

Spelthorne Borough Council's Reserves Strategy for 2026/27

What are Reserves?

Reserves are revenue resources the Council has accumulated over time and set aside for a particular purpose as part of an integrated approach to the financial management of the Authority over the short, medium and long-term.

What the Law and the Chartered Institute of Public Finance and Accountancy (CIPFA) say about reserves:

The Local Government Act 2003 (section 25) requires local authorities, when setting their budgets and the level of Council tax, to have regard to the advice of the Chief Financial Officer, namely the officer appointed under s.151 of the Local Government Act 1972 ("the CFO"), on the adequacy of the proposed financial reserves.

The CIPFA Financial Management (FM) Code states that

- Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.
- A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed.
- These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources.
- The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances
- The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves

What is a Reserves Strategy?

A reserves strategy sets out the choices we make in relation to the level and purposes for which we hold the reserves we have accumulated. It is made up of three key elements:

1. Our strategic intent – what we are seeking to achieve through holding reserves;
2. Our programme – the level of reserves we hold and our plans for their use over in 2026/27 and in 2027/28 onwards when the reserves will be passed across to the successor unitary and
3. Our framework – the way we will determine the level of reserves we need, manage those reserves and plan for their use in line with best practice and statutory requirements. Together these elements set out our ambition for reserves, the nature of

that ambition and how we provide assurance.

Usable and Unusable Reserves

In accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) our reserves are categorised in the Statement of Accounts as either usable or unusable.

The Code describes usable reserves as those that represent resources that the authority might use to support service delivery at the reporting date. Some usable reserves may have restrictions upon their use dependent upon the relevant legislative requirements.

Unusable reserves are not available to use to support service delivery at the reporting date. These reserves arise from either:

- a) statutory adjustments required to reconcile balances to the amounts chargeable to council tax (or rents) for the year, in order to comply with legislation, or
- b) accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the surplus or deficit on the provision of services

This strategy relates to usable reserves only.

Why do we need a Reserves Strategy?

The Council needs to keep up to date a Reserves Strategy to understand the purposes for which it is holding reserves and the risks those reserves are seeking to mitigate, and ensure that the levels of those reserves are appropriate for the risks the Council is facing

Whilst the Council, at the time of setting the Strategy, may only have a year and half of existence left as a sovereign council it has a responsibility to be mindful of the risks it will be passing on the successor unitary and how a Reserves Strategy can help mitigate some of those risks.

The Council is operating in a complex and uncertain world and faces many of the same risks as other councils. These include:

- Unforeseen events, emergencies
- General economic impacts on both the council and its residents as a result of higher inflation or higher interest rates resulting in more households presenting in need of housing support, or tenants in the Council's assets becoming less willing to pay current rental levels
- Uncertainty of business rates income streams due to complexities and timing issues around appeals
- Fluctuations in investment returns including from investment assets

The above risks can be related to the different purposes for which the Council holds reserves:

General Contingency – the General Fund Reserve acts as a general contingency or buffer again impact of unforeseen events or emergencies

Equalisation Reserves- the Business Rates Equalisation Reserve or the Interest Rate Equalisation reserve are examples. The Sinking Funds Reserves were originally designed to equalise or smooth out the impact of dips in investment income rental streams on the Revenue Budget

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 was an example of this.

Reserves to supplement risk mitigation arrangements – for example the Insurance fund reserve.

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.

Mitigating risk relating to investment and commercial activity -

The Council through its reliance on investment assets income streams is exposed to the risk of future decline in those net income streams, potentially due to greater voids, higher rent-free incentives, increased refurbishment costs etc. The potential risk is that income reduces below financing costs and not only would the Council be able to rely on a subsidy from the income stream to support the Revenue Budget but a financing shortfall would squeeze the Revenue Budget. It was in anticipation of this risk that the Council established Sinking Funds earmarked reserves at the time of acquisition of the investment assets to seek to build up sufficient funds to offset the risk of future dips in rental income.

The Best Value intervention has directed the Council to reduce this risk for itself and the successor unitary by undertaking a comprehensive investment assets disposal programme. This means that that over the medium term the reliance on this income stream will be removed and the exposure to the risk of voids or maintaining those assets will cease. Therefore, the need to hold earmarked sinking funds reserves for the original long-term reasons has fallen away. Instead, there is now a short to medium term period of additional Revenue Budget pressure, part of which could be eased by apply some use of re-purposed Sinking Funds reserves.

How does it fit with our other strategies?

The Reserves Strategy is a key underpinning strategy for the Medium-Term Financial Strategy which identifies over the medium-term Revenue Budget pressures. Having a clear Reserves Strategy helps identify how Reserves can be used to help allow the Council and its successor unitary time to make transformational change to help close budget gaps.

Our Reserves

General Fund Balance Reserve (£3.895m as at 31/3/25)- The General Fund Balance Reserve acts as a corporate contingency to cushion the impact of unexpected events or emergencies. It also provides a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.

There is no statutory minimum for the level of General Fund Balance to be held although it is widely accepted that a minimum of 5% of net budget is best practice. In making a recommendation as to the level of General Fund Balance Reserve which should be maintained, the Section 151 Officer considers.

Useable Earmarked Reserves

As at the end of 2024/25 these totalled (including Revenue Grants balances unapplied) £36.8m with the largest component being earmarked sinking fund reserves (£26.3m) set aside to smooth potential future dips in investment income rental.

Developer's Contributions

As at end of 2024/25 these totalled £8.3million. These are received in relation to Section 106 affordable housing agreements and Community Infrastructure Levy agreements. These funds can only be used to support expenditure agreed under the agreements and are therefore not available to the Council to use for other purposes.

Capital Receipts (£2.681m as at 31/3/25)

Balance of capital receipts as at 31/3/25 was £2.7m.

Capital Receipts can only be used to fund capital expenditure, or eligible expenditure under the Flexible Use of Capital Receipts Strategy or to pay down outstanding debt.

Unapplied Capital Grants

As at 31/3/25 these totalled £1.8m and are only used to fund capital expenditure in accordance with the terms of the grants. The funds are not available to support the Revenue Budget.

Use of the Reserves

In 2025/26 there is an additional £7m of MRP being applied to Revenue relating to MRP on surplus assets (in line with accounting requirements that once capital projects are aborted that MRP starts to be applied). This had not been anticipated in the original budget for 2025/26 and it is decided to make use of repurposed Sinking Funds Reserves to offset the impact on the Revenue Budget. **Movement on Usable Revenue Reserves from £54.9m to £30.9m.**

The Medium-Term Financial Strategy is currently projected budget gaps for 2026/27 to 2028/29 as shown in the Table below.

Estimated Budget Gaps

	26-27	27-28	28-29
	£m	£m	£m
Budget Gaps after in year use of reserves	8.8	3.6	3.4

Estimated End of Year Useable Earmarked Revenue Reserves

	25/26 £'000	26/27 £'000	27/28 £'000	28/29 £'000
<u>Opening Balance</u>				
Earmarked Reserves	40,862	21,721	10,124	5,968
In-year usage of available reserves to close budget gap	(19,141)	(11,597)	(4,155)	(3,936)
Balance at year end	21,721	10,124	5,968	2,033
<u>Opening Balance</u>				
Ringfenced Reserves	11,319	6,448	6,374	7,259
In year contributions		2,600	1,100	1,100
In-year use to cover committed spend	(4,871)	(2,674)	(215)	(215)
Balance at year end	6,448	6,374	7,259	8,144
General Fund Reserve	4,065	4,065	4,065	4,065
Closing Balance	32,234	20,563	17,292	14,242

Summary of the purpose's reserves are currently held for at 31.03.25

Name of Earmarked Reserves	Purpose of Earmarked Reserve	Value of reserve at 31.12.25 £'000
Revenue Grants Unapplied	These are grants received by the council but not yet used. They are held in reserve to be applied in future years, often for specific services or projects they were awarded for.	6,213
Insurance Fund	A reserve for covering insurance claims, premiums, or self-insured liabilities. It provides a financial buffer for unexpected events (e.g. property damage, legal claims).	50
Planned Spending Funds	Money set aside for specific future projects or known upcoming costs, i.e. Housing Initiatives Fund, New Schemes Revenue Projects, Interest Equalisation, Bridge Street. This helps the council manage financial planning and avoids sudden funding gaps.	10,312
Acquired Properties Fund	Sinking Funds related to the management, maintenance, or development of the Council's investment properties. There are properties the council has purchased for regeneration, housing, and investment purposes.	26,261
Youth Council Fund	Supports activities, initiatives, or projects led by or for the youth council, engaging young people in local democracy and decision-making.	20
Local Environmental Assessment Fund	A reserve supporting environmental assessments, studies, or other work in relation to development decisions and conservation efforts.	154
Green Belt Fund	For projects to protect and enhance the green belt, often creation of green belt areas, improvements to environmental amenity, and preservation of green spaces.	619
Harper & White House Accommodation Fund	A reserve for accommodation-related services or improvements in specific properties (Harper & White House).	153
Woodthorpe Recreation Ground & Fordbridge Park Fund	Funds set aside for the two local recreation grounds for upkeep, investment/development of these two local areas and recreation grounds.	80
Contributions from Developers	This reflects Section 106 and Community Infrastructure Levy (CIL) funds contributed by developers to support infrastructure and community facilities e.g. Local Plan, Planning Develop Appeal, Open Stanwell Play Facility, etc.	8,319
Earmarked Reserves 31st March		52,181
<i>Plus</i>		
General fund Revenue Reserve		4,065
Total Revenue Reserves		56,246
<i>Plus Capital Reserves</i>		
Capital Receipts Reserve		2,681
Unapplied Capital Grants		2,105
Total Usable Reserves		61,032