

Cabinet

27 January 2021



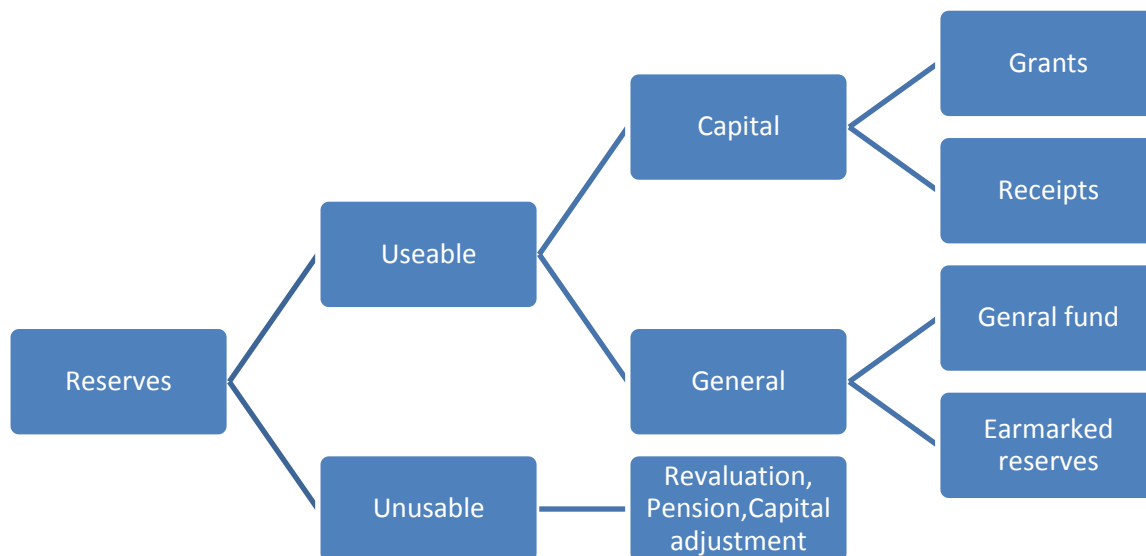
| Title | Reserves Policy |
|---------------------------|--|
| Purpose of the report | To approve the reserves policy and note the restatement of useable reserves as at 1 January 2021. |
| Report Author | Paul Taylor Chief Accountant |
| Cabinet Member | Cllr. Sati Buttar |
| Confidential | No |
| Corporate Priority | Financial Sustainability |
| Recommendations | Cabinet is asked to: Approve as part of its Outline Budget strategy and note the restatement of reserves at 1 January 2021. |
| Reason for Recommendation | Not applicable. |

1. Key issues

- 1.1 Benchmarking carried out by Local Government Improve on Council's reserves as at 31 March 2020, has highlighted that Spelthorne has the highest ratio of unallocated revenue reserves to net revenue budget of any district or borough in the country. This positively reflects the Council's strategy of building up these reserves over the last few years in order to mitigate risk.
- 1.2 On 21 May 2020, the Council agreed to utilise £2.2 million of the Council's useable reserves to support taxpayers and businesses in the Borough through the COVID-19 pandemic, before any formal Government announcements on financial support.
- 1.3 Having subsequently received additional Government support for COVID-19 the Council only needed £0.7 million and subject to any further impact on the Council between January and March 2021, the Council will be looking to review the earlier decision and return £1.5 million to an earmarked COVID-19 support reserve.
- 1.4 As part of its annual strategic review of reserves, it is proposed that the Useable Reserves at 31 December 2020 as set out in appendix A(i) be restated as at 1 January 2021 set out in appendix A(ii) to reflect and realign the Council's General Fund reserves with its strategic goals for the next three years.

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

- 2.1 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).
- 2.2 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 and so protecting services in the future.
- 2.3 The chart and explanations below illustrate how those reserves are split.



- 2.4 **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 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 vehicles.
 - (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.
- 2.5 **Unusable reserves:** The unusable reserves pot contains funds that cannot be used to provide services or used for day to day running costs. These

reserves 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.

2.6 **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 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.

2.7 **Strategic context**

- (a) The Council is facing a significant withdrawal of grant funding and the transfer of funding risk from Government with demand for at least some services forecast to grow. The impact of COVID 19 upon our fees and charges has been significant, and similarly on the income it has collected from council tax and business rates and Council must annually review its priorities in response to these issues.
- (b) 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.
- (c) The Council holds reserves in order 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.
- (d) 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.
- (e) The Council relies on interest earned through holding reserves to support its general revenue spending plans.
- (f) 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. 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.

2.8 **Purpose**

2.9 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
- 2.10 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.
- 2.11 The use of some reserves is limited by regulation e.g. the Collection Fund balance must be set against Council Tax levels
- 2.12 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)
- 2.13 **Management**
- 2.14 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.
- 2.15 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 for incoming tenants, voids and defaults.
 - (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.
- 2.16 Going forward 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.
- 2.17 As at 1 January 2021 the Council proposes to reclassify its -£46,170,872 useable reserves as set out in Appendix A (ii) and note the establishment and availability of a £1.5m for COVID 19 reserve.

3. Supporting the Outline Budget Strategy

- 3.1 Clearly the financial impacts of COVID-19 on the Council's Budget is going to take some time before they diminish. At the 21 May 2020 Extraordinary Council Meeting, the Council approved use of up to £2.2m of reserves to help support the Council through the impacts of COVID-19. We have spent approximately £0.7m of those reserves.

4. Financial implications

- 4.1 There are no financial implications because of restating our General fund Earmarked reserves.

5. Other considerations

- 5.1 There are no other considerations to be considered in respect of **Equality and Diversity** as a result of the restatement of General Fund reserves.

6. Sustainability/Climate Change Implications

- 6.1 Not applicable.

7. Timetable for implementation

- 7.1 To be implemented straight away once approved.

Background papers:

Appendix A

- (i) **Useable Reserves as at 31 December 2020**
- (ii) **Restated Useable Reserves as at 1 January 2021 including COVID-19 Reserve**