



POLICY AND RESOURCES SCRUTINY COMMITTEE – 14TH APRIL 2015

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.

2. SUMMARY

2.1 The report provides details of the usable reserves held by the Authority. The Appendix to the report shows an opening balance of £97.165m (in accordance with the audited Statement of Accounts for the 2013/14 financial year), anticipated movements for 2014/15 and the projected balance on reserves as at the 31st March 2015.

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.

4. THE REPORT

4.1 Appendix 1 provides details of the Authority's usable reserves. Members will note that the audited opening balance totalled £97.165m and that the projected balance as at the 31st March 2015 is £89.080m. The following paragraphs provide a detailed commentary on the reserves: -

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 £10m has been recommended which is circa 3% of the Authority's net revenue budget. Members will recall that at its meeting on the 25th February 2015 Council approved the budget for the 2015/16 financial year. This included the proposed use of General Fund balances resulting in a projected balance as at the 31st March 2015 of £10.078m.

4.3 Housing Revenue Account (HRA)

4.3.1 HRA funds must be ring-fenced and cannot be transferred into General Fund balances. The projected balance on the HRA usable reserves as at the 31st March 2015 is £15.333m and much of this funding will be utilised for the £200m WHQS Capital Programme.

4.4 Capital Reserves

4.4.1 The total projected capital reserves of £28.932m are ring-fenced for the Authority's Capital Programme, including approved matched funding for 21st Century Schools.

4.5 Corporate Services

4.5.1 The projected year-end balance on Corporate Services reserves is £22.999m. The following table provides further details: -

Reserve	Amount £m	Description
Trehir Reserve	0.585	Required by External Auditors for former landfill site.
Invest to Save Reserve	0.157	To provide repayable one-off financial support for service initiatives that deliver cashable savings.
Insurance Earmarked Reserve	4.807	Self-insurance facility. Authority's insurance excess is £250k. All claims below this level are funded through the reserve.
Risk Management Reserve **	0.551	To support risk management initiatives that mitigate insurance claims.
Service Initiative Reserve	0.157	To support Corporate building schemes.
Electoral Admin Reserve	0.219	Funding set-aside annually for local elections.
Health & Safety Initiatives	0.182	To meet unavoidable cost pressures in Council establishments.
PC Replacement Reserve	1.738	This is committed to fund the current upgrade of IT equipment and Microsoft Office across the Authority (details included in a report to P&R Scrutiny in June 2014).
PFI Equalisation Reserve	12.953	Committed to funding approved PFI Schemes.
Salix Finance	0.272	To support energy saving initiatives.
Other	1.378	Mainly accumulated retained service underspends.
Total: -	22.999	

4.5.2 Members will note from the above table that the £1.378m 'Other' reserves relate in the main to accumulated retained service underspends. 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 Senior Officers in respect of delivering a balanced budget. Moving forward these retained surpluses are likely to be required to support the delivery of the Medium-Term Financial Plan (particularly in relation to severance costs to support down-sizing).

4.6 Environment Directorate

4.6.1 The projected year-end balance on Environment Directorate reserves is £0.915m. The following table provides further details: -

Reserve	Amount £m	Description
Community Regeneration Reserves	0.202	Approved funding to be drawn down.
Area Forum Reserve	0.163	This will be utilised to support agreed MTFP savings in this area.
Cemeteries Reserve **	0.266	Funds set-aside to meet the capital cost of future land acquisition for Cemeteries.
Accumulated Service Underspends	0.284	As per agreed policy (see paragraph 4.5.2)
Total: -	0.915	

4.7 Education & Leisure

4.7.1 The projected year-end balance on Education & Leisure reserves is £6.043m. The following table provides further details: -

Reserve	Amount £m	Description
Local Management of Schools **	1.659	Accumulated underspends on Local Management of Schools revenue budget. Reserve maintained to support potential redundancy costs in schools, statutory maintenance costs and other unforeseen unavoidable cost pressures.
Service Initiative Reserve	0.122	Fire alarm upgrades and equalisation of Home to School Transport costs.
Schools PFI Earmarked Reserves **	0.512	Contingent sum for unforeseen cost pressures for 2 PFI schools.
School Balances	2.746	Net overall retained underspends ring-fenced to schools.
Accumulated Service Underspends	1.004	As per agreed policy (see paragraph 4.5.2)
Total: -	6.043	

4.8 Social Services

4.8.1 The projected year-end balance on Social Services reserves is £2.059m. The following table provides further details: -

Reserve	Amount £m	Description
Community Activities Reserve	0.042	To support trading activities in Day Centres.
Service Initiatives Reserve	0.500	Operation Jasmine (£112k), Immediate Response Team (£343k), Other (£45k).
Accumulated Service Underspends	1.517	As per agreed policy (see paragraph 4.5.2)
Total: -	2.059	

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. Furthermore, due to the success of the Team in avoiding potentially expensive placements, funding for the Team has now been built into the Social Services revenue budget from the 2015/16 financial year. However, demographic change is likely to impact on the Social Services revenue budget in future years and Members will recall that for the 2015/16 financial year no growth has been allocated to Social Services for these potential pressures. At this stage, it would be prudent to retain the reserve of £343k along with the ‘Accumulated Service Underspends’ of £1.517m.

4.9 Released/Partially Released Reserves

4.9.1 The budget proposals approved by Council at its meeting on the 25th February 2015 included the release of reserves totalling £757k to General Fund balances (as detailed in item 8 of Appendix 1). However, Members will note from the Appendix that reserves were only partially released in two areas and that balances of £1.030m and £1.690m remain.

4.9.2 The balance of £1.030m relates to approved funding set-aside in previous years to meet potential pension deficits and this funding is likely to be required.

4.9.3 The following table provides a summary of the other remaining balance of £1.690m: -

Reserve	Amount £m	Description
Careline	0.112	Cumulative underspend on the revenue budget.
Counsel Fees	0.294	These costs can be volatile and the reserve is maintained to support the core revenue budget, which has been reduced for 2015/16.
Council Tax Reduction Scheme	0.065	Cumulative underspend on the revenue budget of circa £14m.
Apprenticeship Scheme	0.697	This will be utilised to support agreed MTFP savings in this area.
Members Services **	0.272	Cumulative underspend on the revenue budget.
Grants to the Voluntary Sector	0.116	Cumulative underspend on the revenue budget. Circa £30k of this will be used in 2015/16 to support MTFP savings on the Grants to the Voluntary Sector revenue budget.
Other **	0.134	Cumulative underspends on HR recruitment advertising budget and legal costs.
Total: -	1.690	

4.10 The items marked ** in the tables in this report are currently under review. However, Members should note that any further sums identified for release to General Fund balances can only be used for one-off purposes.

5. EQUALITIES IMPLICATIONS

5.1 This report is for information purposes so the Council's Equalities Impact Assessment (EqIA) process does not need to be applied.

6. FINANCIAL IMPLICATIONS

6.1 As detailed throughout the report.

7. PERSONNEL IMPLICATIONS

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

8. CONSULTATIONS

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

9. RECOMMENDATIONS

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

10. REASONS FOR THE RECOMMENDATIONS

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

11. STATUTORY POWER

11.1 The Local Government Acts 1998 and 2003.

Author: Stephen Harris, Interim Head of Corporate Finance
E-mail: harrisr@caerphilly.gov.uk Tel: 01443 863022

Consultees: Chris Burns, Interim Chief Executive Officer
Nicole Scammell, Acting Director of Corporate Services & S151 Officer
Andrew Southcombe, Finance Manager, Corporate Finance
Cllr Barbara Jones, Deputy Leader & Cabinet Member for Corporate Services

Appendices: -
Appendix 1 List of Usable Reserves