046,129
Corporate Services	INSURANCE FUND	9987	D935	RISK MANAGEMENT RESERVE	794,909
Corporate Services	HOUSING NON HRA BAL SHEET	9917	D899	SERVICE INITIATIVES RESERVE	268,393
Corporate Services	PROPERTY - CORPORATE SERVICES	9924	D899	SERVICE INITIATIVES RESERVE	157,392
Corporate Services	POLICY AND RESOURCES BAL SHEET	9926	D892	RESERVE - POLICY	31,697
Corporate Services	POLICY AND RESOURCES BAL SHEET	9926	D948	ELECTORAL ADMIN RESERVES	442,167
Corporate Services	CORPORATE SERVICES BAL SHEET	9928	D952	HEALTH & SAFETY INITIATIVES	651,804
Corporate Services	CORPORATE SERVICES BAL SHEET	9928	D953	CORPORATE PC REPLACEMENT RESER	1,260,239
Corporate Services	CORPORATE SERVICES BAL SHEET	9928	D828	SEW PFI EQUALISATION RESERVE	3,451,940
Corporate Services	CORPORATE SERVICES BAL SHEET	9928	D850	EDUC PFI EQUALISATION RESERVE	9,882,065
Corporate Services	CORPORATE BAL SHEET	9931	D899	SERVICE INITIATIVES RESERVE	1,701,114
Corporate Services	CORPORATE SERVICES BAL SHEET	9928	D899	SERVICE INITIATIVES RESERVE	3,523,372
Corporate Services	CORPORATE SERVICES BAL SHEET	9979	D899	TY PONTLLANFRAITH CLOSURE	404,398
Corporate Services	B/S CAP - PROPERTY	9979	D944	SALEX FINANCE	203,038
Corporate Services	HOUSING NON HRA BAL SHEET	9917	D856	RESER - UNDER/ OVER SPEND C/F	150,993
Corporate Services	HOUSING PRIVATE BAL SHEET	9918	D856	RESER - UNDER/ OVER SPEND C/F	98,351
Corporate Services	BUILDING CONSULTANCY	9925	D856	RESER - UNDER/ OVER SPEND C/F	54,203
Corporate Services	POLICY AND RESOURCES BAL SHEET	9926	D856	RESER - UNDER/ OVER SPEND C/F	288,416
Corporate Services	CORPORATE SERVICES BAL SHEET	9928	D856	RESER - UNDER/ OVER SPEND C/F	1,604,815
Total Corporate Services					32,200,119

Directorate	Service Area	C.C.	Subj	Description	Opening Balance (01/04/16)
5) Environment					
Environment	HIGHWAYS BALANCE SHEET	9908	D882	DLO SURPLUS / DEFICIT C/F	208,097
Environment	PLANNING BAL SHEET	9923	D877	COMMUNITY INFRASTRUCTURE LEVY	39,673
Environment	PLANNING BAL SHEET	9923	D899	LDP RELATED EXPENDITURE	130,527
Environment	HIGHWAYS BAL SHEET	9932	D899	SERVICE SPECIFIC RESERVE	492,477
Environment	ECON DEVT & TOURISM BAL SHEET	9927	D892	RESERVE - COMMUNITY REGEN FUND	177,684
Environment	ECON DEVT & TOURISM BAL SHEET	9927	D899	SERVICE INITIATIVE RESERVE	1,874
Environment	PLANNING BAL SHEET	9923	D891	RESERVE - AREA FORUM	115,385
Environment	COMMUNITY & LEISURE BAL SHEET	9939	D865	RESERVES - CEMETERIES	983,388
Environment	PLANNING BAL SHEET	9923	D856	RESER - UNDER/ OVER SPEND C/F	17,242
Environment	ECON DEVT & TOURISM BAL SHEET	9927	D856	RESER - UNDER/ OVER SPEND C/F	47,024
Environment	HIGHWAYS BAL SHEET	9932	D856	RESER - UNDER/ OVER SPEND C/F	(7,876)
Environment	DIRECTORATE OF ENVIRONMENT	9936	D856	RESER - UNDER/ OVER SPEND C/F	248,059
Total Environment					2,453,554
6) Education & Lifelong Learning					
Education	EDUCATION BAL SHEET	9919	D899	SERVICE INITIATIVES RESERVE	4,430,085
Education	EDUCATION BAL SHEET	9919	D949	PFI SCHOOLS EARMARKED RESERVES	757,174
Education	SCHOOLS BAL SHEET	9920	D785	RESERVES - DELEGATED SCHOOLS	2,886,662
Education	EDUCATION BAL SHEET	9919	D856	RESER - UNDER/ OVER SPEND C/F	937,017
Lifelong Learning	CELL BAL SHEET	9921	D856	RESER - UNDER/ OVER SPEND C/F	229,089
Total Education & Lifelong Learning					9,240,026
7) Social Services (Inc. Public Protection)					
Social Services	SOCIAL SERVICES BAL SHEET	9922	D859	RESER - SOC SERV COMM ACTIVITIES	58,621
Social Services	SOCIAL SERVICES BAL SHEET	9922	D899	SERVICE INITIATIVES RESERVE	1,700,360
Social Services	SOCIAL SERVICES BAL SHEET	9922	D951	RESERVES HELD FOR PARTNERSHIPS	806,519
Social Services	SOCIAL SERVICES BAL SHEET	9922	D856	RESER - UNDER/ OVER SPEND C/F	3,128,520
Public Protection	TRADING STANDARDS	9937	D856	RESER - UNDER/ OVER SPEND C/F	31,011
Public Protection	ENVIRON HEALTH BAL SHEET	9938	D856	RESER - UNDER/ OVER SPEND C/F	13,720
Total Social Services & Public Protection					5,738,752
GRAND TOTALS: -					122,621,709