

AGENDA ITEM 6**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL****CABINET****22nd OCTOBER 2015****COUNCIL INVESTMENT PRIORITIES - MID YEAR REVIEW****REPORT OF THE GROUP DIRECTOR CORPORATE & FRONTLINE SERVICES****AUTHOR: Chris Lee, Group Director Corporate & Frontline Services (01443 424026)****1. PURPOSE OF THE REPORT**

- 1.1 This report sets out the conclusions of a review requested by the Cabinet of Council Reserves, and outlines a number of Investment Priorities following the finalisation and audit of the accounts for financial year 2014/15 as reported to Council on the 30th September 2015.

2. RECOMMENDATIONS

It is recommended that Cabinet agree:

- 2.1 To review and if acceptable propose the attached treatment of Earmarked Reserves and resultant Investment Priorities as detailed at Appendix A to Council at its meeting on the 28th October 2015.

3. BACKGROUND

- 3.1 A review of earmarked reserves and investment priorities has been completed and the resultant report with recommendations by Cabinet is attached at Appendix A.

APPENDIX A**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL****MUNICIPAL YEAR 2015-2016****COMMITTEE:****COUNCIL****28th October 2015****Item No:****COUNCIL INVESTMENT
PRIORITIES – MID YEAR
REVIEW****REPORT OF THE CABINET****AUTHOR: Chris Lee, Group Director Corporate & Frontline Services (01443 424026)****1. PURPOSE OF THE REPORT**

- 1.1 This report sets out the conclusions of a review, requested by the Cabinet, of Council Reserves and outlines a number of Investment Priorities following the finalisation and audit of the accounts for financial year 2014/15 as reported to Council on the 30th September 2015.

2. RECOMMENDATIONS

It is recommended that the Council agree:

- 2.1 To release the reserves as detailed in paragraph 4 (Table 1); and
- 2.2 That the reserves released are used to fund the investment priorities as detailed in paragraph 5 (Table 2) which will be incorporated into the Capital Programme and Revenue Budget as appropriate.

3. BACKGROUND

- 3.1 Reserves are an essential part of good financial management, allowing us flexibility to cope with unexpected financial pressures and to plan and deliver spending priorities between years. The Council's Section 151 Officer has clear responsibilities in terms of ensuring the robustness of the Council's annual budget strategy in any year. Elected Members have a key role in ensuring that the level of reserves held is appropriate in terms of size and use and in considering their use as part of a robust Medium Term Financial Strategy.
- 3.2 The Council's Statement of Accounts for 2014/15 have now been audited by the Wales Audit Office (WAO) as reported to Council on the 30th September 2015. As reported, the WAO provided a clean audit opinion, providing surety as to their robustness and accuracy.
- 3.3 General Fund balances at the end of 2014/15 stand at £11.001M which is above the minimum level which the Section 151 Officer considers we should maintain. This provides us with some flexibility going forward in terms setting a balanced budget into the medium term and using reserves prudently and sensibly as part of that process, maintaining a balance between setting a robust, deliverable and sustainable budget and protecting much valued services which our residents rely upon.
- 3.4 Also set aside on our balance sheet are earmarked reserves which have been established to protect our financial standing and which have enabled services some flexibility in being able to carry forward resources from one year to the next for planned projects and other specific commitments.
- 3.5 Cabinet requested that the Section 151 Officer undertook a risk assessment of earmarked reserves earlier in the budget setting process this year, as highlighted by the Leader of the Council at the September Full Council meeting, with a view to:
- a. Assessing the underlying financial risk for which they have been set aside to determine if it remains or whether circumstances have changed;
 - b. The extent to which any amounts set aside for investment (Prior Year Commitments – Service “Carry Forwards”) have been contractually committed;
 - c. Being clear on the reasons for holding reserves and ensuring that they are sufficient, but not excessive; and
 - d. The need for continued support of a robust Medium Term Financial Strategy for the Council.
- 3.6 With the review complete, Cabinet have now been able to take a view on the extent to which any amounts could be released, in particular where the original intended purpose does not represent a strategic investment priority area.

4. REVIEW OF EARMARKED RESERVES

- 4.1 As reported to Council in the Statement of Accounts, the Council has revenue stream earmarked reserves of £76.284M which are set aside for a variety of purposes. In addition, there are specific reserves relating to Capital Funding, Insurance and Treasury Management.
- 4.2 A number are held for “accounting” purposes and are not distributable in terms of being available for other general purposes. Examples of these include PFI (an equalisation account which will balance to zero over the period of PFI contract), Revenue Grant Reserves (specific revenue grants received not yet spent) and Capital Development Fund (funding for our existing 3 year capital programme).
- 4.3 Some are set aside as cover for financial risks which we are aware of and these risks change over time in terms of likelihood of them actually materialising and accordingly we routinely undertake a risk assessment of these.
- 4.4 Some reserves are held in order to provide services with the flexibility to carry forward unspent but committed budget from one year into another. Again as time progresses there is the opportunity to assess the extent to which these sums still represent Member’s priorities.
- 4.5 The review has concluded that there are a number of reserves which can either be released entirely or the amounts held can now be reduced in light of changed circumstances, including the council’s current financial standing and robustness of our budget.
- 4.6 The Section 151 Officer is content that releasing these sums, as detailed below does not compromise our financial standing. It is also emphasised that these sums represent one off cash availability and cannot be used as a substitute for our ongoing base budget requirements.
- 4.7 The specific outcomes of the review are summarised below:

a) Prior Year Commitments (£12.426M as at 31st March 2015)

Sums have been set aside in the previous year to fund intended initiatives which were to be carried out in the following financial year. A review of these reserves has been undertaken with particular regard to the necessity / essentiality of the intended spend and whether it continues to represent a key priority of the Council.

This has identified, that of £12.426M earmarked, a sum of **£3.236M** can be released from these reserves.

b) E Government, Development Fund and Social Inclusion (£1.183M as at 31st March 2015)

Sums have been set aside for a number of years for these areas with no essential spend identified to date which has not been able to be funded from alternative resources. Accordingly it is proposed that these reserves can be released, totalling **£1.183M**.

c) Financial Management and Human Resources Risk Management (£34.331M as at 31st March 2015)

This reserve includes funding for a number of potential future liabilities including VER costs, potential future legal claims, welfare reform implications, social care risks etc.

A review has been undertaken of these reserves in light of the ongoing risk associated with the relevant areas and having regard to the robustness of the current budget (note the Quarter 1 position recently presented to Cabinet on the 24th September 2015).

In light of this, it is proposed that a sum of **£5.731M** can be released from this reserve.

4.8 A summary of proposed reductions in reserves is shown below in Table 1:

Table 1: Summary of Reserves Proposed for Release

Reserve	Amount of Reserve as at 31st March 2015 £M	Amount Proposed to be Released £M
Prior Year Commitments	12.426	3.236
E Government	0.339	0.339
Development Fund	0.713	0.713
Social Inclusion	0.131	0.131
Financial Management and Human Resources Risk	34.331	5.731
		10.150

5. **INVESTMENT PRIORITIES**

- 5.1 The Cabinet have carefully considered the options available around the use of the resources identified in Table 1 above.
- 5.2 We have used one off resources to help support the revenue budget and the day to day services which it funds over a number of years as part of delivering a balanced budget strategy. This in itself is a balancing act, and has to recognise the sustainability of doing so beyond a level. To maintain £5M of revenue services for 5 years would cost £25M in one off resources and would still leave a base budget gap which would have to be addressed at the end of the period.
- 5.3 The level of reserves which we have deployed and the strategy of making savings early to provide and recycle our transition funding has proved successful over a number of years, as is evidenced by our revenue budget monitoring position over this period. Setting a robust and deliverable budget has enabled us to do this.
- 5.4 Whilst the financial outlook remains extremely challenging for our revenue budget in particular, it is recognised that we still have a duty to our residents to develop the infrastructure across the County Borough for the benefit of both the current and future generations.
- 5.5 In light of the above considerations, the Cabinet believe that the best use of these one off resources is to invest in our infrastructure and to support the Councils strategic priorities. This will provide a number of benefits including:
- Economic Regeneration
 - Improving our own assets to enhance service provision – a better experience for service users / customers
 - Reducing our day to day maintenance and running costs
 - Job Creation and sustaining employment into the future
 - Cost avoidance
 - Providing more affordable homes contributing to our anti-poverty priority

5.6 In being able to support the above objectives, Cabinet have identified the following specific areas which it is proposed that Council agree can be invested in:

a) Leisure Services

The Council is committed to providing opportunities for residents to be physically active. Over the past 4 years there has been an ongoing investment programme in upgrading and modernising our fitness suites / gyms to ensure that they meet customer expectations and help increase participation rates. The fitness facilities in Abercynon Leisure Centre, Bronwydd Swimming Pool and Rhondda Sports Centre have been identified as the future priorities for upgrading and investment as and when funding becomes available. Details of the schemes were approved by Cabinet on the 27th August 2015.

b) Roads and Structures

The Highways Network represents the most significant asset of the Council, valued in excess of £2bn and comprises carriageways, footways, structures (bridges, retaining walls, culverts etc.), street lighting, traffic signs, safety barriers, highway drainage etc..

Following on from the last four years of the highly successful highways investment programme our Highways Infrastructure network will benefit in 2016/17 from this additional funding. This investment will continue to improve and protect the fabric of the highways network and deal with the impact of winter weather conditions. In addition, investment of this nature also has a 'spend to save' element given the positive impact it has on reducing future insurance claims against the Council in relation to highways repairs.

c) Taff Vale

The Taff Vale site presents a major opportunity for the further regeneration of Pontypridd. Welsh Government funding has already been successfully secured to complete site investigation / development appraisal for the site, and most importantly for the now completed purchase of the head lease.

The size of the site and the scale of new development needed, lends itself to a wide mix of uses such as residential, retail, leisure and public service provision. All potential external funding opportunities are being investigated, whilst the development appraisal is progressed and it is recognised that public and private sector partnership arrangements and funding will be critical. At this stage, in order to secure the successful development of the site, capital investment is essential.

d) Play Areas

The Council has over 200 children's play area across the County Borough. These play areas range from large fenced facilities in our main parks through to small neighbourhood areas with a couple of items of equipment. These play areas receive an independent annual inspection which highlights where improvements and repairs are needed. Whilst there has been a capital programme allocation of £0.050M per annum in place for a number of years this has proved to be insufficient to deal with the backlog of repairs and much needed improvements. A priority investment programme has been compiled based on both the condition of the playgrounds and the needs of the communities. The proposals highlight the need for additional funding and a significant amount of match funding from external agencies and developers will be utilised to ensure that the investments have the maximum benefit.

e) Transport Infrastructure

The Council receives many requests for new infrastructure or infrastructure improvements which cannot readily be funded via available grants, whether directly from Welsh Government or other sources. The funding available across Wales for Local Transport Fund Grants has been of the order of £15M per year in recent years – this averages at less than £0.7M per local authority per annum. Other transport and road safety grants involve much lesser sums of funding.

The proposal is to provide direct funding for a range of projects to improve accessibility, reduce congestion, encourage sustainable travel and improve road safety.

f) Waste Recycling Centre (Treherbert)

Whilst site preparation work has previously been funded, this work will involve the actual construction of a new Community Recycling Centre in Treherbert, the design being consistent with the existing facilities across the County Borough. The site will improve the waste infrastructure and help towards reaching recycling targets. As per the Llantrisant site it will aim to recycle all of the material which is brought to the site and will not accept non recyclable materials.

g) Apprenticeships

The Apprenticeship programme supports the Council's SIP under the prosperity priority - giving Young People clear pathways to employment by providing unemployed job ready young people opportunities to enter real and sustainable jobs

The Council's Apprenticeship scheme commenced in September 2012 and has been very successful. To date 86 Apprentices have started with the council in a variety of different service areas, with a further 4 starting in October. The scheme has been very successful with all apprentices who have completed the two year apprenticeship (43) achieving a qualification framework, ranging from level 2 to level 5, 75% securing employment, and 25% going to University or college to continue with their education.

Additional funding will enable the Council to continue the programme

h) Housing & Regeneration

This funding is targeted to stimulating housing development in the county Borough and has two aspects:-

- Firstly using the Council's own land -Site briefs for 3 pilot sites will be complete by the end of the calendar year with the intention of tendering the sites at the beginning of 2016. There will however be costs in bringing the 3 sites to the market and if the sites still do not sell there may be further costs to carry out site investigation works, planning consent & maybe even infrastructure works. Once the sites are sold there is potential for a capital receipt for the Council.

- Secondly, establishing why housing sites identified in the northern strategy area of the Local Development Plan have not come forward for development, and considering innovative ways to stimulate their development. These sites may be in varied ownerships and have different obstacles to development. Investment in a range of activities such as site investigation, infrastructure etc. may be the catalyst to development, which will provide a range of housing, and the associated benefits to the economic regeneration of the area.

5.7 In financial terms, a summary of proposed investment priorities showing planned spend, resources already available and additional spend required is shown below in Table 2:

Table 2: Summary of Investments

Investment Area	Estimated cost	Resources Already Set Aside as Funding for Investment	Estimated Additional Spend
	£M	£M	£M
Leisure Services	1.200	0.300	0.900
Roads & Structures - bridge repairs and resurfacing	3.800	0.750	3.050
Play areas	0.500	0.300	0.200
Transport Infrastructure	4.000	0.400	3.600
Treherbert Waste Recycling Centre	0.350		0.350
Taff Vale development	1.500		1.500
Additional Apprenticeships	0.350		0.350
Housing & Regeneration	0.200		0.200
Total Investment	11.900	1.750	10.150

Note 'Resources Already Set Aside As Funding For Investment' includes funding already allocated / agreed through appropriate Capital and Revenue budgets.

5.8 Table 2 indicates that the estimated additional spend totals £10.150M which can be fully funded through the release of reserves summarised in Table 1.

6. CONCLUSION

- 6.1 The Council is facing an unprecedented financial challenge over the next 3 years and all services and their delivery are being assessed.
- 6.2 Notwithstanding this, the Council has to take the opportunity where it presents itself to continue to invest in our infrastructure and across our communities.
- 6.3 This report has identified the opportunity to invest over £10M of additional resources in our local area including our own assets in order to improve the services which are available to our residents.
