

Corporate Policy & Resources Committee



9th December 2024

Title	<i>Reserves Strategy for Capital & Revenue for 2025-26 to 2028-29</i>
Purpose of the report	To make a recommendation to Policy and Resources Committee/Council
Report Author	Management Team (MAT) and Mahmud Rogers, Joint Financial Services Manager
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	<i>n/a</i>
Corporate Priority	Community Addressing Housing Need Resilience Environment Services
Recommendations	<p>Committee is asked to:</p> <ol style="list-style-type: none"> 1. Note the forecast Council Reserves balances for the four years ending 31 March 2029 2. Note a further report will come to Committee in February once the final budget has been finalised 3. Agree to repurpose £8.71m of earmarked Revenue Reserves to offset abortive project management costs on Council housing regeneration sites, that must be re-charged from Capital to the Revenue Budget 4. Repurpose the Green Belt fighting fund reserve (£900k) to become a Local Plan Resources funding reserve to be applied in 2025-26 and 2026-27 to help fund Strategic Planning 5. To apply a further £700k of Social Housing Initiatives Reserve in 2025-26 to offset Revenue pressures arising from Homelessness
Reason for Recommendation	<i>Effective and sustainable use of reserves is a key element of the Council's Medium Term Financial Strategy and ensuring the Council's continued financial sustainability</i>

1. Summary of the report

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. Reserves can be used to help mitigate impacts of future risks. In particular, Sinking Funds can mitigate the impact of future drops in investment assets income. The Council faces a key risk that it will need to write down to Revenue accumulated capitalised costs and capital losses to Revenue Budget from development proposals which are no longer progressing. As a result of the Council’s approved Development Delivery Strategy the Council over the next few years will realise a number of capital receipts from disposal of sites for housing and other development outcomes. For 2025-26, Council will be asked to approve a continuation for a further year of use of £700k of Social Housing Initiatives Reserve approved in 2024-25 to address homelessness costs in order for the Council to discharge its statutory duties 	<ul style="list-style-type: none"> As part of producing a balanced budget, the Council’s Earmarked Revenue Reserves, form an important part of the funding for the Council’s Service Delivery. The Sinking Funds modelling review has identified the need to put more into Sinking Funds reserves over time. As the Council undertakes its Development Delivery Strategy and enters Joint Ventures or disposes of sites, capitalised costs will need to be written off Use of reserves needs to be carefully managed, as it is important that sufficient funds are held in reserves for the periods when the support from those reserves will be required. Reserves can only be spent once. The biggest growth pressure identified in Committee Service Plans for the next two years relates to the resourcing of the likely early review of the Local Plan (if adopted) and planning related activity. Provision of temporary accommodation continues to be a significant pressure on the Revenue Budget.
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> Take a risk-based view of the Estimated Earmarked Revenue Reserves for the four years to 31 March 2028 (Appendix 1). This will be linked to the Review of Sinking Funds and to the risks the Council is facing with respect to potential write down to Revenue of capital losses and capitalised costs on 	<ul style="list-style-type: none"> The Committee reviews the Council’s projected Estimated Future Earmarked Revenue Reserves for the four years to 31 March 2029 and agrees an initial steer for application of Reserves as part of Balancing the 2025-26 Budget. However, this is to be subject to further review and amendment by the Committee at its

<p>housing/regeneration schemes, to Revenue Budget</p> <ul style="list-style-type: none"> • Review the notes on reserves in this report to develop councillors' understanding of the principles of reserves. • Seek to maintain the Council's Earmarked Revenue Reserves at a level that will ensure the Council has sufficient cash backed reserves to fund the Council's cash flow requirements. • Repurpose (paragraph 2.5) £8.7m of existing Reserves to act as funds available to offset capitalised costs to be written down to Revenue. • Build up more quickly the Sinking Funds balances by putting more into the Funds each year (paragraph 2.7). • To apply £700k of Social Housing Initiatives reserve to Revenue Budget to offset ongoing higher cost of addressing homelessness (paragraph 2.8). • To repurpose (paragraph 2.8) part of the Green Belt Fighting Reserve (£900k) to become a Local Plan Resourcing Reserve to be applied over 2025-26 and 2026-27 to help offset the Revenue Budget impact of resourcing Local Plan related activity. 	<p>February meeting, in light of the final proposals for the Revenue Budget.</p>
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- 1.1 The Council has relatively healthy balances of funds, accumulated over time, known as reserves, the majority of this relates to ring fenced (earmarked) for specific Revenue purposes in the future. The opening balance for these reserves is set out in Table 1. As the Council encounters greater challenges around its annual revenue budget setting and is directed to transfer abortive costs (£8.7m in 2025/26) currently allocated against former capital projects i.e. development proposals to revenue, it is proposed that the impact of this on the Revenue Budget is offset by drawing down reserves. The reserves shown in Appendix 1 are proposed to offset the £8.7m to ensure the annual

revenue budget for service provision is not significantly impacted and to enable a balanced Budget to be set.

- 1.2 It is anticipated there will be further costs that will be required to be transferred to the revenue budget, once it is clear original project proposals will not be progressed and/or sites are disposed of as set out in September 2023 Corporate Policy and Resources Committee report.
- 1.3 The Council has completed a major refresh of its sinking funds modelling. The sinking funds reserves are a key risk mitigation approach for the risks associated with the Council's investment assets. Having now completed that refresh this has highlighted a greater need for the Council to more rapidly build up the balances in the sinking funds to accommodate anticipated future peaks and troughs with spend and income associated with the investment portfolio. This greater investment into the sinking fund reserves will mean that over time the net contribution from the investment assets towards the Revenue Budget will fall from £10m per annum to £5m per annum. The net £5m of income will assist in meeting the cost of front-line services. The sinking fund contributions have been modelled on a complex series of asset-based assumptions over the next 50 years and can be found in more detail in 16th December 2024 Commercial Assets Sub-Committee report.
- 1.4 This reserves strategy builds on the sinking fund modelling and sets out how the Council's reserves are anticipated to be used and re-purposed over the period 2025-26 to 2028-29. Appendix 1 shows the combined effect of:
 - Drawing down £8.7m of reserves to offset cessation of capital projections
 - Putting more into Sinking Funds reserves
 - Limited application of reserves in 2025-26 and 2026-27 to offset specific pressures such as homelessness pressures and Planning resourcing
- 1.5 The Reserves Strategy also highlights the Capital Reserves and the intention to generate over the next few years more capital receipts from disposal of housing, regeneration and other sites.

2. Revenue Reserves

- 2.1 The Council maintains earmarked useable reserves to help mitigate impacts of future risks. As at 1st April 2024 they sat at £73.3m. **Table 1** sets out the current balances in useable reserves as at 30th September 2024.
- 2.2 The largest usable reserves are the Funds for acquired properties (Sinking Funds) at £35.8m (01/04/24), which the Council aims to utilise in line with a 50-year plan to cover necessary maintenance and strategic improvements in the property investment portfolio, and to offset dips in rental income when lease breaks are exercised or leases not renewed. In order to do this the Council will need to continue to make contributions into the Sinking Fund reserves. Other reserves cover specific purposes, such as National Non-Domestic Rates equalisation which is used to offset the inherent variability of

business rates income flowing through to the Revenue Budget, or match commitments relating to grants received.

- 2.3 As at the end of 2023-24, according to independent benchmarking by LG Improve, the Council had built up the second highest ratio (driven by the increase in Sinking Funds) of Usable Revenue Reserves to Net Revenue Budget of any district or borough councils in England.
- 2.4 This report is subject to the 2025-26 Budget process, which involves a review of budgets and approval by Committees, and Council in February 2025.

3. Revenue Reserves Strategy

- 3.1 The key elements of the Revenue Reserves element of the strategy are as follows:
- 3.2 **Mitigating risk of unexpected future events**, such as civil emergencies, pandemics, unexpected losses not covered by insurance – the Council's General Fund exists to help mitigate the impact of such risks. Over the last decade the Council has steadily increased the balance of this reserve from £0.75m to the current balance of £3.1m. The rationale for this increase has been to provide additional resilience in an increasingly turbulent and uncertain world.
- 3.3 **Equalisation reserves to address variable income streams** – examples of this are the Business Rates Equalisation Reserve (£9m) and the Interest Equalisation Reserve. The Strategy is to seek to continue to maintain an appropriate level of equalisation mechanisms.
- 3.4 **Reserves to deal with timing differences between the receipt of funds and the application of funds** – for example grants unapplied where the Council may receive grants in advance of meeting the criteria for applying those funds. The UK Shared Prosperity Reserve is an example of this.
- 3.5 **Reserves to supplement risk mitigation arrangements** – for example the Insurance fund reserve.
- 3.6 **Reserves to fund future anticipated spending requirements** – for example, setting aside of service charge income for Harper House and White House to build up funds which can be applied in future to assist in funding maintenance costs. Similarly, the Environmental Impact Reserve, Social Housing Initiatives Fund, and Green Belt Fighting Reserve represent funds which have been set aside or earmarked to address future specific spending requirements.
- 3.7 **Mitigating risk relating to investment and commercial activity** - from 2016 through to 2022-23 the Council steadily year after year set aside a slice of the rental income from its investment and regeneration assets to build up a "safety cushion", in the form of earmarked Sinking Funds reserves (balance at 1/4/24 £35.8m), against future potential adverse impacts on the Revenue Budget arising from dips in rental income when tenants break leases or do not renew

leases, and there is then a void period and a need to provide some form of initial rent free incentive. The Sinking Funds also assist in funding future refurbishment costs of the assets.

- 3.8 The Council's strategy is to regularly model and review the quantum of future potential risks arising from the investment assets and to ensure that the Council is setting aside sufficient funds from rental streams into those reserves to ensure that when future pressures arise there is sufficient provision to absorb the impacts of those pressures.
- 3.9 A key challenge for the Council is resolving financially viable outcomes representing value for money for council taxpayers by disposing of or entering into joint ventures on a number of sites the Council has been holding for housing and redevelopment projects. In October 2023 the Council stepped back from seeking to directly deliver and finance its own housing schemes. The Council has approved a Development and Delivery Strategy. There is a report on the agenda of this Committee providing an update on two of the sites within that strategy. As part of the disposal process there will be redundant capitalised costs which will need to be written off and charged from Capital (the Balance Sheet) to Revenue. It is proposed that some of the Reserves balances will be used to offset this impact. This has been flagged as a risk for several years, and we are now at a stage, that these costs need to be addressed.
- 3.10 In light of the externalities and challenges the Council faces it is proposed that the Reserves Strategy is revised to reflect the below:
- 3.11 There is a need to set aside more funds into the Sinking Funds
 - (a) The Council is going to have to moderate its future spending aspirations and release some of the funds for future spending to instead be used to offset the impact on the Revenue Budget of absorbing write-off capitalised costs on housing/regeneration sites and capitalised losses.
 - (b) Maintain (at an appropriate level) ongoing general contingency funds
 - (c) Maintain (at an appropriate level) revenue equalisation mechanisms.
- 3.12 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 2025-26 Budget is sent to Council for approval at their meeting on 21 February 2025.
- 3.13 Any changes to the budget between the Committees and ultimate Council approval on 21 February 2025 could have an impact on this Strategy and result in updates being issued.
- 3.14 For the closing balance on reserves at 31 March 2024, see **Table 1**.
- 3.15 This report presents a reserves strategy for Spelthorne Borough Council for the financial year 2025/26.

4. Key issues

- 4.1 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 a staffing Full-Time-Equivalent (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.
- 4.2 Reserves are built up over time by setting aside funds to enable those funds to be applied in the future in line with the agreed purposes of those funds. This report is focused on cash backed reserves (which represent the net cash equity of the Council) and not on Accounting Reserves which represent financial movements yet to crystallise, such as the valuation reserve or to facilitate statutory accounting adjustments.
- 4.3 There are two overall categories of cash backed revenue reserves. Firstly, reserves set aside as a general safety net or contingency to protect the Council in event of unforeseen events such as natural emergencies. The General Fund (balance of £3.1m as at 31/3/24) is this form of reserve. The other category of reserves is Earmarked Reserves which are earmarked or reserved for specific purposes approved by Councillors.
- 4.4 A key risk facing the Council is the likelihood that there will be capital losses and capitalised costs on current housing and regeneration sites owned by the Council which will need over the next few years to be written down to Revenue. The accumulated total for capitalised costs at 31st March 2024 was £16.0m. Of this, approximately £8.71m of the costs relate to items which are now most clearly redundant costs, and which should be written off to Revenue. In order to partially offset this risk, it is recommended to repurpose a number of reserve funds totalling £8.71m to be applied to offset Revenue impact of charges to revenue. **Table 1** below summarises the proposals as to how £8.71m can be found across Reserves:

Table 1: Proposed breakdown of release of £8.71 million form Earmarked Revenue Reserves

Reserve	Amount to be released £	Remaining balance unused £	Category
Property Searches New Burdens Payment	86,284	0	Property Management
DCLG - Custom Build Grant Local Authority	90,000	0	Corporate Priorities/Investment
DCLG - New Burdens Funding for the Brownfield Register and PIP LA	26,263	0	Corporate Priorities/Investment
New Burdens - Tinklers Claims	7,058	0	Corporate Priorities/Investment
Handy Person Scheme	7,028	0	Corporate Priorities/Investment
Localising Council Tax Support New Burdens	116,608	0	Corporate Priorities/Investment
New Burdens - Single Fraud Investigation Service	4,721	0	Corporate Priorities/Investment

New Burdens - Real Time Information	177,232	0	Corporate Priorities/Investment
New Burdens - Implementation of the 2016 Benefit Cap changes	28,328	0	Corporate Priorities/Investment
Capital Fund	1,442,593	0	Corporate Priorities/Investment
Planned Projects Fund	1,434,043	0	Revenue Reserve For Capital Financing
Carry /Forward Reserve	225,561	0	Corporate Priorities/Investment
Social Housing Initiatives	1,015,950	31,000	Corporate Priorities/Investment
New schemes Fund: Revenue Projects	1,220,817	119,800	Risk
Business Rates Equalisation Reserves	2,827,514	6,456,690	Other Corporate Priorities
	8,710,000		

4.5 Appendix 1 sets out the impact on the reserves of drawing down £8.71m to be used to offset the impact of cessation of capital housing projects.

4.6 Appendix 1 also draws together the following:

- Drawing down £8.7m of reserves to offset cessation of capital projections
- Putting more into Sinking Funds reserves
- Limited application of reserves in 2025-26 and 2026-27 to offset specific pressures such as homelessness pressures and Planning resourcing

4.7 The appendix sets out anticipated movements into and out of these reserves in in 2025-26 through to 2028-29. Within the Earmarked Reserves roughly half of the balance (£35.8m) is represented by the Sinking Funds reserves. Sinking Funds provide future liquidity to protect the Council's Revenue Budget in the event of dips in the investment assets rental income streams arising as a result of, for example, tenants breaking leases or not renewing leases. Given the size of the Council's investment assets portfolio and the extent to which its Revenue Budget relies on support from this income stream, this is a key risk for the Council. For this reason, the Council has recently undertaken a fundamental review of the modelling underpinning the Sinking Funds to estimate over the next fifty years the likely need to apply those Reserves. See the report going to Commercial Assets Sub-Committee on 16th December. As part of that analysis, it has been identified that on annual basis the Council gradually needs to put more into the Sinking Funds each year which means the average contribution the Council had been receiving, which was £10m, will have to steadily reduce. This will add to the challenge of balancing the Revenue Budget over time. **Appendix 1** reflects these anticipated movements.

4.8 In 2025-26, initially £1.1m of growth bids relating to an early review of the Local Plan (if it gets back to Examination and is adopted) and planning appeal activity were brought forward. Whilst some of this is now being spread over 2 years; to help offset this pressure on the Revenue Budget it is proposed to repurpose the Green Belt Fighting Reserve (balance 1st April 2024 £900k) to become a reserve to fund Local Plan related activity.

Whilst pressures on the Housing and Homelessness Revenue Budget have been steadied as a result of the acquisition of 80 Temporary Accommodation units, to be managed by Knowle Green Estates, there is still a need to continue with the £900k growth built into 2024-25 Budget. Therefore, it is proposed to use a further £703,800 of the Social Housing Initiatives Reserve (Balance as at 1st April 2024 £1.72m) to continue offset these pressures in 2025-26. This will leave a closing balance of £1.016m on the Social Housing Initiatives Reserve.

4.9 **Table 2** below summarises the balances in Total Usable Reserves as at 1st April 2024

Table 2: Useable Revenue Reserves Balances

Reserve Summary	1st April 2024 £
Developer Contributions & Grants with stipulations	
Woodthorpe Rec & Fordbridge Park (set aside relating to Esso pipeline)	80,189
Contributions from Developers	11,107,441
All other Earmarked Reserves	
Revenue Grants Unapplied	5,926,332
Capital Fund	1,442,593
Insurance Reserve	50,041
Planned Spending Fund	4,498,734
Housing Initiatives	1,719,750
Business Rate Reserve	9,156,690
Sinking Funds (Funds for acquired properties)	35,038,347
Green Belt Fighting Fund	900,000
Harper House Reserves	72,341
Environmental Impact Reserve	154,176
White House Reserves	32,145
Youth Council	19,814
Unearmarked General Fund	
General Fund	3,082,903
Grand total all Useable Revenue Reserves	73,281,495

Appendix 1 highlights the proposed use of reserves from 2025-26 to 2028-29 and in the column "Abortive costs 2025/26" adds in the impact of drawing down £8.71m of reserves for offsetting cessation capital projects and shows projected closing revenue reserves balances for each of the years 2025-26 to 2028-29. This shows the total balance of revenue reserves is projected to fall to £54.30m at the end of 2025-26 and will be £58.28m at end of 2028-29

5. Capital Reserves

Strategy

- 5.1 **Capital Receipts** – the Council over the Outline Budget period will be looking to realise capital receipts from a number of disposals of assets across its housing and regenerate sites portfolio and small-scale disposals across the Municipal portfolio. For the housing/regeneration portfolio the strategy will be to seek to achieve best consideration and to seek to generate capital gains on some sites to offset capital losses on others. The Council will also receive a stream of capital receipts in the form of principal repayments from KGE.
- 5.2 Capital Expenditure as approved by the Council’s Capital Programme and in line with its Capital Strategy can be financed from a number of sources, including contributions from the Revenue Budget, Capital Grants, Capital Receipts from the sale and disposal of Capital Assets and borrowing (primarily from the Public Works Loan Board).

Capital Grants Unapplied	31st March 2024
Homes England - White House	664,460
Local Authority Housing Fund (LAHF)	384,000
Disabled Facilities Grant (DFG) management fees	457,059
	1,505,519

Capital Receipts	31st March 2024
Right To Buy - Share of proceeds (relating to A2D stock previously part of the Council’s stock)	710,174
Housing - Stanwell Overage Capital receipt	405,000
General Fund Capital Receipts	420,350
	1,535,524

- 5.3 Similar to Revenue Grants, Capital Grants can be received in advance of meeting the criteria for application and may therefore be set aside into Reserves. Equally whilst some capital receipts may be quickly applied following receipts, over time some receipts may be carried forward to be available to meet future capital financing requirements. Equally capital receipts can be applied to pay down outside capital borrowing. Currently the Council, due to the relatively low rates it fixed its PWLB borrowing in the period 2016 to 2018, can repay outstanding PWLB borrowing at significant

discounted rates. Therefore, as part of the Strategy, when the Council generates capital receipts it will always evaluate a range of options including applying capital receipts to pay down debt which has the benefit of reducing future debt interest payable by the Revenue Budget.

6. Options analysis and proposal

- 6.1 Option 1 (preferred) - agree to the above proposals.
- 6.2 Option 2 – amend and refine the options set out above.
- 6.3 Option 3 - do not agree to the proposals which would have significant implications for balancing the Budget in 2025-26 and over the Outline Budget period. Potentially this would mean that the Council could not meet its statutory obligations to set a balanced Revenue Budget.

7. Financial management comments

- 7.1 Addressed in the report above. Having an appropriate level of reserves in place to mitigate risks and adverse impacts on the Council's ability to sustain an ongoing balanced budget is a key financial benefit of reserves. For this reason, it is important that the Council's Reserves Strategy is reviewed on an annual basis and feeds into the Revenue Budget process.

8. Risk management comments

- 8.1 Addressed in the report above. As has been highlighted in the report above, a key purpose of setting aside reserves is to ensure that the Council has funds to mitigate risks. A key focus of the Strategy is focusing on mitigating the risks associated with the Investment Assets Portfolio.

9. Procurement comments

- 9.1 Not applicable

10. Legal comments

- 10.1 Section 151 Officer is responsible for advising the Council about the level of reserves.
- 10.2 Sections 31A and 42A of the Local Government Finance Act 1992 require the Council to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.

11. Other considerations

- 11.1 None.

12. Equality and Diversity

12.1 Targeted use of reserves can help ease pressure on the Revenue Budget which would otherwise require additional discretionary services to be cut which could impact on more vulnerable client groups

13. Sustainability/Climate Change Implications

13.1 Some reserves such as the Green Initiatives Reserve can be used to help fund measures to mitigate climate change impacts.

14. Timetable for implementation

14.1 Any transfers in to or out of reserves take place are subject to approval by Councillors as part of the annual final accounts process

15. Contact

15.1 M.Rogers@spelthorne.gov.uk

Background papers: There are none.

Appendices:

Appendix 1 – Proposed use of Useable Revenue Reserves 2425 to 2829