

Corporate Policy & Resources Committee



19 February 2024

Title	<i>Capital & Revenue Reserves Strategy</i>
Purpose of the report	To note the Strategy for the Council's reserves for the four years from 1 April 2024 to 31 March 2028 and the use of £703.8k from the Social Housing Initiatives Fund (included in the Prevent Homelessness Reserve) to fund the 2024-25 budget deficit.
Report Author	<i>Paul Taylor Chief Accountant</i>
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Addressing housing needs Resilience Environment Services
Recommendations	Committee is asked to note the forward forecast Estimated Council Reserves for the four years ended 31 March 2028 and the use of £703.8k from the Social Housing Initiatives Fund (Reserve), to cover the £703.8k budget deficit for 2024-25, to deliver a balance budget.
Reason for Recommendation	<p><i>Effective and sustainable use of reserves is a key element of the Council's Medium Term Financial Strategy and ensuring the Council's financial sustainability.</i></p> <p><i>The 2024-25 Budget Deficit has been caused in large part by a substantial growth bid of £907.6k in respect of the Council's statutory services, homelessness which significantly exceeds the amount of additional grant support being provided by Government.</i></p> <p><i>Therefore, the Detailed Budget report going to the Committee and then to Council, will be recommending the use of £703.8k from the Social Housing Initiatives Fund Reserve is used cover the net budget deficit and balance the budget.</i></p>

What is the situation	Why we want to do something
<ul style="list-style-type: none"> The use of Council's Earmarked Revenue Reserves can only be authorised by Council. 	<ul style="list-style-type: none"> As part of producing a balance budget, the Council's Earmarked Revenue Reserves, form an

<ul style="list-style-type: none"> • Future funding bids to support the planned activity in each cost centre has been sent to each Committee for their acceptance and approval, and has been collated in the appendices below, based on the outline budget report. • The Sinking Fund reserve is also an earmarked revenue reserve, that is used to retain surplus cash, when the investment property and regeneration portfolio net rental income exceeds £10m, and increase the net rental contribution to £10m, when net rental income falls below this figure, so that the contribution to support Council’s frontline services is maintained. • For 2024-25, Council will be asked to approve a growth bid of £907.6k for additional homelessness costs in order for the Council to discharge its statutory duties, and after the savings plans, which have been approved by the relevant Committee, this left a budget deficit of £703.8k, which is to be funded from the Social Housing Initiative Fund (Revenue Grants Unapplied Reserve). • The Council does not hold any significant capital reserves, as any monies received in year are used to internally borrow against the Council’s Capital Financing Requirement and reduce the need external borrowings. Currently this amounts to less than £2m per annum. 	<p>important part of the funding for the Council’s Service Delivery.</p> <ul style="list-style-type: none"> • Use of reserves need to be carefully planned as reserves can only be spent once. It is important that sufficient funds are held in reserves for the periods when the support from those reserves will be required. Noting that Revenue Grants Unapplied like Earmarked Revenue Reserves can only be used for the purposes they were intended. • The use of the reserves for 2024-25 cover three areas: Funding of growth bids, which have been presented to and approved by the relevant Committees; Use of the Sinking Funds to maintain the Council’s £10m annual contribution from net investment and regeneration rental income or to receive surplus funds from the net investment and regeneration rental income exceeds the annual £10m contribution: To use £703.8k of the Social Housing Initiative Fund, to cover the budget deficit caused by the £907.6k growth bid for additional homelessness support, one of the Council’s statutory services.
<p>This is what we want to do about it</p>	<p>These are the next steps</p>
<ul style="list-style-type: none"> • Note that the red figures with a negative number in Appendix A 	<ul style="list-style-type: none"> • The Committee reviews the Council’s projected Estimated Future

<p>represent the credit balances of the Council's reserves and should be recognised as a good position, increasing reserve balances, whereas the black figures which are a positive number, reflect the debit entries and a reduction to the Council's Earmarked Revenue Reserves.</p> <ul style="list-style-type: none"> • Review the notes on reserves in section 13 of this report to develop your understanding of the principles of reserves. • Take a view of the Estimated future Earmarked Revenue Reserves for the four years to 31 March 2028 (Appendix A). • Question Budget Managers about their future use of the relevant reserves. • Consider alternative options to fund the current budget deficit of £703,800. • Seek to maintain the Council's future Earmarked Revenue Reserves at a level that will ensure the Council has sufficient cash backed reserves to fund the Council's cash flow requirements. 	<p>Earmarked Revenue Reserves for the four years to 31 March 2028.</p> <ul style="list-style-type: none"> • The Committee note the Council's projected Earmarked Reserves for the four years ended 31 March 2028 and the use of the £703,800 from Earmarked Revenue Reserves in order to balance the 2024-25 budget.
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1. Important Information

1.1 This report is subject to two items:

- (a) the 2023-24 Revenue Outturn Report, which will focus on the year just gone, i.e., it is backward looking, will come before this Committee in June. At present, the estimated closing balances on the reserves has been based on the Quarter 3 Revenue Monitoring Report (to be submitted to this Committee next month).

The final 2023-24 Revenue Outturn Report, with any recommendations that impact on reserves will be presented to this Committee in June, for discussion and approval of the actual amounts to be sent to and received from reserves during 2023-24, based on the Quarter 3 Revenue Monitoring Report and subject to Council approval, Officers are expecting to see a considerable reduction in the need to obtain

funding from the Sinking Fund, due to reduced refurbishment costs at two of the Council's premises.

- (b) the 2024-25 Budget process, which involves a review of budgets and approval by Committees, noting that the Administration Committee is meeting on 8 February 2024, and any actions to be agreed at this meeting have not been reflected in this report.
- 1.2 Following individual committees' reviews, each Committee budget must be approved by Corporate Policy & Resources Committee, who will also recommend for approval the below the line items including sinking funds movements, interest and earnings budget and movements into and out of reserves, before the 2024-25 Budget is sent to Council for approval at their meeting on 22 February 2024.
- 1.3 Any changes to the budget between the Committees and ultimate Council approval on 22 February could have an impact on this report and result in updates being issued.
- 1.4 With regard to the opening balances on reserves for 2024-25, i.e., 1 April 2024, see Appendix A, as mentioned in 1.1(a) above, Officers have estimated the situation in January 2024, and the figures will be liable to change, particularly as a result of Revenue Outturn for 2023-24 and Grants received in the year not fully utilised. A detailed report will be provided to this Committee on the final reserve's situation at 31 March 2024 in June.
- 1.5 Please note that the Administration Committee meets on 8 February and any decisions made there could impact on this report. Officers will issue an addendum report if required or provide a verbal update at the meeting.
- 1.6 The Revenue Grants unapplied can only be used for the intention that the grant was made in the first instance, i.e., they cannot be repurposed.
- 1.7 At this stage, there is no need to consider repurposing any of the Council's other current Earmarked Revenue Reserves.

2. Key issues

Earmarked Reserves	2024-25	2025-26	2026-27	2027-28
	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>
08/02/2024	<u>c/fwd</u>	<u>c/fwd</u>	<u>c/fwd</u>	<u>c/fwd</u>
Capital Grants Unapplied	£0	£0	£0	£0
<u>Earmarked Revenue Reserves</u>				
Revenue Grants Unapplied	-4,570,875	-4,570,875	-4,570,875	-4,570,875
Capital Fund	-1,442,593	-1,442,593	-1,442,593	-1,442,593
Insurance Reserve	-50,041	-50,041	-50,041	-50,041
Planned Spending Funds	-13,131,365	-13,078,165	-13,024,965	-12,971,765
Sinking Fund	-25,767,970	-21,512,808	-20,759,992	-21,534,591
Youth Council Bal B/fwd	-19,814	-19,814	-19,814	-19,814
Environmental Impact Reserve Bal B/fwd	-154,176	-154,176	-154,176	-154,176
Contributions from Developers	-9,829,972	-9,783,772	-9,737,572	-9,691,372
General Fund Balance Bal B/fwd	-2,482,140	-2,482,140	-2,482,140	-2,482,140
Total Earmarked Reserves at 31 March	-£57,448,946	-£53,094,384	-£52,242,168	-£52,917,367

- 2.1 The Summary table above is taken from Appendix A below and shows the closing balance at 31 March each year.
- 2.2 Please note that the red negative figures represents the credit balance in the general ledger and is a good figure.
- 2.3 The Council receives on average £1.5m per annum in capital grants and receipts. These funds are fully utilised in the year to internally borrow and reduce the need for external borrowing.
- 2.4 Full details can be seen in the appendix below or by reviewing the Capital Financing Requirement in the 2024-25 Treasury Management Strategy Report, being discussed at this Committee meeting.
- 2.5 The Council's Earmarked Revenue Reserves have been assigned by Council and can only be used for the purpose they were intended, for example, it is not possible to use the Sinking Fund Reserves to fund an FTE role within the Council. However, through the process of review and revision of the Reserves Strategy it is possible to repurpose the reasons reserves are held or to combine reserves. However, as mentioned above, there is currently no need for Council to conduct this operation.
- 2.6 On 27 November 2023, Corporate Policy & Resources Committee gave approval for officers to use up to £1.1m from reserves to cover the 2024-25 Budget deficit, to present a balanced budget to Council.
- 2.7 Since the single largest growth bid impacting on the Council's budget was £907.6k in respect of anticipated additional homelessness costs, it is suggested that the social housing Initiative Reserve would be utilised to cover the final deficit.
- 2.8 All other reserves, apart from those specified in the funding of growth bids for 2024-25, are unaffected and will not be repurposed.
- 2.9 The table below, (source LG Futures) shows the current reserves levels, and the movement in those reserves over 3 years, for all Districts and Boroughs in Surrey, (excluding Woking) together with Surrey County Council

Usable Revenue Reserves Analysis

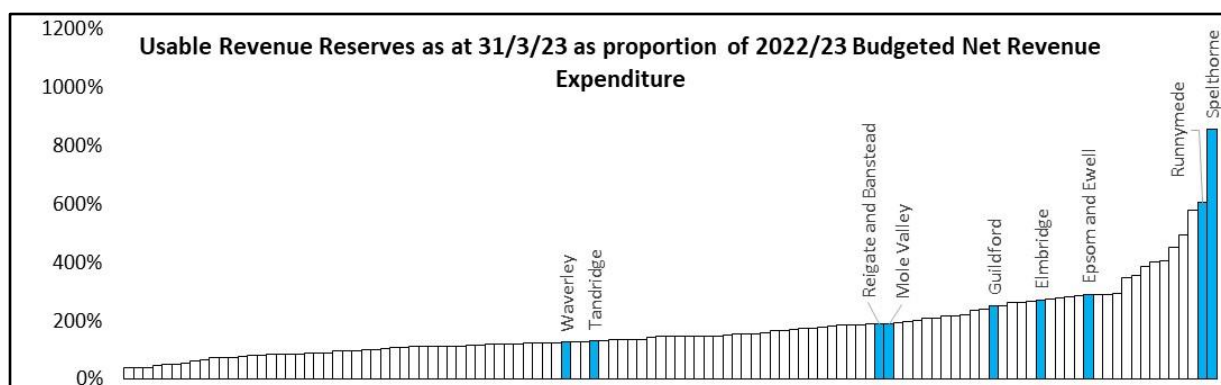
From accounts or templates completed by authorities with unpublished accounts.
Mole Valley adjusted subsequent to accounts publication.

Authority	2019/20	2022/23	Change (£'000s)	Change (%)	22/23 as a % of NRE
Elmbridge	39,014	47,216	8,202	21%	279%
Epsom and Ewell	18,374	27,789	9,415	51%	289%
Guildford	47,645	32,704	-14,941	-31%	250%
Mole Valley	10,337	11,890	1,553	15%	111%
Reigate and Banstead	41,591	33,156	-8,435	-20%	191%
Runnymede	26,548	51,319	24,771	93%	606%
Spelthorne	44,227	71,253	27,026	61%	857%
Surrey Heath	34,593	47,847	13,254	38%	345%
Tandridge	4,000	9,624	5,624	141%	130%
Waverley	14,728	20,640	5,912	40%	127%
Woking	28,751		no data		
Surrey Districts Total	281,057	353,438	72,381	26%	290%
District Average				28%	166%
Surrey	275,190	529,563	254,373	92%	59%
DSG Deficit	-48,632	-150,099	-101,467	209%	
URR less DSG deficit	226,558	379,464	152,906	67%	42%
					41%

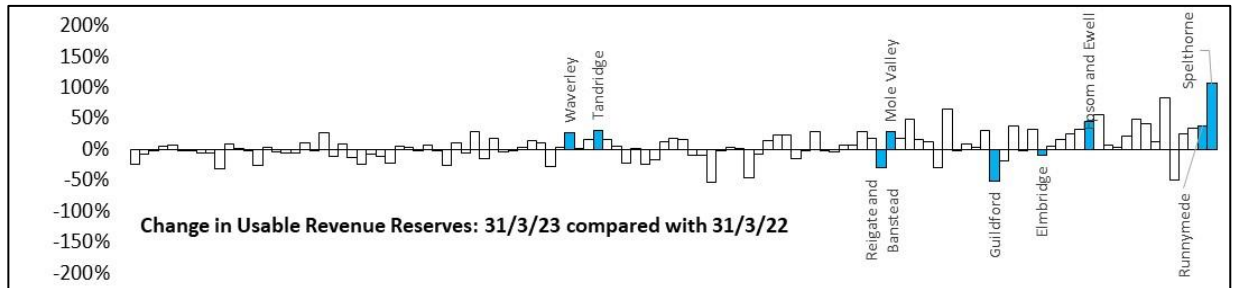
† Average (taking account of DSG deficits)

2.10 From the chart Spelthorne has the highest aggregate reserves of £71,253,000 of all the District & Boroughs.

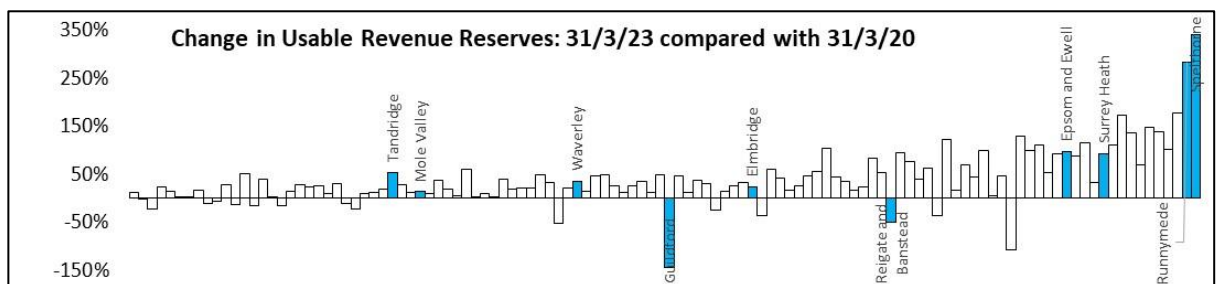
Whilst the percentage of Net Revenue Expenditure (Net Revenue Expenditure (NRE) is defined as Revenue Income, less Revenue expenditure) at 857%, is of interest, because each Council provides different levels of discretionary services, it is difficult to draw a direct comparison with other District & Boroughs.



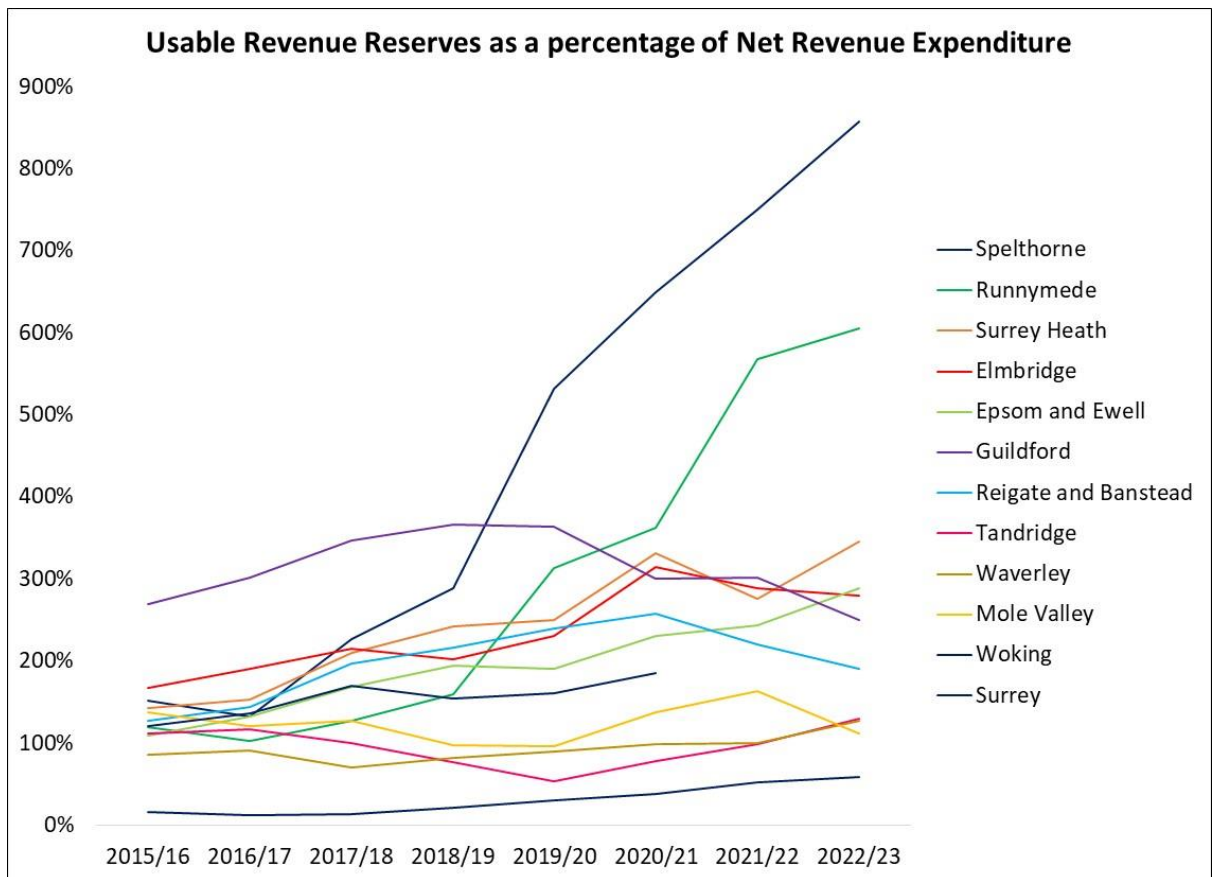
- 2.11 The chart above shows the usable revenue reserves at 31 March 2023 as a portion of Net Revenue Expenditure. For the Surrey District & Boroughs, with all the similar English District & Boroughs, which once again show that Spelthorne has the highest percentage of reserves.
- 2.12 The next chart takes the information in the table in 3.3 above and shows the change in usable revenue reserves for all District & Boroughs in England, which highlights that based on Council's decisions, Spelthorne Borough Council has the highest percentage increase in reserves.



- 2.13 This is also reflected in the chart below, which shows the positive change (increase) in reserves since 31 March 2020.



- 2.14 In response to the austerity programme and significant reductions in funding to Council, with the Council losing its general Revenue Support Grant and at one stage facing the prospect of having to pay negative grant to Government, the Council during the period 2016-2018 acquired an investment portfolio to generate long term income streams to offset loss of grant income. The Council recognised that managing investment assets and relying on tenant rental streams has risks and a key element of mitigating this risk was to build up a safety net of funds in the form of sinking fund reserves to be available to offset dips in rental income when tenants end leases. The growth of the sinking funds reserves has had a strong impact on the reserves of this Council and the chart below shows that change in the Councils usable Revenue Reserves as a percentage of Net Relevant Expenditure.



2.15 Investment and Regeneration Property Sinking Funds

- (a) Council have been advised of a challenging three years ahead (2023-24 and 2025-26) for the Sinking Funds based on the five-year planning cycle, which was why Council approved a £2.5m one off payment into the Sinking Funds as part of the 2021/22 Outturn Report.
- (b) As previously reported, the Ukraine War has impacted on our Sinking Funds by just over £4.1m over 2022/23 and 2023/24, in respect of Roundwood Avenue, for lost rent and unplanned refurbishment work conducted, as a result of the premises being empty.
- (c) As part of the Revenue Budget Rollover for 2023-24 into 2024-25, Council approved the budget rollover of £4.1m of refurbishment costs (£3.3m Roundwood Avenue and £0.8m for the Charter Building) via the Sinking Fund, i.e., an increase in funding into the Sinking Fund.
- (d) When combined with a couple of tenants turnover, Officers are forecasting a net funding situation of up to £7.0m from the Sinking Fund between 2024-25 and 2026-27, i.e., a reduction in the Sinking Fund Balance
- (e) From 2027-28 onwards the Council will be making net contributions into the Sinking Funds to start replenishing them.

- 2.16 The current depressed property market makes it difficult for Council to consider selling its investment assets, as any shortfall between the purchase price and sale price would crystallise a substantial capital loss that would negatively impact on the Revenue budget, and this would need to be funded

from Council's existing General Fund & Earmarked Revenue Reserves (ERR).

- 2.17 The reduction in heights of buildings, adverse interest rate movements and increased constructions costs has resulted in Knowle Green Estates Ltd (KGE) business model changing dramatically, so much so, that they are unable to contribute a net £1.25m per annum to the Council (for the next 50 years), further, the decision by Council at their meeting on 19 October 2023, to suspend the direct accessible housing delivery projects has had a significant impact on KGEs finances. Until Council implements a revised strategy and transfers a substantial number of housing units for KGE to manage, KGE may need support from the Council's Earmarked Revenue Reserves (ERR), as Council will have to cover the shortfall, which in turn, will cause significant issues for our Medium-Term Financial Plan (MTFP) and long term future viability.
- 2.18 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 and cannot be used, for example, to fund a new Full Time Equivalent (FTE) post.
- 2.19 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 picture. Whilst the Council has been put into a strong position, there is no room from complacency over the next five years 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 potentially see its reserves, reduce to critical levels in a relatively short number of years, based on the current MTFP projections.
- 2.20 This is further compounded by a £1.25m reduction in MTFP forecast Council income from its subsidiary Knowle Green Estates LTD (KGE), caused by delays in obtaining planning permission, height restrictions, rising interest rates, and building materials and labour inflation. Without any plans to replace this lost income, Council will have to face up to some extremely difficult decisions around what essential services to cut, reduce or mothball, It will need to provide continuing cashflow support of up to £400k per annum to KGE for the next five years or acquire additional properties to build a critical mass of housing stock for KGE, that supports its current overhead cost base. Please note that the Board of Directors are reducing the annual budget deficit and the funding structure (subject to Council approval) both of which will reduce the amount of annual cash flow support from the Council.

3. Options analysis and proposal

- 3.1 The 2024-25 Budget setting process has proved very challenging for the Council, particularly with a £907,600 growth bid from one of the Council's statutory services, Homelessness, particularly with respect to the need to provide additional temporary accommodation for families in housing need.
- 3.2 There has been limited additional central funding to offset these external pressures and it is having a serious impact on all Districts & Boroughs in

England, some of whom believe that this will move them closer to issuing a S114 Notice.

- 3.3 It would appear that the unusual decision by Department of Levelling Up Housing and Communities (DLUHC) and Chartered Institute of Public Finance and Accountancy (CIPFA) to guide all Councils to credit the Covid Grants received in February 2022 to be paid between 1 April to 30 April 2022, to Earmarked Revenue Reserves rather than short term liabilities, led to all Council's artificially inflating d Earmarked Revenue Reserves at 31 March 2022. In Spelthorne Borough Council's case this amounted to £26.9m, which is allowing DLUHC to erroneously conclude that all councils have sufficient reserves to cover this additional and unexpected expenditure.
- 3.4 Whilst Spelthorne Borough Council has £71.3m of Earmarked Revenue Reserves at 31 March 2023, they have been earmarked for specific purposes and can only be use with the approval of Council.
- 3.5 Officers have reviewed the growth bids for each Committee as set out in the Service Plans submitted and discussed by each Committee between October and November and set out in Appendix A is a summary of the movement on Earmarked Revenue Reserves for the next four years.
- 3.6 In respect of 2024-25:
- (a) £395.1k of reserves as detailed in the outline budget report are being used to fund some of the growth bids and have been approved by the relevant Committees, as set out in the approved Growth bids.
 - (b) A net £2,016k of reserves are being used from the Sinking fund to maintain the £10m contribution to front line services.

(Appendix A below shows the full movement on the Sinking fund for the four years to 2027-28).
 - (c) £703.8k of funding is being used to cover the budget deficit and balance the budget.
- 3.7 Officers have reviewed the other alternatives, to avoid using the Council Earmarked Revenue Reserves, which included:
- (a) Increase Fees and Charges – due to the ongoing Cost-of-Living crisis Officers it is believed that in most cases this would be counterproductive, as many of the discretionary service provided are available to residents elsewhere or like our car parks, there was a major shift in demand away from using our Car Parks following the pandemic.
 - (b) Reduce expenditure – Officers have implemented several savings initiatives, which has included the following cashable savings:
 - i) £2.1m one off service savings
 - ii) £120k p.a. of cashable savings
 - iii) £85k p.a. of business improvement savings
 - iv) £50k p.a. of green initiative savings
 - v) £100k p.a. of procurement savings
- The performance against budgets for items (ii) to (v) above will be incorporated into the quarterly budget monitoring report to provide

Council and Committees with an update on progress, in delivering these savings.

- (c) Stop delivering some discretionary services – any such decision will be subject to Committee and or Council approval.
- (d) Sell selected Council assets – There are currently no plans to sell off any Council asset(s), particularly our investment portfolio assets, which have been discussed in detail with the Development Subcommittee, as the property valuations have fallen below cost. Therefore, if the asset is sold at a loss, a capital loss will crystallise and this will impact on the revenue budget and will need to be funded, by either Council approving the cutting of services, or from the General Fund or Earmarked Revenue Reserves.

Currently rental yields are being maintained and by having the Sinking Fund available, the £10m contribution towards frontline services is being delivered, therefore there is no need to consider selling off any of these assets.

This then leaves small municipal assets or parcels of land that could be sold, however, the sales processed realised would be extremely small.

- (e) Sell Knowle Green Estates Ltd (KGE) – An option could be for the Council to consider selling off this subsidiary, and generate a capital gain, which could be offset against any future capital losses.

Please note, that the Board of KGE have implemented robust cost control, and with additional units becoming available to assist the housing challenges in the Borough, this is having a positive impact on cashflow, which will assist in the short term to reduce the annual cash flow support provided by the Council.

4. Financial management comments

- 4.1 Officers in the Planning teams are indicating that there may be additional costs of up to:
 - (a) £45,000 in respect of proceeding to restart the Local Plan Examination, subject to the agreement of Council.
 - (b) £72,000 for additional legal fees for planning and enforcement appeals
 - (c) £45,000 for use of consultant
- 4.2 However, there is a great deal of uncertainty as to the likelihood of this expenditure being incurred and of the actual amount of costs on item (b) as future appeals may or may not materialise on certain sites.
- 4.3 As there is a high degree of speculation regarding the outcome and value of additional costs, officers are recommending that for the 2024-25 Outline Budget these costs are ignored.
- 4.4 In the event that these cost or the event comes to fruition, then this should be treated as an in-year growth bid and should be funded from the relevant Earmarked Revenue Reserves, which would maintain a balanced budget.

5. Risk management comments

- 5.1 The report refers to several risks and issues. As there has been limited additional central government funding to offset external pressures, this presents implications for the Council's financial planning and budgetary management. It is having a serious impact on all Districts & Boroughs in England, some of whom believe that this will move them closer to issuing a S114 Notice.
- 5.2 The report refers to the challenges relating to the 2024-25 budget process, including a substantial growth bid from one of the Council's statutory services. In producing a balanced budget for 2024-25, this report outlines how the Council's Earmarked Revenue Reserves form an important part of the funding for the Council's Service Delivery.
- 5.3 The report already refers under section 1 to a key risk consideration, 'Use of reserves need to be carefully planned as reserves can only be spent once. It is important that sufficient funds are held in reserves for the periods when the support from those reserves will be required.' The Council's Earmarked Revenue Reserves have been assigned by Council and can only be used for the purpose they were intended. Whilst Spelthorne Borough Council has £71.3m of Earmarked Revenue Reserves at 31 March 2023, they have been earmarked for specific purposes and can only be used with the approval of Council.
- 5.4 The Sinking Fund reserves are also earmarked revenue reserves, to support and maintain Council's frontline services. The report highlights the period when there is expected to be a dip in the sinking fund balance which will need to be carefully managed. From 2027-28 onwards the Council will be making net contributions into the Sinking Funds.
- 5.5 Analysis of other Surrey Borough's and districts use of reserves/levels is included in the report to provide comparative data with Spelthorne.
- 5.6 The report refers to alternative options at para 3.7 to avoid using the Council's earmarked reserves. Risk evaluations/considerations for each of those options are not part of this report.

6. Procurement comments

- 6.1 There are none.

7. Legal comments

- 7.1 There are none.

8. Other considerations

- 8.1 There are none.

9. Equality and Diversity

- 9.1 Use of reserves in a judicious, planned way can help secure time for efficiency savings to be delivered and thereby avoid the need for more immediate cuts which would require equality impact assessments.

10. Sustainability/Climate Change Implications

- 10.1 There are none.

11. Timetable for implementation

11.1 Implemented as part of the 2024-25 budget setting process and the ongoing medium term financial strategy.

12. Contact

12.1 Paul Taylor P.taylor@spelthorne.gov.uk

Background papers:

Outline Budget Report 2024-25 and the MTFS Forecasts

Note below.

1 - Introduction to reserves

1.12 - Background and purpose to Spelthorne Borough Council's reserves.

1.18 - Management of reserves

Appendices:

Appendix A – Estimated Forecast Earmarked Revenue Reserves as at 31 March 2024 and 2025, 2026 and 2027.

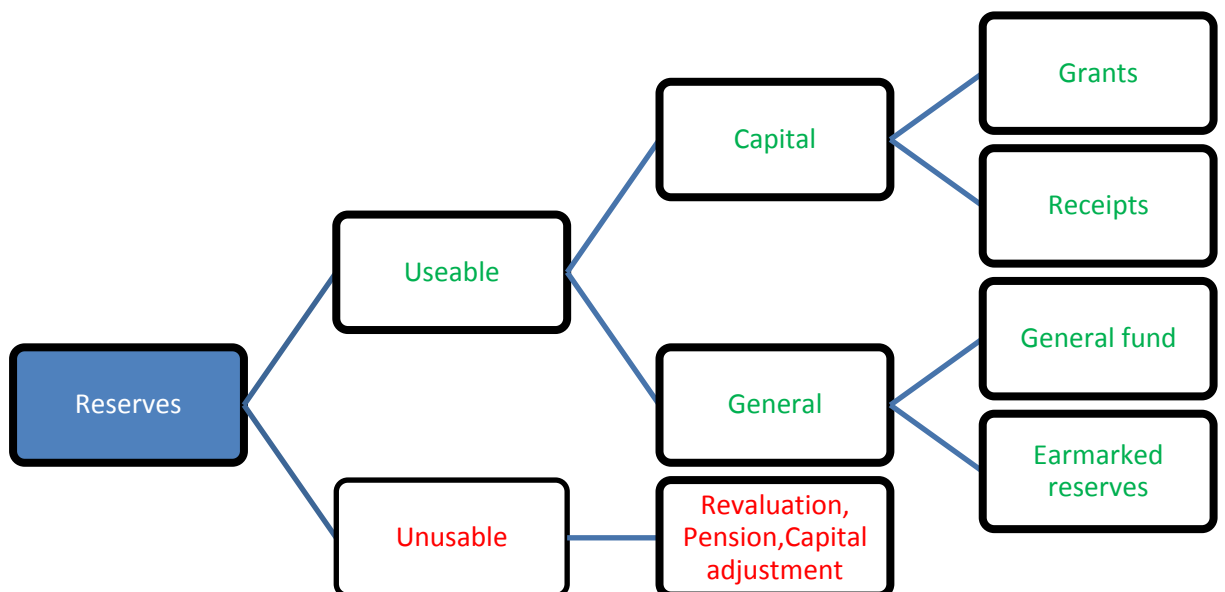
Notes to the report

13. Introduction to Reserves

13.1 The Council manages its money by dividing it between two types of reserves - useable reserves and unusable reserves (an explanation of these terms can be found below).

13.2 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.

13.3 The chart and explanations below illustrate how those reserves are split.



- 13.4 **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:** funds held without any specific purpose, serving as a financial safety net for unforeseen expenses, emergencies, or fluctuations in revenue. These reserves help maintain stable finances and ensure the council can continue to deliver essential services during challenging circumstances. Over time the Council, given the increasingly uncertain times we are operating in has been seeking to gradual build up the size of the General Fund.
 - (b) **Earmarked reserves:** Earmarked reserves are funds set aside by councils for specific projects, initiatives, or expenditures. They are allocated based on council priorities and can be used for both capital and revenue spending.
 - (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.
 - (d) **Capital grants:** Capital grants are sums of money given to councils by the government or other public sector bodies. This money can only be used to fund capital expenditure, in other words this money can only be used to buy assets of lasting value.
- 13.5 **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.
- 13.6 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, as set out in the November 2023 Outline Budget report, and are a key element of its strong financial standing and resilience.
- 13.7 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.

- 13.8 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.
- 13.9 The Council relies on interest earned through holding reserves to support its general revenue spending plans.
- 13.10 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.
- 13.11 The Council must balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long-term future planning.
- 13.12 **Background and purpose to Spelthorne Borough Council's reserves.**
- (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 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.

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.

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

13.13 Purpose

13.14 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

13.15 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.

13.16 The use of some reserves is limited by regulation e.g., the Collection Fund balance must be set against Council Tax and Business Rates levels

13.17 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).

13.18 Management of Reserves

13.19 All reserves are reviewed as part of the Budget preparation, financial management and closing processes. The Council will consider a report from the S151 (Chief Finance) 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.

13.20 The following matters apply to our major useable reserves as restated:

- (a) The General Fund working balance will not fall below £2.176 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.

13.21 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.