



POLICY AND RESOURCES SCRUTINY COMMITTEE – 21st FEBRUARY 2023

SUBJECT: UPDATE ON RESERVES

REPORT BY: CORPORATE DIRECTOR FOR 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.

2. SUMMARY

2.1 The report provides details of the usable reserves held by the Authority. Details are provided of the audited balances as at the 1st of April 2022, along with updates to reflect in-year movements in some areas.

3. RECOMMENDATIONS

3.1 Members of the Scrutiny Committee are asked to note the content of the report.

4. REASONS FOR THE RECOMMENDATIONS

4.1 To ensure that the Scrutiny Committee is provided with details of the usable reserves held by the Authority.

5. THE REPORT

5.1 Local Authorities have a corporate responsibility to operate within available resources and to remain financially sound over the short, medium, and longer term.

5.2 One of the key tools available to Authorities in managing their financial affairs is the creation and use of both general and earmarked reserves to assist them in delivering services over a period of longer than one financial year.

5.3 Reserves are an essential part of good financial management. They help Councils cope with unpredictable financial pressures, help them smooth the impact of known spending requirements over time, and help to fund any in-year overspending. The level, purpose, and planned use of reserves are important factors for Elected Members and Officers to consider in

developing medium-term financial plans and setting annual budgets.

5.4 The definitions and related accounting treatment of reserves are governed by the requirements of accounting standards. In summary, reserves: -

- can be established for any purpose and at whatever point the Authority determines (although the purpose, usage and basis of transactions should be clearly established);
- can be held for both revenue and capital purposes; and
- can be used at the Authority's discretion (except that capital receipts and capital grants cannot be used to fund revenue expenditure).

5.5 Reserves are classified in specific categories. These are generally accepted classifications used by Local Authorities as follows: -

General Reserves – These apply separately in respect of the Council Fund (General Fund) and Housing Revenue Account (HRA), and essentially represent a combination of a working balance to cushion the impact of uneven cash flows, to avoid unnecessary temporary borrowing and to provide a contingency to cushion the impact of unexpected events or emergencies.

Earmarked and Specific Reserves – These are established to meet known or predicted requirements or are established by statute.

Ring-fenced Reserves – These reserves are set-aside for specific service areas (e.g. schools) and are not available for general Council use.

Unusable Reserves – These arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile requirements driven by reporting standards to statutory requirements. These reserves are not backed by resources (i.e. not cash backed) and cannot be used for any other purpose.

5.6 The audited balance on the Council's usable reserves at the 31st of March 2022 was £233.308m as per the table below: -

Description	Amount £m
General Fund	27.235
Housing Revenue Account (HRA)	23.979
Schools Earmarked Reserves	17.263
Capital Earmarked Reserves	43.771
Usable Capital Receipts	12.148
Capital Grants Unapplied	19.886
Insurance Earmarked Reserves	7.260
Service Over/Underspend Reserves	8.870
Direct Service Earmarked Reserves	0.085
Other Earmarked Reserves	72.811
Total: -	233.308

5.7 The following paragraphs provide a detailed commentary on the balances held.

5.8 General Fund

5.8.1 The General Fund Balance as at the 31st March 2022 was £27.235m. As approved by Council on 24 February 2022, £1.050m of this is being used to support the 2022/23 Budget, and at its meeting on 4 October 2022 Council also agreed to use £14.333m of the General Fund reserve to fund the following: -

Description	Amount £m
In-year impact of 2022/23 pay awards	6.860
Cost-of-Living Hardship Fund	3.000
Cost-of-Living Crisis contingency	2.098
Home to School/College Transport	0.460
Wi-Fi infrastructure review	0.100
Heolddu Leisure Centre fitness equipment	0.100
Emporium Car Park repairs	0.100
Highway inspections (Covid-19 backlog)	0.120
External asbestos surveys	0.100
Modern Patch Management Tool	0.100
Cloud migrations	0.500
Canal refurbishment	0.200
Additional RSG (Electric Vehicles/driving lessons for care workers.)	0.595
Total: -	14.333

5.8.2 These approved uses of reserves reduce the current General Fund balance to £11.852m, which equates to 3% of the Council's 2022/23 Net Revenue Budget. This is the minimum level recommended by the Section 151 Officer and is in line with best practise.

5.8.3 Members will be aware that the 2023/24 Draft Budget Proposals endorsed by Cabinet on the 18th of January 2023 include the proposed one-off use of reserves totalling £15.051m as a temporary measure to help balance the 2023/24 budget. The use of reserves in this manner is unprecedented for the Council, but it does provide some much needed space to identify, approve and implement a range of permanent savings to address an anticipated net funding gap of circa £48m for the two-year period 2024/25 to 2025/26. The £15.051m includes the £2.098m Cost-of-Living Crisis Contingency in the table in paragraph 5.8.1 above. The remaining elements of the £15.051m will be highlighted throughout the rest of this report.

5.9 Housing Revenue Account (HRA)

5.9.1 £23.979m of the usable reserves are Housing Revenue Account (HRA) funds that must be ring-fenced and cannot be transferred into General Fund balances. This funding is available to help maintain the Welsh Housing Quality Standard (WHQS), to part fund the Post Asset Management Strategy (PAMS), and the new build programme moving forward.

5.10 Schools Earmarked Reserves

5.10.1 There is a total sum of £17.263m in reserves relating to net overall retained underspends ring-fenced to schools.

5.11 Capital Reserves

5.11.1 The capital reserves totalling £75.805m are ring-fenced for the Authority's Capital Programme. Some of the more significant balances held include the following: -

- £25.1m for the 'Wellbeing and Placeshaping Framework'.
- £18.5m for Education, the majority of which is match funding for the 21st Century Schools Programme.
- £6.4m for Highways.
- £4.4m for the Housing Revenue Account (HRA). This is ring-fenced and cannot be used for the General Fund.
- £3.1m for a new Respite Centre.

5.11.2 Capital balances are currently being reviewed to ensure that the sums are fully committed and where this is not the case proposals will be developed for the funding to be redirected for other capital purposes and/or to lever in external funding wherever possible. In advance of this review being completed, £915k of uncommitted balances originally funded through a revenue budget contribution to capital can be released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.

5.12 Insurance Earmarked Reserves

5.12.1 £7.260m is held in reserve for our self-insurance facility and risk management initiatives. The Authority's insurance excess for the majority of covers is £250k and claims below this level are funded through the reserve. The level of the reserve is reviewed by our Insurance Brokers (Marsh) to ensure that it is sufficient to meet potential liabilities.

5.13 Service Over/Underspend Reserves

5.13.1 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.

5.13.2 The table below summarises the current position in respect of the retained underspend reserves held by each Directorate: -

Directorate	Balance (31/02/22) £m	In-Year Commitments £m	Current Balance £m
Corporate Services	1.224	0.791	0.433
Communities	1.177	1.062	0.115
Education & Lifelong Learning	1.074	0.940	0.134
Social Services	5.396	3.119	2.277
Total: -	8.870	5.912	2.959

5.14 Direct Service Earmarked Reserves

5.14.1 £85k is held in reserves in respect of retained cash surpluses for Network Contracting Services (NCS) work arising from the Sirhowy Enterprise Way PFI contract.

5.15 Other Earmarked Reserves

5.15.1 The balance on 'Other Earmarked Reserves' as at the 31st of March 2022 totalled £72.811m. The following table provides details by Directorate: -

Description	Amount £m
Corporate Services	
Covid-19 earmarked reserve – It is proposed that £5m of this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	5.375
Private Finance Initiative reserve (schools) – Committed to funding approved School PFI Schemes.	7.770
Private Finance Initiative reserve (roads) – Committed to funding the Sirhowy Enterprise Way (SEW) PFI Scheme.	1.920
Salix Finance – To support energy saving initiatives.	0.277
Electoral Administration reserve - Cumulative balance on funding set aside annually for local elections.	0.709

Health & Safety initiatives reserve - To meet one-off unavoidable cost pressures in Council establishments.	0.263
PC replacement reserve - This reserve funds the ongoing replacement of essential IT hardware and software across the Authority.	0.583
Invest to Save reserve - To provide repayable one-off financial support for service initiatives that deliver cashable savings.	0.735
Retained underspends on the Care First budget (Careline) - It is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.278
Retained underspends on the Member Services budget - It is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.396
Retained underspends on the Council Tax Reduction Scheme (CTRS) budget - It is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	1.756
Apprenticeship Scheme - Committed to funding apprenticeships across the Council.	0.897
Education contributions to ESF Programmes.	0.322
Retained underspends on the Grants to the Voluntary Sector budget - This budget is monitored by Members on the Grants to the Voluntary Sector Panel.	0.111
Storm Dennis – Outstanding balance on grant payments to residents (flood damage). It is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.146
Retained underspend on the Occupational Health budget to address backlogs.	0.129
Retained underspends on the Community Empowerment Fund budget.	0.229
Caerphilly Academy Gateway to Employment – Development of a Pilot Skills and Apprenticeship Academy (this was delayed during Covid-19).	0.087
Flexible Working – Reserve established to support the roll-out of new flexible ways of working.	0.500
Funding set aside to support the 'Licence to Innovate' initiative.	0.211
I.T. Systems – Various sums set aside to fund system upgrades and new software and hardware investments - It is proposed that £286k of this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	1.668
Fixed-Term Posts – Funding set-aside to fund approved fixed-term posts - It is proposed that £154k of this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	1.833
Property reserve to fund fixed-term Asset Management Co-ordinator and to support Corporate building schemes.	0.109
Contract management review in Waste Services.	0.377
Funding set aside to support delivery of the Council's ICT Strategy and Digital Transformation Programme.	1.759
Balance of funding previously set aside for one-off "Cleaning and Greening" initiatives across the county borough. This will be fully utilised in 2022/23.	0.549
Funding to support the delivery of the Decarbonisation Strategy and Action Plan.	0.444
Community Co-ordinators pilot – Funding set aside to pilot the introduction of five Community Connectors/Co-ordinators for an initial period of 12 months.	0.227

Teachers Pensions Funding Allocation 2019/20 - Options for using this one-off funding are currently under consideration and will be subject to a further report.	2.434
Municipal Mutual Insurance (MMI) Levy – Funding set aside to meet future liabilities arising from the MMI Scheme of Arrangement.	0.391
WG Cost-of-Living Crisis Discretionary Scheme grant funding to be used during the 2022/23 financial year.	1.670
WG Council Tax Collection Grant (2020/21) - It is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	1.122
WG Council Tax Collection Grant (2021/22) - It is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.878
Pay award contingency.	0.358
Interest Equalisation Reserve - This reserve is not cash backed and is an accounting entry to unwind notional interest payments on a loan provided by Welsh Government. This cannot be released for other purposes.	10.429
Homelessness Prevention – Reserve to fund rent top-ups, mortgage support and rent arrears to prevent homelessness/evictions. Also used for hot meals for rough sleepers during the winter.	0.147
Renewal Fund for future building costs at Ty Croeso single persons' accommodation.	0.201
Renewal fund for the replacement of white goods and internal decoration at Ty Fesen family accommodation.	0.188
Unfunded costs associated with the administration of the Improvement Loan Scheme.	0.016
Fixed-Term posts in the Empty Homes Team.	0.235
Caerphilly CBC's share of reserves held by the Cardiff Capital Region (CCR) City Deal.	1.575
Other miscellaneous service initiative reserves - It is proposed that £31k of these reserves are released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.294
Communities	
Area Forum Reserve.	0.039
Cemeteries Reserve - Reserve established to fund works in CCBC owned cemeteries.	0.295
Community Infrastructure Levy (CIL) Reserve - £3.3m of this funding has already been committed during the 2022/23 financial year for match-funding the Caerphilly Wellbeing Centre Levelling-Up Fund (LUF) bid and for land acquisition.	3.802
Regeneration Project Board - Fund created to develop projects to stimulate economic development in the county borough. This funding is committed to specific projects, with a small balance of £15k remaining.	2.874
Funding for fixed-term posts in Environmental Health and the Business Enterprise & Renewal Team (BERT).	0.160
Public realm improvements in Rhymney High Street.	0.050
Reserve for Local Development Plan (LDP) related expenditure.	0.358
Ring-fenced winter maintenance reserve.	0.414
Funding for the ongoing rollout of cashless catering in schools.	0.302
Reserve established for physical works and traffic management costs in respect of tree felling as a result of Ash Die Back.	0.579
Seating at the Centre of Sporting Excellence.	0.050

Other miscellaneous service initiative reserves.	0.131
Education & Lifelong Learning	
Contingency for unforeseen cost pressures relating to PFI schools.	1.448
Local Management of Schools (LMS) Contingency - 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.	2.093
Voluntary Early Release (VER) costs – Required to meet ongoing liabilities in schools.	0.306
ESF Bridges into Work – Match-funding contribution - It is proposed that £403k of this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.537
ESF Working Skills for Adults 2 - Match-funding contribution - It is proposed that £200k of this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.267
ESF Inspire to Work – Match-funding contribution - It is proposed that £10k of this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.022
Fixed-Term Posts – Funding set-aside to fund approved fixed-term posts. It is proposed that £190k of this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	1.068
Reserve to fund budget pressures in Behaviour & Mental Health.	0.140
Reserve to fund pressures in Additional Learning Needs (ALN).	0.186
I.T. Systems – Various sums set aside to fund software and hardware investments (including the Ed Tech Programme).	1.320
Replacement Fund for 3G pitches.	0.095
Contribution to maintenance costs for schools (50/50 scheme).	0.146
Other miscellaneous service initiative reserves - It is proposed that £70k of this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.140
Social Services	
Community Activities Reserve - To support trading activities in Day Centres.	0.042
Finance IT System – Reserve established to meet the cost of upgrades to Access Database systems for client contributions.	0.117
Family aid for parents with Learning Disabilities.	0.180
Equipment to enable single-handed Home Care calls – Additional funding has been made available on a regional basis, so it is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.152
Feasibility study in respect of delivering Telecare options – This study has now been funded via grant, so it is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.040
Reserve established to mitigate the potential withdrawal of Intermediate Care Fund (ICF) grant funding.	0.500
Contributions to Buddy Scheme and Caerphilly Cares	0.260
Care Home visiting and Lateral Flow Testing – The cost of this testing has been met through the WG Covid-19 Hardship Fund, so it is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.184

Funding to tackle a backlog of minor works of adaptation – This has now been funded through the WLGA Promoting Independence Grant. so it is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.100
Fixed-Term Posts – Funding set-aside to fund approved fixed-term posts - It is proposed that £565k of this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	2.279
Other miscellaneous service initiative reserves - it is proposed that this reserve is released as part of the £15.051m one-off use of reserves to help balance the 2023/24 revenue budget.	0.078
Reserves held on behalf of Partnerships led by Caerphilly CBC.	2.459
Total: -	72.811

5.16 Conclusion

- 5.16.1 Reserves are an essential part of good financial management. They help Councils cope with unpredictable financial pressures, help them smooth the impact of known spending requirements over time, and help to fund any in-year overspending.
- 5.16.2 This report provides details of the usable reserves held by the Authority as at the 1st of April 2022. Details are also provided of reserves totalling £15.051m that are proposed for release to support the 2023/24 revenue budget. The use of reserves in this manner is unprecedented for the Council but it does provide some much needed space to identify, approve and implement a range of permanent savings to address an anticipated net funding gap of circa £48m for the two-year period 2024/25 to 2025/26.

6. ASSUMPTIONS

- 6.1 There are no assumptions within this report.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

- 7.1 This report is for information only, so an Integrated Impact Assessment is not required.

8. FINANCIAL IMPLICATIONS

- 8.1 As detailed throughout the report.

9. PERSONNEL IMPLICATIONS

- 9.1 There are no direct personnel implications arising from this report.

10. CONSULTATIONS

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

11. STATUTORY POWER

- 11.1 The Local Government Acts 1998 and 2003.

Author: Stephen Harris, Head of Financial Services and S151 Officer
Tel: 01443 863066 E-mail: harrisr@caerphilly.gov.uk

Consultees: Richard Edmunds, Corporate Director for Education and Corporate Services
(Email: edmunre@caerphilly.gov.uk)
Cllr Eluned Stenner, Cabinet Member for Finance and Performance
(Email: stenne@caerphilly.gov.uk)
Andrew Southcombe, Finance Manager, Corporate Finance
(Email: southak@caerphilly.gov.uk)
Dave Roberts, Interim Finance Manager, Corporate Services and Economy and Environment
(Email: roberda@caerphilly.gov.uk)
Jane Southcombe, Finance Manager, Education and Lifelong Learning
(Email: southj@caerphilly.gov.uk)
Mike Jones, Financial Services Manager, Social Services
(Email: jonesmj@caerphilly.gov.uk)
Lesley Allen, Principal Group Accountant, Housing
(Email: allenl@caerphilly.gov.uk)

Background Papers:

[Council \(24/02/22\) – Budget Proposals for 2022/23 and Medium-Term Financial Outlook](#)
[Council \(04/10/22\) – Provisional Revenue Budget Outturn for 2021/22](#)
[Cabinet \(18/01/23\) – Draft Budget Proposals for 2023/24](#)