

To:
All members of the
Corporate Policy and Resources
Committee

Please reply to:
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Date: 4 February 2022

Supplementary Agenda

Corporate Policy and Resources Committee - Monday, 7 February 2022

Dear Councillor

I enclose the following items which were marked 'to follow' on the agenda for the Corporate Policy and Resources Committee meeting to be held on Monday, 7 February 2022:

- | | | |
|----------------|--|--------------------|
| 2. | Minutes | 3 - 8 |
| | To confirm the minutes of the meeting held on 19 January 2022 as a correct record. | |
|
6. |
Capital Programme 2022/23 |
9 - 18 |
| | To consider the Capital Programme for 2022/23 and make a recommendation to Council. | |
|
10. |
2022/23 to 2024/25 Funding Support for KGE | |
| | This item will be considered at the Corporate Policy and Resources Committee on 14 March 2022. | |
|
12. |
Capital and Revenue Reserves Strategy |
19 - 36 |
| | To consider and recommend the Capital and Revenue Reserves Strategy to Council. | |

Yours sincerely

Spelthorne Borough Council, Council Offices, Knowle Green

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Gary Lelliott
Corporate Governance

To the members of the Corporate Policy and Resources Committee

Councillors:

L. E. Nichols (Chairman)	A. Brar	V.J. Leighton
J.R. Sexton (Vice-Chairman)	S. Buttar	S.C. Mooney
C.F. Barnard	S.M. Doran	R.J. Noble
I.J. Beardsmore	S.A. Dunn	O. Rybinski
J.R. Boughtflower	N. Islam	V. Siva

Substitute Members: Councillors: C. Bateson, J.T.F. Doran, T. Fidler, H. Harvey,
D. Saliagopoulos, R.A. Smith-Ainsley and J. Vinson

**Minutes of the Corporate Policy and Resources Committee
19 January 2022**

Present:

Councillor L. E. Nichols (Chairman)
Councillor J.R. Sexton (Vice-Chairman)

Councillors:

C.F. Barnard	S.M. Doran	S.C. Mooney
J.R. Boughtflower	S.A. Dunn	R.J. Noble
A. Brar	N. Islam	V. Siva
S. Buttar	V.J. Leighton	

Apologies: Councillors I.J. Beardsmore and O. Rybinski

In Attendance: Councillors C. Bateson, M. Beecher and R.D. Dunn

1/22 Minutes

The minutes of the meeting held on 29 November 2021 were agreed as a correct record.

2/22 Disclosures of Interest

There were none.

3/22 Questions from members of the Public

There were none.

4/22 Ward Issues

There were none.

5/22 2021-22 additional pay uplift

It was reported that weighting pay awards in favour of lower pay grades was beginning to result in the affected pay rates becoming compacted against the grades above. This was making it less attractive to existing employees

interested in taking on more responsibility, for relatively little financial gain. Recruitment into professional and management roles was currently more challenging, particularly due to Spelthorne generally paying less than other nearby local authorities. The increasing rate of inflation also required careful consideration.

UNISON had signalled its approval of the latest proposed pay offer.

The Committee approved option A, as set out in the officer's report.

6/22 Pay Policy Statement

The Committee recommended that Council approve the Pay Policy Statement 2022/23.

7/22 Update on Moratorium

The legal advice that had been provided in the report was emphasised, in particular that due to the terms of the moratorium's imposition being satisfied, it was no longer in effect. The consequential challenging financial situation that had been caused by ongoing delays to certain residential/regeneration developments was highlighted. Such challenges included delayed income from residential rents, the servicing of loans, and the possibility of needing to transfer accumulated interest payments from Capital to Revenue.

There was discussion about the content of the report, with some councillors feeling that the moratorium on taller developments should not be discussed in isolation. It was also suggested that it was important to review the very recent Inland Homes planning appeal inquiry outcome that had found against the Planning Committee's decision. Additionally, councillors for the Staines area were keen to include details of the alternative options for development that they had been discussing, with a view to reaching a compromise that they felt balanced the needs of Staines with the entirety of the borough.

The possibility of deferring further consideration of the report was discussed. It was felt that this presented a significant financial risk to Spelthorne.

The wider financial impact of the Council's recent decisions on development were debated, with it generally felt that this had given rise to challenging budgetary conditions, the result of which was currently being considered by committees as part of the annual Budget setting process. The Council's affordable homes target was also at risk of not being met due to delays in Spelthorne's own developments and private developers seeking to maximise profits by limiting any affordable homes element to schemes.

The suggestion of a working group that had input into scheme design before projects reached the Development Sub-Committee (DSC) was made. Some members felt that such a group would lack the expertise that enabled it to

make meaningful contributions to schemes. The DSC also already had a role in considering the design of schemes.

A recorded vote was requested in accordance with Standing Order 21.5(a). Votes were recorded as follows:

FOR the officers' recommendation (9)

Nichols, Sexton, Barnard, Brar, Buttar, Doran, Dunn, Leighton and Noble

AGAINST the officers' recommendation (3)

Boughtflower, Islam and Mooney

There were no abstentions.

The Committee:

1. Noted that the previous moratorium was no longer in place.
2. Did not impose a further moratorium.

8/22 Procurement of 2021/22 Planned Maintenance Contract

The Committee:

1. Approved the proposed procurement process (a mini competition from Lot 1 of SBC's Contractors framework agreement) for a new contract to carry out planned maintenance works across nineteen (19) municipal sites in the current financial year (2021/22).
2. Delegated the appointment of the contractor (contract award) to the Deputy Chief Executive Officer in consultation with the Chair and Vice Chair of the Corporate Policy and Resources Committee.
3. Authorised the Head of Corporate Governance to enter into any legal documentation necessary to implement the new contract.

9/22 Exclusion of Public and Press (Exempt Business)

It was proposed by Councillor Sexton, Seconded by Councillor Boughtflower, and resolved that the public and press be excluded during consideration of this item, in accordance with paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) because it was likely to disclose Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. The reasons for this were because disclosure to the public would prejudice the financial position of the authority in a competitive procurement process by allowing other bidders to know the financial position of the Council and other bidders. This in turn prejudiced the Council by (i) distorting the procurement process and (ii) prejudiced the opportunity for the Council to achieve a competitive price and good value for money and (iii) might dissuade organisations bidding for the

Council's tenders if their commercial information was put into the public domain.

10/22 EXEMPT ITEM - Re-tender of Property Management Contracts

The framework for this tendering exercise had been agreed by the former Cabinet. There was discussion about the suitability of the recommended providers. Their submissions were reviewed

The Committee approved the award of contracts for property management of the retail and the commercial portfolios to the preferred bidders, as detailed in the tender report.

11/22 Budget - 2022/23: Revenue and Capital

The process for considering the budget for 2022/23 was explained to the Committee. As part of this process, the Committee was invited to consider its recommendations to the Corporate Policy and Resources Committee on 7 February 2022, where all service committee recommendations would be available for consideration as part of the detailed budget report. A subsequent recommendation would then be made to Council on 24 February 2022.

There was currently a projected revenue budget deficit of approximately £1.35m which the Corporate Policy and Resources Committee needed to address, in order to deliver a legally required balanced budget.

a Capital Bids 2022/23 (part of annual budget process)

It was noted that the capital bid for a Development Manager had been withdrawn because it had been accounted for in the current year's Capital Budget.

There was discussion about the scope of the projects, including whether each could be modified, and the degree of consultation to be held ward councillors. There was also discussion about whether the values attributed to each bid represented value for money, although further information was needed to assist these considerations. Some projects would also be supported by grant funding and the proposed budgets needed to incorporate a degree of contingency to allow for survey findings and any remedial works (such as the decontamination of land).

The Committee agreed that all of the proposed capital expenditure projects be considered at the meeting on 7 February 2022, subject to there being additional information provided on:

1. The associated ongoing revenue costs for each item.
2. Any external funding bids linked to proposed capital expenditure (where applicable).
3. How bid amounts had been calculated.

b Revenue Growth and Savings Bids 2022/23 (part of annual budget process)

There was discussion about the level of resource that had been requested by the assets team. It was explained that this was, in part, necessary to manage the growing number of affordable housing tenancies held with Knowle Green Estates (KGE). A higher proportion of affordable tenants to private rental compared to original plans required a higher level of tenancy support resourcing. The new posts relating to supporting KGE tenants would be recouped from KGE. Clarity on this would be provided in the final detailed budget report.

The inclusion of a bid for Sunbury leisure centre maintenance was removed, as it had already been accounted for in the current year's budget.

The Committee noted the proposed revenue growth and savings bids, along with the officer assigned red/amber/green ratings, and agreed that these should be considered at the meeting on 7 February 2022 where bids from other committees would also be available.

c Committee Review of Fees and Charges for Service Areas 2022/23 (part of annual budget process)

Most of the proposed fees and charges across the Council incorporated an inflationary uplift of 3%. This would require consideration in light of the current rate of inflation, which was projected to rise further during the year meaning that the Committee might wish to increase the inflation percentage uplift.

The Committee noted the proposed fees and charges for 2022/23 and recommended that they be considered at the 7 February 2022 meeting along with the recommended fees and charges from other service committees, subject to:

1. Details of the income received from all discretionary and statutory fees and charges being provided for the next meeting.
2. A proposal that incorporated an inflationary increase for fees and charges relating to assets being brought forward.

12/22 Capital Strategy 2022 to 2027 - draft for discussion

The draft Capital Strategy 2022-27 was noted.

13/22 Capital and Revenue Reserves Strategy - draft for discussion

The importance of having a comprehensive capital and revenue Reserves Strategy was emphasised to the Committee, particularly because there were examples of local authorities encountering significant financial issues largely due to the poor use of their reserves.

The draft Capital and Revenue Reserves Strategy was noted.

14/22 Update on proposed Transactional Financial Service Partnership

This item was withdrawn from the agenda.

15/22 Forward Plan

The forward plan was agreed.

16/22 Urgent Actions

The urgent actions were noted.

17/22 Urgent business

There was no urgent business.

Corporate Policy & Resources Committee



7 February

Title	Estimated 2022/23 to 2025/26 Capital Programme Please note that this report is subject to the CP&R Committee agreeing the recommendation at their meeting on the 7 February and may require officers to update this report after the meeting.
Purpose of the report	To make a recommendation to Council
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	Committee is asked to recommend the proposed Capital Programme for 2022/23 to 2025/26 to Council.
Reason for Recommendation	As part of the 2022/23 budget setting process and to ensure that the Council has a planned approach to its Capital expenditure and that it is financially sustainable.

1. Key issues

- 1.1 The estimated Capital Programme forms an integral part of the Capital Strategy.
- 1.2 At 31 March 2022 the Council's multi-year Capital Programme is £265.3m and it is estimated that £27.3m will have been spent, leaving a forecast budget balance of £238m to be incurred.
- 1.3 Council is being asked to approve £62.2m of new projects for 2022/23, which have been phased across the four years of the Programme, as shown in Appendix A. Considering these additions, the new estimated Capital Programme for 2022/23 to 2025/26 is £300.2m, as shown in Appendix A,
- 1.4 Also included are two estimated multiyear expenditure items, which have yet to be approved, these include refuse vehicle replacement and wheelie bins, they are included to provide a holistic view of the Council's estimated Capital Programme, and to allow officer to plan their medium-term financial strategy and treasury management planning and they may be subject to change or

refusal, and the River Thames project, which has been preapproved for 2023/24. In total these items amount to £2.37m.

- 1.5 Due to the delays in developing the Council's projects caused by several factors, including, the moratorium, Brexit, supply chain challenges, construction price inflation and shortages of labour, all the Capital Projects have been reviewed by the Budget Managers and reprofiled to reflect the latest capital monitoring information and expectation of when budgeted expenditure will be incurred, as shown in appendix A.
- 1.6 The aggregate estimated Capital Programme attributable to each committee for 2022/23, before funding is applied is shown in the table below.

	2022/23	2023/24	2024/25	2025/26
	Actual £000s	Estimated £000s	Estimated £000s	Estimated £000s
Community Wellbeing & Housing - DFG	973	973	973	973
Community Wellbeing & Housing	34,963	86,165	75,338	57,711
Environment & Sustainability	531	1,545	405	270
Corporate Policy & Resources	29,040	13,254	1,850	0
Neighbourhood Services	300	0	0	0
Regulatory & Administration	1,434	0	0	0
Total before funding	67,241	101,937	78,566	58,954

- 1.7 The largest element of the Capital Programme continues to be the provision of housing for our residents, with a further £55.0m being included in the new bids for 2022/23. Also included in our estimated capital programme is £5.5m to be spent on carbon reduction initiatives at our properties across the Borough.
- 1.8 Other elements of the Council's Capital Programme include several smaller initiatives to reduce our carbon footprint and utilising the Green Initiatives Fund set aside by Council last year and various Information Technology (IT) projects such as, equipment refresh, upgrades to systems and improvements to ways of working which will help facilitate efficiencies.
- 1.9 The majority of our Capital Programme is and will continue to be funded by borrowing from the Public Works Loan Board (PWLb), in compliance with the Prudential and Treasury Management Codes and Government guidance and revenue contributions as the Council has very limited capital receipts or capital reserves.
- 1.10 Under the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code regime, councils have a requirement to set out how the

financing of their Capital Programme is prudent and affordable and to publish prudential indicators. Any new borrowing would of course result in a charge to the General Fund for principal and interest on completion of schemes. However, that relating to residential schemes will be offset by interest and principal repayments from Knowle Green which will be equal to or larger than the payments being made by the Council. It is the rental income streams from the residential schemes delivering housing for the borough's residents which makes the financing affordable and prudent for the Council.

- 1.11 If borrowing is not undertaken the programme would need to be financed from additional capital receipts through the selling of assets or a significant revenue contribution to Capital from the services proposing the capital works.
- 1.12 The Council is not currently looking to dispose of any of its properties, which means that future capital receipts will be limited. There will still be a small amount of receipts from the Council's share of Right to Buy, as we come to the end of the contract to improve the resiliency of the Capital Programme, the Council is maintaining its revenue contribution to capital and over time its repair and renewal funds. Borrowing will be undertaken to fund acquisitions for residential and regeneration purposes and developments where future income streams or cashable savings are generated, for example reducing the office footprint.

2. Prudential Indicators (PI)

- 2.1 There are several key indicators to ensure that the Council operates its activities within well-defined boundaries, which can be seen in Appendix C.

Operational Boundary

- 2.2 The first is the Operational Boundary, which is an indicator based on the maximum expected external debt during the year and focuses on the day-to-day treasury management activity. It is not a limit in the strictest sense in that it may be breached.
- 2.3 The Operational Boundary links directly to the Council's Capital finance Report (CFR) and estimates of other cashflow requirements. The Council intend to keep the Operational Boundary at £1,350m for 2022/23 through to 2025/26, as detailed in the Treasury Management Strategy Report.

Authorised Limit

- 2.4 Another key indicator representing the overall level of borrowing and represents the limit beyond which external debt is prohibited, without Council approval.
- 2.5 This is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and it has been set at £1,450m for 2022/23 through to 2025/26, as detailed in the Treasury Management Strategy Report.
- 2.6 Council will approve the Authorised Limit within the Treasury Management Strategy Report.

Estimates of financing costs to net revenue stream

- 2.7 This indicator compares the total principal and net interest payments on external debt to the overall revenue spending of the Council and is a measure of affordability of borrowing, and is shown in table 2 of Appendix C.

- 2.8 The net revenue stream, as defined by CIPFA consist of Council Tax receipts and all government funding received in the year, it excludes investment income.
- 2.9 In 2022/23 this fell to 2.394, compared to a three-year average to 2025/26 of 2.82, the main reason for this was the higher than anticipated New Homes Bonus and one-off support from government towards the NIC rebate, which significantly increased our net revenue stream and therefore, reduced this ratio. Officers are not expecting this level of funding to be replicated soon, as Council waits to discover how the new government scheme will operate.
- 2.10 As the Council continues to repay its loans, the interest charge will start to reduce, and the capital repayment element will increase, and therefore the ratio will start to fall over the coming years and highlights the importance of the Council continuing with its policy to build its reserves as well as using the net investment income to support its service deliver and regeneration programme.
- 2.11 If our net investment income from our property portfolio were included (which was why Council took out the loans) the ratios would be as follows:

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Net Revenue Stream,	25,957	25,740	27,247	27,699
Financing costs,	36,213	36,454	36,647	36,920
Ratio	1.39	1.42	1.35	1.33

Commercial income, related costs, and net contributions to future costs

- 2.12 The Council's commercial income, as shown in table 3 of Appendix C shows a strong net income position after allowing for landlord costs, financing costs and net contributions to the reserves (sinking funds).

3. Financial implications

- 3.1 The Planned financing of the 2022/23 proposed Capital Schemes is as follows:

Type of Funding	2022/23 Actual £000s	2023/24 Estimated £000s	2024/25 Estimated £000s	2025/26 Estimated £000s
Capital Receipts, CIL and S106 funding	3,000	3,000	3,000	3,000
External Funding - Disabled Facilities Grant	973	973	973	973

Revenue Contributions to capital outlay	750	750	750	750
Grants & Other Contributions	220	250	250	250
Borrowing	62,298	96,964	73,593	53,981
Total	67,241	101,937	78,566	58,954

4. Equality and Diversity

- 4.1 The provision for new housing within the Borough will assist a substantial number of our 3,500 residents, on our housing waiting lists, many of whom are key workers, the young and most vulnerable residents to benefit from our affordable house schemes.

5. Sustainability/Climate Change Implications

- 5.1 The Council will be investing £40m in the development of the first leisure centre in the United Kingdom to be built to the exacting Passivhaus standards (with £4m of the cost relating to achieving the Passivhaus standards), which will be a reduce our carbon footprint to nil, for this building. Further, at Victory Place keyworker and affordable housing residential scheme, we are investing an additional £1.5m for air source heat pumps to reduce the impact the development will have on the environment.

6. Timetable for implementation

- 6.1 Schemes included in the Capital Programme are programmed to commence in 2022/23 and will be monitored monthly by officers to ensure that any slippage of schemes is identified at an early date and the programme is adjusted accordingly.
- 6.2 Bimonthly reports are also provided to the Development Subcommittee for discussion and review.
- 6.3 Any schemes incomplete at the end of March 2022 may be incorporated as part of the revised programme for 2022/23.
- 6.4 Quarterly reports are prepared by the Finance Team as part of the Capital monitoring process, to show the status of the schemes and presented to Committees and Council the expected variance from the approved budget., along with the appropriate narrative.

Background papers: There are none.

Appendices:

A - 2022/23 to 2025/26 Capital Programme

B - Prudential Indicators.

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			Estimated expenditure at 31 March 2022	Revised Cumulative Budget 2017-25	New Growth bids for 2022/23	Total	2022/23	2023/24	2024/25	2025/26	Total
Portfolio / Service Head Cost Centre Description											
Housing Investment Programme											
Community Wellbeing & Housing- DFG											
Karen Sinclair & Debora	40,203	Disabled Facilities Mandatory	0	0	943,200	943,200	943,200	943,200	943,200	943,200	3,772,800
Karen Sinclair & Debora	40,204	Disabled Facilities Discretion	0	0	29,600	29,600	29,600	29,600	29,600	29,600	118,400
		Grants received from Central Government	0	0	-972,800	-972,800	-972,800	-972,800	-972,800	-972,800	-3,891,200
Total For HIP			0	0	0	0	0	0	0	0	0
Other Capital Programme											
Environment & Sustainability											
Terry Collier	41,606	County Transit Site	0	127,000	0	127,000	127,000	0	0	0	127,000
Jackie Taylor	41,609	Replacement Spelride Bus	0	100,000	0	100,000	100,000	0	0	0	100,000
Jackie Taylor	41,620	Wheelie Bins	0	0	50,000	50,000	50,000	50,000	50,000	50,000	200,000
Jackie Taylor		Replacement refuse vehicle	0	0	80,000	80,000	80,000	245,000	405,000	270,000	1,000,000
Jackie Taylor	Funding	Replacement refuse vehicle	0	0	-45,000	-45,000	-45,000	0	0	0	-45,000
Isabel Soane		River Ash Broadwalk	0	0	150,000	150,000	150,000	0	0	0	150,000
Isabel Soane	Funding	River Ash Broadwalk	0	0	-150,000	-150,000	-150,000	0	0	0	-150,000
		River Thames Scheme	0	0	0	0	1,300,000	0	0	0	1,300,000
Lee O'Neil	41,314	Air Quality	0	24,500	0	24,500	24,500	0	0	0	24,500
Committee Total			0	251,500	85,000	336,500	336,500	1,595,000	455,000	320,000	2,706,500
Community Welfare & Housing											
Nick Cummings	41,024	Spelthorne Leisure Centre Development	-2,307,372	40,420,000	0	38,112,628	7,253,000	23,348,000	7,143,000	368,628	38,112,628
Nick Cummings	41,328	Ashford MSCP Residential Scheme	-40,005	15,267,000	0	15,226,995	8,000,000	7,226,995	0	0	15,226,995
Nick Cummings	42,052	Whitehouse - Design Fees & Construction	-379,878	2,990,000	0	2,610,122	0	2,610,122	0	0	2,610,122
Nick Cummings	42,054	Thameside House	-1,338,566	54,430,000	0	53,091,434	1,600,000	15,000,000	22,000,000	14,491,434	53,091,434
Nick Cummings	42,057	Victory Place (Ashford Hospital car park)	-1,480,027	27,505,000	0	26,024,973	9,000,000	9,000,000	8,024,973	0	26,024,973
Nick Cummings	42,060	Oast House	-21,288,689	105,200,000	0	83,911,311	3,000,000	23,000,000	32,000,000	25,911,311	83,911,311
Marta Inge		Property acquisition for families	0	0	35,000,000	35,000,000	6,060,000	5,930,000	6,120,000	16,890,000	35,000,000
Jayne Bronlow		Separate Search Moves	0	0	49,875	49,875	49,875	0	0	0	49,875
Committee Total			-26,834,537	245,812,000	35,049,875	254,027,338	34,962,875	86,115,117	75,287,973	57,661,373	254,027,338

04 February 2022

Portfolio / Service HearCost CentreDescription			Estimated expenditure at 31 March 2022	Revised Cumulative Budget 2017-25	New Growth bids for 2022/23	Total	2022/23	2023/24	2024/25	2025/26	Total
Corporate Policy & Resources											
Nick Cummings	42,063	Elmsleigh Centre	-390,331	5,350,000	0	4,959,669	2,000,000	2,609,669	350,000	0	4,959,669
	42,063	William Hill	0	6,000,000	0	6,000,000	200,000	4,300,000	1,500,000	0	6,000,000
	42,063	Tothill MSCP	0	4,500,000	0	4,500,000	500,000	4,000,000	0	0	4,500,000
	42,063	Decathlon Unit	0	2,150,000	0	2,150,000	0	2,150,000	0	0	2,150,000
Paul Taylor		Centros Upgrade	0	0	384,400	384,400	190,000	194,400	0	0	384,400
Nick Cummings		Elmsleigh Centre WCs	0	0	50,000	50,000	50,000	0	0	0	50,000
Nick Cummings		Elmsleigh Centre WCs	0	0	-25,000	-25,000	-25,000	0	0	0	-25,000
Nick Cummings		Ashford Community Centre	0	0	3,500,000	3,500,000	3,500,000	0	0	0	3,500,000
Nick Cummings		Cedars Rec Toilet block	0	0	250,000	250,000	250,000	0	0	0	250,000
Nick Cummings		Greeno Rec	0	0	1,200,000	1,200,000	1,200,000	0	0	0	1,200,000
Nick Cummings		Manor Park Pavilion	0	0	750,000	750,000	750,000	0	0	0	750,000
Nick Cummings		Project A	0	0	20,000,000	20,000,000	20,000,000	0	0	0	20,000,000
Nick Cummings		Revelstoke	0	0	400,000	400,000	400,000	0	0	0	400,000
Committee Total			-390,331	18,000,000	26,509,400	44,119,069	29,015,000	13,254,069	1,850,000	0	44,119,069
Neighbourhood Services											
Jackie Taylor		Car Park Management System update in Elmsleigh Surface+MSCP	0	0	250,000	250,000	250,000	0	0	0	250,000
Jackie Taylor		PCN/Permit/Season Ticket management and issuance management system	0	0	50,000	50,000	50,000	0	0	0	50,000
Committee Total			0	0	300,000	300,000	300,000	0	0	0	300,000
Regulatory & Administration											
Nick Cummings	42,010	KG Car Park Improvements	-79,901	100,000	0	20,099	20,099	0	0	0	20,099
Jodie Hawkes	43,602	Centro Upgrade - Integra	0	30,000	0	30,000	30,000	0	0	0	30,000
Kamal Mehmood & Car	43,604	Leisure Board	0	15,000	0	15,000	15,000	0	0	0	15,000
Alistair Corkish	43,506	Scan Digital Rollout	0	20,000	0	20,000	20,000	0	0	0	20,000
Alistair Corkish	43,607	Recabling	0	200,000	0	200,000	200,000	0	0	0	200,000
Roy Tilbury	43,625	Customer Portal	0	8,000	0	8,000	8,000	0	0	0	8,000
Roy Tilbury	43,626	Customer Services Contact Cent	-5,538	40,000	0	34,462	34,462	0	0	0	34,462
Roy Tilbury	43,629	SharePoint Upgrade	35,000	35,000	0	70,000	70,000	0	0	0	70,000
Alistair Corkish	43,632	General ICT Equipment	-14,853	65,000	0	50,147	50,147	0	0	0	50,147
Alistair Corkish	43,635	Storage Area Network	0	250,000	0	250,000	250,000	0	0	0	250,000
		General Hardware, Software and									
Alistair Corkish		Mobiles/Tablets	0	0	50,000	50,000	50,000	0	0	0	50,000
Alistair Corkish		VDI Hosts	0	0	60,000	60,000	60,000	0	0	0	60,000
Alistair Corkish		Network Infrastructure	0	0	170,000	170,000	170,000	0	0	0	170,000
Sandy Muirhead	43,501	Forward Scanning	0	20,000	0	20,000	20,000	0	0	0	20,000
Sandy Muirhead	43,502	Digital Spelthorne	0	50,000	0	50,000	50,000	0	0	0	50,000
Sandy Muirhead	43,512	SharePoint redesign & Relaunch	0	155,000	0	155,000	155,000	0	0	0	155,000
Sandy Muirhead	43,515	Corporate EDMS Project	0	231,200	0	231,200	231,200	0	0	0	231,200
Committee Total			-65,292	1,219,200	280,000	1,433,908	1,433,908	0	0	0	1,433,908
Total For Other			-27,290,160	265,282,700	62,224,275	300,216,815	66,048,283	100,964,186	77,592,973	57,981,373	302,586,815
Total Expenditure				265,282,700	63,417,075	301,409,615	67,241,083	101,936,986	78,565,773	58,954,173	306,698,015
Less Funding				0	-1,192,800	-1,192,800	-1,192,800	-972,800	-972,800	-972,800	-4,111,200
NET Capital expenditure				265,282,700	62,224,275	300,216,815	66,048,283	100,964,186	77,592,973	57,981,373	302,586,815

Table 1: Prudential Indicators - Authorised limit and operational boundary for external debt

	2022/23	2023/24	2024/25	2025/26
	£m	Est. £m	Est. £m	Est. £m
Authorised borrowing limit	1,450	1,450	1,450	1,450
Operational boundary	1,350	1,350	1,350	1,350

Table 2: Estimates of financing costs to net revenue stream is a measure of the affordability of borrowing. The Council's financing costs relate substantially to borrowing when commercial property was acquired prior to March 2019. As the CIPFA TM Code notes, commercial investments are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. However, as commercial property was directly related to borrowing costs, Table 3 also shows the net income after costs and contributions to future costs. This illustrates the affordability of the commercial investments.

	2022/23	2023/24	2024/25	2025/26
	Budget £m	Est. £m	Est. £m	Est. £m
Net Revenue Stream, £m	15,126	12,940	12,930	13,142
Financing costs, £m	36,213	36,454	36,647	36,920
Ratio	2.394	2.817	2.834	2.809

Table 3: Commercial income, related costs and net contributions to future costs

	2022/23	2023/24	2024/25	2025/26
	Budget £m	Est. £m	Est. £m	Est. £m
Commercial income *	(59,246)	(60,488)	(62,218)	(58,240)
Landlord costs *	9,214	10,241	5,883	1,344
Contribution to sinking funds	2,988	0,993	5,371	5,419
Financing costs	36,213	36,454	36,647	36,920
Net income after landlord & financing costs & net contributions to sinking fund	(10,831)	(12,800)	(14,317)	(14, 557)

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Corporate Policy & Resources Committee



7 February 2022

Title	Capital & Revenue Reserves This report is subject to the final decisions made by the Committee between mid-January and 7 February around finalising the 2022/23 budget and may be subject to change
Purpose of the report	To note and make a recommendation to Council
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	Committee is asked to note: <ul style="list-style-type: none"> that the Council approach (as referenced in Capital Strategy and Reserve Strategy reports) of modelling on a fifty year basis but with more detailed focus and scrutiny on the first twenty years on a rolling basis of sinking fund reserves continues to strengthen Council's earmarked reserves position. that by successfully implementing the above approach, Spelthorne Borough Council has the highest ratio of usable revenue reserves to Net Revenue Expenditure (NRE) of any district or borough council in England that subject to Council approval, the Outline Budget analysis indicate that Council will make a £2,988,286 net contribution to the rent equalisation reserve (sinking funds). that due to the successful redevelopment of the West Wing for affordable rental units, the Council should explore the feasibility of moving the Council offices to take advantage of the new Hybrid working era and redevelop the remaining two wings to generate much need capital receipts and improve the Council's carbon footprint that Council remains on track to build up its reserves and protect services and the residents of the Borough. that officers will review and produce a 50-year sinking fund strategy, with a particular focus on the next five years for Council approval as part of the 2023-24 budget setting process.

Reason for Recommendation	Effective and sustainable use of reserves is a key element of the Council's Medium Term Financial Strategy

1. Key issues

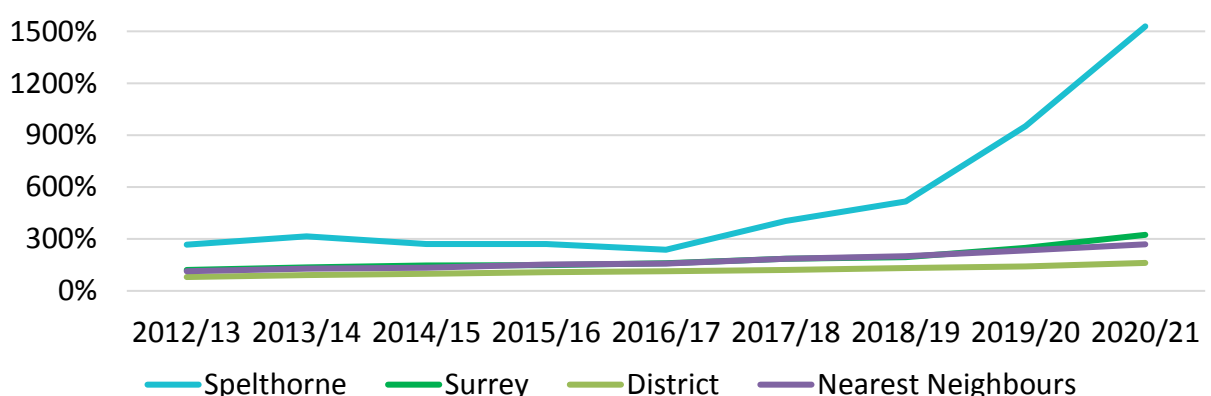
- 1.1 The continued strong performance from Council's investment property portfolio approach of modelling on a fifty year basis but focusing particularly on the first ten years (now being extended to first twenty years) and adherence to the approach (as referenced in Reserves Strategy and Capital Strategy) of using some of the net contribution to fund services and regeneration programmes (today) and some to put into earmarked reserves (tomorrow), such as rent equalisation reserve (sinking funds) has put Spelthorne Borough Council in a relatively strong position. As shown in the unaudited accounts for the year ended 31 March 2021, where Council's approved Earmarked Revenue Reserves (ERR) were £79.5m.
- 1.2 Included in the above figure, was an amount of £26.9m, which relates to COVID-19 support Government Grants received before 31 March 2022, that were paid out to business and individuals after 1 April 2022 and therefore, it has artificially inflated the Earmarked Revenue Reserves at the year end, it will distort closing year balances and make both past and future benchmarking and analysis exercises more difficult to interrupt due to the material impact of this sum in the total reserves. (This has impacted on the majority of Councils in the UK).
- 1.3 Adjusting for this element the Council's underlying (cash backed) ERR as at 31 March 2021 are £52.6m (As shown in Appendix D) and shows a modest (but still significant) increase of £8.4m from the previous year, when comparing like with like.
- 1.4 The increase in reserves is due mainly to the adherence to the Council's 20 year sinking fund reserves approach, which is coming to the end of its first five-year cycle and will need to be updated for 2023/24.
- 1.5 The approved ERR can only be utilised for the purposes they were established for, for example, revenue grants unapplied, relates to monies received from Central Government and other third parties that must be spent on a specific project, usually with a deadline and after the deadline any unapplied grants for that purpose are returned to the provider.
- 1.6 A strong performance from Council's investment property strategy over the last five years, which has generated over £10m per annum to support Council services and assist with the regeneration of communities, is only part of the good news story. Whilst the Council has been put into a strong position, there is no room for complacency and Council still needs to have a strong and clear medium term reserves strategy, together with regular monitoring of Council's reserves, as without one, Spelthorne Borough Council could see its reserves, reduce to critical levels in a relatively short number of years, based on officers understanding of the challenges faced there.
- 1.7 Therefore, it is critical that the Council implements a strong Reserves Strategy that continues to strengthen the financial position and protects future service delivery and regeneration projects, which will include using funding from the

rent equalisation reserves (sinking fund) as indicated in the 2022/23 Outline Budget report, as Council look to invest in and deliver in a variety of transformation projects.

2. Background and keys risks

- 2.1 To assist Councillors, there are three appendices attached to the report that cover:
- (a) Appendix A - an introduction to reserves.
 - (b) Appendix B – the background and purpose to Spelthorne Borough Council's reserves
 - (c) Appendix C – the management of Council's reserves
- 2.2 Many Councillors will have heard of some of the issues facing other councils in respect of their failure to make adequate provision for Minimum Revenue Provision (MRP). At Spelthorne Borough Council officers took a prudent approach and ensured that as part of the annual Budget recommendation to Council, that a full provision for MRP is charged to revenue expenditure, and as a result, the Council's finances and reserves are not adversely impacted by this issue. The MRP is then applied annually to ensure the Council gradually pay down the debt on a year-by-year basis.
- 2.3 Throughout the year, officers in the Finance team, regularly attend external meetings and presentations with the Council's Treasury Management Advisers, Central Government, Local Government Association, Chartered Institute of Public Finance and Accountancy (CIPFA) and LGImprove who benchmark and provide feedback on the Spelthorne Borough Council's performance against other Councils. This benchmarking has highlighted that Spelthorne Borough Council, as part of its risk mitigation strategy for its investment assets, now has the highest ratio of usable revenue reserves to Net Revenue Expenditure (NRE) of any district or borough council in England, as shown in the graph below:

URR as % of NRE: 31/03/13 to 31/03/21 compared with County and all districts average



- 2.4 Whilst this is good news, the Council needs to assess this alongside the borrowing figures shown in 2.15 below, as the aggregate loan liabilities are more than £1bn, making the Council highly geared and vulnerable to fluctuations in the day-to-day course of business, hence why the Council needs to continue to build its earmarked reserves (sinking fund) in accordance with the approved strategy.

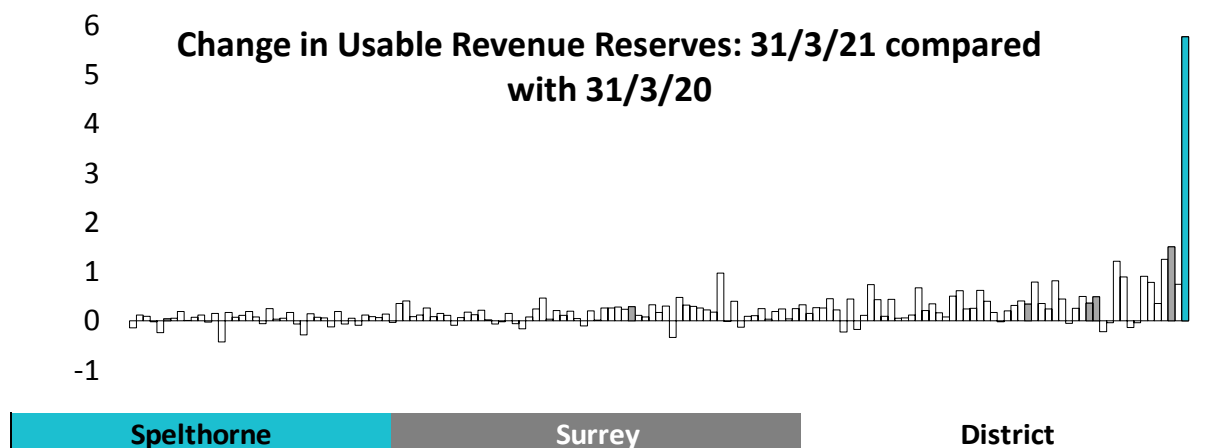
- 2.5 It needs to be remembered that the Councils' approved Revenue Reserves, including the sinking funds reserves are earmarked and set aside for specific purposes and cannot be used for any other purpose.
- 2.6 One of the key messages received is that because of a prudent approach by Council over the last few years, it has been possible to grow and build resilience into the useable reserves, which has allowed the Council to generate additional interest income to support the delivery of services and the regeneration programme.

***Useable Revenue Reserves (ERR) from 2012/13 to 2020/21:
Spelthorne***

£000s	2016/17	2017/18	2018/19	2019/20	2020/21
General Fund Balance	951	1,000	1,000	1,221	2,176
Earmarked Reserves	10,102	17,802	23,053	43,006	79,503
Usable Revenue Reserves	11,053	18,802	24,053	44,227	81,679

- 2.7 This is a positive situation. Council can be assured that it is meeting its Value for Money requirement for the external audit review of its arrangements, it is striking a sensible balance between providing support for services (today) and protecting the future (tomorrow) by ensuring that sufficient funds are put away into earmarked reserves for specific future use.
- 2.8 The current Council approved 20 year sinking fund reserves policy is in its infancy and whilst it is on course to deliver its objectives for the Council, the Borough and its residents, Councillors and officers cannot become complacent, as there are many challenges for us to resolve, particularly in the short term, i.e., over the next two to five years, some of which are highlighted below, so that the reserves strategy remains fit for purpose.

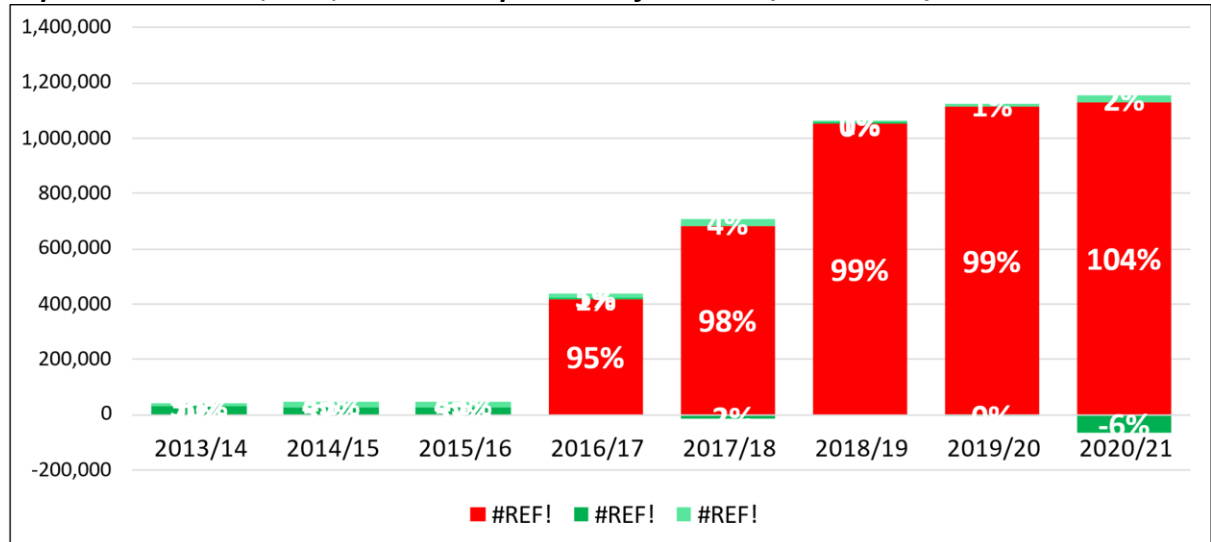
To assist Officers to advise Council and to fully understand the situation, the Council's external advisors have been requested to carry out a bench marking exercise to compare the top 25 Councils who have the largest borrowing, as the current benchmarking exercises compare all Councils in the UK, which is distorting the view as seen with the diagram below, which shows the change in useable revenue reserves from 31 March 2020 to 31 March 2021, (noting the warning given in 1.1 above) with Spelthorne Borough Council highlighted in blue at the far right of the bar chart and other Surrey Districts and Boroughs shown by the grey bars.



- 2.9 The next item on the agenda is property valuations, and as Councillors are aware the property market is experiencing short term valuation fluctuations, both upward and downward, because of the COVID- 19 pandemic, which means that the Council must take a medium to long term view on its property portfolio, particularly as the current Capital Strategy highlights that the Council has no intention to sell any of the property portfolio, to third parties. (Noting that the Council will transfer properties to Knowle Green Estates Ltd., a wholly owned subsidiary at cost).
- 2.10 The COVID-19 pandemic is influencing valuations in several ways:
- (a) Tenants financial standing may have changed, positively in the case of IT sector, negatively in others, such as hospitality.
 - (b) Tenants rightsizing as hybrid working means they no longer require large office premises
 - (c) Business failures
 - (d) Incentives provided to new tenants
 - (e) Approved changes in leases
 - (f) Uncertainty about the future
- 2.11 At the 31 March 2021, the Council's property portfolio reduced in value by £51m. This represents a paper loss and based on the upward trend in commercial investment properties experienced over the last 300 years, officers expect to see this upward trend return over the next three to five years and reverse these short-term paper losses to overall paper gains.
- 2.12 As well as impacting on the valuation figures, COVID-19 will continue to impact on Council's services, over the next few years, as highlighted during the budget briefing session with Councillors in November 2021, the Council is not 'out of the woods' yet and are facing challenges over the next four years around:
- (a) Shortage of both labour and materials for the approved capital projects.
 - (b) Reduced fees and charges, including car parks.
 - (c) Reduced funding from Business Rates.
 - (d) Uncertainty due to new COVID-19 variants.
- 2.13 The next area for officers to monitor closely is the Capital Finance Requirement (CFR) because of the aggregate value of the Council's borrowings to the aggregate value of its property portfolio
- 2.14 The CFR is a measure of the Council's financial health, as shown in the table below which is graphical shown in chart below

£000s	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Capital Fin. Requirement	0	0	0	416,250	681,984	1,051,121	1,116,100	1,128,532
Capital Adjustment Acc.	28,234	26,987	26,897	2,377	-12,617	871	-2,857	-66,215
Revaluation Reserve	12,095	20,766	20,094	20,538	25,054	10,698	10,754	24,005
Balance Sheet Capital Assets	40,329	47,753	46,991	439,165	694,421	1,062,690	1,123,997	1,086,322

Capital Health: CFR, CAA, and RR at Spelthorne from 2013/14 to 2020/21 in £000s



#Ref = Capital Fin. Requirement

#Ref = Capital Adjustment Acc.

#Ref = Revaluation Reserve

- 2.15 The CFR shows that in 2020/21, because of the paper losses on the property portfolio, the total funding is 104% of the Council's total assets and officers will need to monitor this variable carefully over the next two to five years and advise Council accordingly.
- 2.16 What the impact of 104% CFR means is that book value of the Council's properties are lower than the aggregate of the Councils total borrowings and if all the properties were to be sold and achieved the valuations quoted, Council will have an excess of borrowing to repay, therefore it is an important variable to monitor.
- 2.17 The reality is that Spelthorne Borough Council would be unlikely to sell all its investment properties in one year, going for a planned disposal rather than a forced sale. (The Capital Strategy for 2022/2027 will deal with this in more detail).
- 2.18 As indicated in the past, the Council is in this for the long term and whilst the net rental income contributions continue to be maintained, the Council will be able to prudently manage its finances over the coming years and at present, Council is on track to deliver its long-term strategy for reserves and sinking funds
- 2.19 The 2022/23 budget modelling is showing that the net rental income is holding up, improving considerably after the recent rental increases, and officers need to ensure that the Charter Building obtains more tenants over the next 18 months, as highlighted in the recent report submitted to the Development

Subcommittee 10 January, particularly as the rent guarantees come to an end in September 2022.

- 2.20 Again, the Council cannot take everything for granted and as the pandemic drags on, this could put even more financial pressures on businesses, which could lead to an increase in company liquidations and because of this challenge, officers recommend a cautious approach on the use of Council reserves through the next twenty-four months to enable the Council to see clearly the revised financial landscape.
- 2.21 **Knowle Green Estates Ltd. (KGE)**, the Council, as sole shareholder has yet to provide a clear long-term strategy on how to utilise the contributions that will flow from KGE or how to extract this money in a tax efficient way, to contribute towards the financial stability of the Council.
- 2.22 The current plan was to provide a significant number of affordable and keyworker rental housing, to support the current funding strategy and a notional equity investment £1 and the rest in loan finance, rather than a substantial equity investment and smaller loans, which would reduce the useable earmarked reserves, was actioned.
- 2.23 Should Council consider changing the balance of units to include Private Rental residential units, the funding model would change significantly, due to State Aid implications and therefore this would require a substantial equity investment of several million pounds, to enable KGE to meet its debts as they fall due in the normal course of business. (Noting that an investment of this type would require the Council to physically transfer the funds in return for equity share capital).
- 2.24 Based upon the projections prepared for Cabinet and Council in February and March 2021, indications were that KGE could contribute approximately £100m towards funding Council services, over the next 50 years. A further paper will come to March 2022 Corporate Policy and Resources Committee on short term cashflow support for KGE and this will also set out a suggested approach to managing longer term repatriation of surplus funds from KGE to the Council.
- 2.25 Subject to any further planning delays on developing Oast House and Thameside projects in particular, the projections indicated that cash outflows to the Council would be small (tens of thousand) in the first five years and once all the properties had been handed over at 31 March 2026, the cash outflows would rise considerably (hundreds of thousand) each year thereafter. This would be subject to an updated financial strategy.
- 2.26 Council has a range of options for dealing with the cash surpluses in KGE and it could decide to leave the funds in KGE to enable it to build more housing stock in the Borough (this would incur Corporation Tax and in 2023/24 the main rates rises to 25%) or the Council could receive between £500k to £2m per annum in management charges and loan interest arbitrage to support its services in the Borough, once all the properties, in the current delivery pipeline, are transferred and fully occupied from 2025/26.
- 2.27 Noting that due to the current delays on obtaining planning permission on some of these development properties earmarked for KGE, not only is the Council incurring additional monthly costs of £100k, but it could also reduce the positive aggregate projected cashflow by over 25% and delay the occupancy by between 2 and 5 years, i.e., between 2027/28 and 2030/31.

- 2.28 This could exasperate the short-term challenges in funding highlighted in the 2022/23 Budget Briefing given to Councillors in November 2021, to support services across the Borough, which could lead to increased Council tax, reduced services, redundancies, or a mix of all these options, particularly if the number of apartments to be built is significantly reduced, from the 663 originally planned for.
- 2.29 Climate change is another area that is going to create a challenge for the Council, as it explores how to reduce its carbon footprint, it is on track to spend an extra £4m, to be the first Council fully mixed dry and wet leisure centre to be fully compliant with Passivhaus standards, another first for Spelthorne Borough Council and the UK.
- 2.30 The successful development of the West Wing at the Council's Knowle Green offices, where an additional 25 new apartments have been made available for key workers, young families, families from the Council's housing lists and some physically impaired residents of the Borough, has provided the Council with the option of moving premises and redeveloping the remaining two wings and generating much needed capital receipts to fund the Council's Capital Programme.
- 2.31 The final item is that as shown in appendix D – forecast useable reserves, in particular the revenue element, are all approved earmarked reserves, meaning as show in Appendix A 1.4(b) that these are Council approved reserves, set aside for a specific purpose, i.e., there are currently no unallocated funds for Council to utilise to fund any budget gaps in 2022/23.
- 2.32 These represent the main challenges and items for Council when considering the reserves and sinking fund strategy for 2022/23.

3. Options analysis and proposal

- 3.1 Officers considered a wide range of proposals for the utilisation of the Council's reserves, and considering the challenges and issues highlighted in section 2 above:
- (a) Limited bench marking of like for like councils
 - (b) Short term paper fluctuations in property valuations
 - (c) Higher than expected borrowing to property valuations ratios in the short term
 - (d) Financial pressure on local businesses due to the continued pandemic and the impact on the Council's rental properties
 - (e) The requirement for a clear Council led financial strategy for KGE
 - (f) Apart from the General Fund balance, all revenue reserves are earmarked and cannot be used for any other purpose.
 - (g) COVID-19
- 3.2 Officers are recommending that Council continue with the current strategy for reserves and sinking funds as shown in the 2022/23 budget.

4. Financial implications

- 4.1 Appendix D shows the earmarked revenue position: actual as at 31 March 2021; and the forecast position for the three years to 31 March 2024, subject to any changes made during the budgeting process for 2022/23 by Council.

- 4.2 Noting that subject to approval of the 2022/23 Budget at their February 2022 meeting Council are looking to utilise the earmarked reserves as follows:
- (a) £150k from the Bronzefield Reserve to fund the proposed public realm enhancements (capital) to the River Ash Boardwalk
 - (b) £100k from the NNDR Reserve to fund the extension of two temporary posts (Revenue) within the Economic Development Team
- 4.3 The Council is continuing with its 20-year sinking fund policy for 2022/23.
- 4.4 The Outline Budget workings indicate that there will be a need to utilise the rent equalisation reserves (sinking funds) for 2022/23 and possible 2023/24, which new will address next year. The forecast indicates a breakeven position, i.e., the same money is drawn out and was paid in during the year.
- 4.5 Officers will be carrying out a review of the Council policy on the sinking funds reserves and the wider reserves position, including KGE, the adequacy of its General Fund Reserve and how its Reserves, particularly the Asset Improvement Reserve might be used to assist Council to meet any future deficits over the next 5 years without jeopardising the financial stability of the Council, as part of the 2023/24 budget setting process.
- 5. Other considerations**
- 5.1 Included in section 2 above.
- 6. Equality and Diversity**
- 6.1 Detail how the recommended proposals will impact equality and diversity and mitigation measures being taken.
- 7. Sustainability/Climate Change Implications**
- 7.1 Included in 2022/23 budget setting proposals.
- 8. Timetable for implementation**
- 8.1 Implemented as part of the 2022/23 budget setting process.
- 8.2 Review of sinking funds for the five years to 2028/29 to be carried out as part of the 2023/24 budget setting cycle.

Background papers: None

Appendices:

Appendix A – Introduction to reserves

Appendix B – Background and purpose to Spelthorne Borough Council's reserves.

Appendix C – Management of Reserves

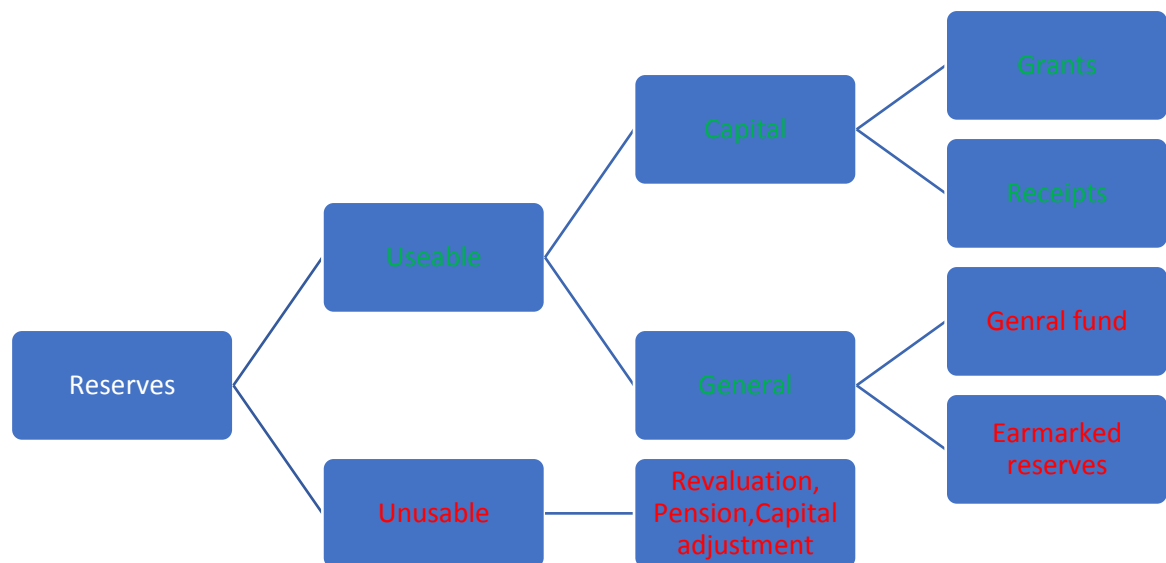
Appendix D – Earmarked Revenue Reserves (ERR) at 31 March 2021 (Actual) and 2022, 2023 and 2024 (Forecast)

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Appendix A – 2022/23 Capital & Revenue Reserves Strategy Report – definitions

1. Overview, background, strategic context, purpose and management

- 1.1 The Council manage its money by dividing it between two types of reserves - useable reserves and unusable reserves (an explanation of these terms can be found below).
- 1.2 Managing our money in this way means that we can budget successfully for what we need to deliver services now whilst building up funds that will grow over time for a specific purpose or to protect services in the future.
- 1.3 The chart and explanations below illustrate how those reserves are split.



- 1.4 **Useable reserves:** This is money that each council has set aside to provide services such as rubbish collection and for its day to day running. Useable reserves are made up of two further pots known as the 'general fund' and 'capital reserves'. These two useable reserves are in turn made up of other pots of money.
 - (a) **General Fund balance:** This is a contingency fund - money set aside for emergencies or to cover any unexpected costs that may occur during the year, such as unexpected repairs.
 - (b) **Earmarked reserves:** This is money that has been set aside by Council for a particular purpose, such as buying or repairing equipment or the maintenance of public parks or buildings or equalising over time a particular income stream.
 - (c) **Capital receipts:** This is the name given to the income received when assets are sold (such as land or buildings) in Spelthorne BC, these receipts will include the monies received from KGE. Capital receipts can only be used to buy or fund capital expenditure. Capital expenditure is the money spent on buying assets that have a lasting value. These assets could be land, buildings or large pieces of equipment such as refuse vehicles.

Appendix A – 2022/23 Capital & Revenue Reserves Strategy Report

– definitions

- (d) **Capital grants:** Capital grants are sums of money given to councils by the government. This money can only be used as capital expenditure, in other words this money can only be used to buy assets of lasting value.
- 1.5 **Unusable reserves:** The unusable reserves contain funds that cannot be used to provide services or used for day to day running costs. These reserves are required by the accounting and statutory regulations the Council follows and enable proper accounting practice to be applied and then reversed out to ensure no impact on council tax bottom line. The unusable reserves hold funds that have 'unrealised gains or losses'. This means that we have assets such as buildings whose value changes over time. There may also be commitments linked to these assets such as loans or maintenance needs. The funds held in the unusable reserves fund can only be unlocked and turned into usable money if the assets are sold.
- 1.6 Reserves play an important part in the Council's medium-term financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its strong financial standing and resilience.
- 1.7 The Council holds reserves to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities; and to enable the Council to resource policy developments and initiatives without a disruptive impact on Council Tax.
- 1.8 Capital reserves play a crucial role in funding the Council's Capital Strategy. The Capital Receipts Reserve are used to create capacity to meet future capital investment.
- 1.9 The Council relies on interest earned through holding reserves to support its general revenue spending plans.
- 1.10 Reserves are one-off money. The Council aims to avoid using reserves to meet ongoing financial commitments other than as part of a sustainable budget plan.
- 1.11 The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long-term future planning.

Appendix B – Background and Purpose to Spelthorne Borough Council's Reserves

1.1 Background

- (a) Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to consider the level of reserves when setting a Budget Requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting the Budget Requirement each February.
- (b) Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its strong financial standing and resilience. The Chartered Institute of Public Finance and Accountancy (CIPFA) monitors trends in movements in reserves as part of its Resilience Index. In recent years the Council has been steadily increasing the level of its reserves, particularly its Sinking Funds. The Council's key sources of funding face an uncertain future and the Council therefore holds earmarked reserves and a working balance in order to mitigate future financial risks.
- (c) Earmarked reserves are reviewed annually as part of the budget process, to determine whether the original purpose for the creation of the reserve still exists and whether the reserves should be released in full or in part. Particular attention is paid in the annual review to those reserves whose balances have not moved over a three-year period.
- (d) The Council's overall approach to reserves will be defined by the system of internal control. The system of internal control is set out, and its effectiveness reviewed, in the Annual Governance Statement. Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management and performance management.
- (e) The Council currently maintains:
 - i) · a General Fund general reserve.
 - ii) · various earmarked general reserves.
 - iii) · a Capital Grants reserve; and
 - iv) · a Capital Receipts reserve.
- (f) Additionally, the Council is required to maintain unusable reserves to comply with accounting requirements although, as the term suggests, these reserves are not available to fund expenditure.
- (g) The level of the general reserve is a matter for the Council to determine having had regard to the advice of the Chief Finance (S151) Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. It

Appendix B – Background and Purpose to Spelthorne Borough Council's Reserves

will also take account of the extent to which specific risks are supported through earmarked reserves.

- (h) In principle, only the income derived from the investment of reserve funds should be available to support recurring spending.

1.2 **Purpose**

1.3 Reserves are therefore held for the following purposes, some of which may overlap and include:

- (a) Providing a working balance i.e. the General Fund general reserves.
- (b) Smoothing the impact of uneven expenditure profiles between years e.g. local elections, structural building maintenance and carrying forward expenditure between years.
- (c) Holding funds for future spending plans e.g. Capital Expenditure Reserve, and for the renewal of operational assets e.g. repairs and renewal, and Information Technology renewal.
- (d) Meeting future costs and liabilities where an accounting 'provision' cannot be justified.
- (e) Meeting future costs and liabilities to cushion the effect on services e.g. The Insurance Reserve for self-funded liabilities arising from insurance claims.
- (f) To provide resilience against future risks.
- (g) To create policy capacity in a context of forecast declining future external resources e.g. COVID-19 Resilience Reserve

1.4 All earmarked reserves are held for a specific purpose. This, together with a summary on the movement on each reserve, is published annually, to accompany the annual Statement of Accounts.

1.5 The use of some reserves is limited by regulation e.g. the Collection Fund balance must be set against Council Tax levels

1.6 As part of the Annual Budget, Treasury Management Strategy and the Capital Strategy setting process, Officers will review the reserves and apply reserves as part of the Capital Financing Requirement (CFR), typically, using Capital Receipts, Capital Grants or contributions from revenue in the first instance. (The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue)

Appendix C – Management of reserves

- 1.1 All reserves are reviewed as part of the budget preparation, financial management and closing processes. The Council will consider a report from the S151 Officer on the adequacy of the reserves in the annual budget-setting process. The report will contain estimates of reserves where necessary. The Cabinet will consider actual reserves when approving the statement of accounts each year.
- 1.2 The following matters apply to our major useable reserves as restated:
 - (a) The General Fund working balance will not fall below £1.25 million without the approval of The Council.
 - (b) The Asset Improvement Reserve is applied to meet future costs of improving or maintaining our properties.
 - (c) The Rent Equalisation Reserve (Sinking Funds) is available to cover rent free periods, capital and revenue incentives for incoming tenants, voids, defaults and refurbishment at the end of each lease.
 - (d) The Business Rates Equalisation Reserve is available to smooth out the irregularity of business rates income retained
 - (e) The Interest Equalisation Reserve is available to smooth out interest rate fluctuations in volatile market conditions.
 - (f) There are several minor reserves that are still required going forward, i.e., Youth Council and Social Housing Initiative as they are currently still required.
- 1.3 The Council will review the Reserves Policy on an annual basis as part of the budget setting process and from time to time may restructure its reserves to meet its future needs and plans.

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Appendix D – Earmarked Useable Reserves for the four years ended 31 March 2024

	2020/21	2021/22	2022/23	2023/24
	Actual	Forecast	Forecast	Forecast
Asset Improvement Reserve	3,423,463	3,420,858	3,270,858	3,270,858
Housing Initiatives Fund	2,135,750	2,135,750	2,135,750	2,135,750
Interest Equalisation Reserve	493,454	493,454	493,454	493,454
New Schemes Revenue Projects	1,220,817	1,220,817	1,220,817	1,220,817
Rent Equalisation Reserve	28,987,156	28,987,156	34,475,156	39,268,156
Environmental Impact Reserve	248,965	248,965	248,965	248,965
Contribution from developers	8,730,300	8,730,300	8,730,300	8,730,300
Business Rates Equalisation	4,700,781	4,700,781	4,700,781	4,700,781
Youth Council	19,814	19,814	19,814	19,814
Revenue grants unapplied	2,635,548	2,635,548	2,635,548	2,635,548
	£52,596,048	£52,593,443	£57,931,443	£62,724,443

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