



FINANCIAL STRATEGY ADVISORY GROUP

Friday 12 July 2024 at 2.00 pm

Place: Council Chamber - Epsom Town Hall

The members listed below are summoned to attend the Financial Strategy Advisory Group meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Councillor Neil Dallen (Chair)
Councillor Hannah Dalton
Councillor Liz Frost

Councillor Alison Kelly
Councillor Peter O'Donovan
Councillor Clive Woodbridge

Yours sincerely

Chief Executive

For further information, please contact democraticservices@epsom-ewell.gov.uk or tel: 01372 732000

EMERGENCY EVACUATION PROCEDURE

No emergency drill is planned to take place during the meeting. If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by council staff. It is vital that you follow their instructions.

- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building, but move to the assembly point at Dullshot Green and await further instructions; and
- Do not re-enter the building until told that it is safe to do so.

Public information

This meeting will be held at the Town Hall, Epsom. A limited number of seats will be available on a first-come first-served basis in the public gallery at the Town Hall. If you wish to observe the meeting from the public gallery, please arrive at the Town Hall reception before the start of the meeting. A member of staff will show you to the seating area. For further information please contact Democratic Services, email: democraticservices@epsom-ewell.gov.uk, telephone: 01372 732000.

Information about the terms of reference and membership of this Committee are available on the [Council's website](#). The website also provides copies of agendas, reports and minutes.

Agendas, reports and minutes for this Committee are also available on the free Modern.Gov app for iPad, Android and Windows devices. For further information on how to access information regarding this Committee, please email us at Democraticservices@epsom-ewell.gov.uk.

Exclusion of the Press and the Public

There are no matters scheduled to be discussed at this meeting that would appear to disclose confidential or exempt information under the provisions Schedule 12A of the Local Government Act 1972 (as amended). Should any such matters arise during the course of discussion of the below items or should the Chair agree to discuss any other such matters on the grounds of urgency, the Committee may wish to resolve to exclude the press and public by virtue of the private nature of the business to be transacted.

Questions and statements from the Public

Questions and statements from the public are not permitted at meetings of this Committee. [Annex 4.2](#) of the Epsom & Ewell Borough Council Operating Framework sets out which Committees are able to receive public questions and statements, and the procedure for doing so.

Filming and recording of meetings

The Council allows filming, recording and photography at its public meetings. By entering the Council Chamber and using the public gallery, you are consenting to being filmed and to the possible use of those images and sound recordings.

Members of the Press who wish to film, record or photograph a public meeting should contact the Council's Communications team prior to the meeting by email at: communications@epsom-ewell.gov.uk

Filming or recording must be overt and persons filming should not move around the room whilst filming nor should they obstruct proceedings or the public from viewing the meeting. The use of flash photography, additional lighting or any non-handheld devices, including tripods, will not be allowed.

AGENDA

1. DECLARATIONS OF INTEREST

To receive declarations of any Disclosable Pecuniary Interests or other registrable or non-registrable interests from Members in respect of any item to be considered at the meeting.

2. MINUTES OF THE PREVIOUS MEETING (Pages 5 - 8)

The Group is asked to confirm as a true record the Minutes of the Meeting of the Group held on 26 January 2024 (attached) and to authorise the Chair to sign them.

3. 2025/26 STRATEGIC FINANCIAL PLANNING (Pages 9 - 26)

This report seeks guidance on the approach to producing the Council's budget for 2025/26.

4. REVIEW OF RESERVES (Pages 27 - 44)

This report presents a review of reserves and recommends minimum reserve balances to ensure sound management of the Council's finances.

This page is intentionally left blank

Minutes of the Meeting of the FINANCIAL STRATEGY ADVISORY GROUP held at the Council Chamber, Epsom Town Hall on 26 January 2024

PRESENT -

Councillor Neil Dallen (Chair); Councillors John Beckett, Hannah Dalton, Alison Kelly, Steven McCormick and Clive Woodbridge

Officers present: Andrew Bircher (Interim Director of Corporate Services), Brendan Bradley (Head of Finance), Mark Shephard (Head of Property and Regeneration) (Items 12 and 13 only), Sue Emmons (Chief Accountant) and Tony Foxwell (Senior Surveyor) (Items 12 and 13 only)

12 DECLARATIONS OF INTEREST

No declarations of interest were made by councillors regarding items on the agenda for the meeting.

13 ASSET MANAGEMENT PLAN

The Advisory Group noted that the Head of Property and Regeneration and Senior Surveyor were in attendance at the meeting to answer any questions from the Group on the Council's Asset Management Plan. A question was asked as to whether the Streetlights project within the proposed 2024/25 Capital Programme might be eligible for Police funding, and officers confirmed that any external funding opportunities would be investigated. With no further questions, these officers left the meeting.

14 MINUTES OF THE PREVIOUS MEETING

The minutes of the Financial Strategy Advisory Group meeting held on 24 November 2023 were agreed as a true record to be signed by the Chair.

15 TREASURY MANAGEMENT STRATEGY 2024/25

The Advisory Group received a report outlining the treasury management strategy for 2024/25, which includes prudential indicators for 2024/25 to 2026/27, the minimum revenue provision (MRP) policy, and the investment and borrowing strategy.

Following consideration of the report's contents, the Group discussed the following points:

- That the increase in external debt in 2024/25 is included to reflect the maximum borrowing the Council could undertake in line with its property investment strategy and is included to ensure the Council's operational boundary and authorised debt limits are agreed at a sufficient level to allow for any further property acquisition opportunities that may arise. Any potential acquisitions would still be subject to further assessment and scrutiny procedures.
- Opportunities for choosing sustainable investment options.
- Whether any countries should be removed from the Approved Countries for Investments list in section 7 of the strategy. It was proposed that Abu Dhabi (UAE) and Qatar be removed.

Following the discussion, the Group moved to consider the report recommendations, which were agreed as follows:

(1) Recommend to Full Council that the treasury management strategy, which includes the following, be approved:

1.1. the treasury management strategy and the treasury prudential indicators contained therein;

1.2. the capital prudential indicators and limits;

1.3. the borrowing strategy contained within the treasury management statement;

1.4. the annual investment strategy;

1.5. the minimum revenue provision policy statement;

1.6. the treasury management practices.

(2) Agreed to advise that Abu Dhabi and Qatar should be removed from the list of approved investable countries at section 7 of the treasury management strategy.

16 2024/25 BUDGET AND MEDIUM TERM FINANCIAL PLAN 2024-2028

The Advisory Group received a report providing an update on the preparation of the budget for 2024/25. The report sought final guidance from the Group prior to the preparation of the Budget and Council Tax report for the Council on 14 February 2023. The report also sought final guidance on the Medium-Term Financial Plan for 2024-2028.

The following matters were debated by Councillors:

- That the funding is based on the provisional government settlement and any additional grant will reduce the drawdown from the Corporate Projects reserve to reduce the deficit, currently standing at £624k for 2024/25.

- That the fair funding review continues to be delayed but, if implemented, it would be expected to have an adverse impact for the Council so a prudent approach must be taken.
- Council Tax property bandings and that review of these can be initiated by the homeowner.

Following consideration, the Group agreed to:

- (1) Provide the Head of Finance with any further feedback needed to finalise the 2024/25 Budget and Council Tax report;**
- (2) Note the provisional Government financial settlement for 2024/25;**
- (3) Support that the budget gap for 2024/25 should be funded from the Corporate Projects Reserve, as set-out in Section 6 of the report;**
- (4) Support that any surplus/deficit on 2023/24 business rates income, and any change in projected business rates income for 2024/25, will be offset by a transfer to or from the Collection Fund Equalisation Reserve, as set-out in Section 4 of the report;**
- (5) Support a recommendation to Council of a council tax increase of 2.99% (£6.57 for a Band D equivalent property);**
- (6) Confirm support for the Medium-Term Financial Plan 2024-28, which includes the Medium-Term Financial Strategy.**

The meeting began at 2.00 pm and ended at 3.06 pm

COUNCILLOR NEIL DALLEN (CHAIR)

This page is intentionally left blank

STRATEGIC FINANCIAL PLANNING FOR 2025/26 BUDGET

| | |
|-------------------------------|---|
| Head of Service: | Brendan Bradley, Chief Finance Officer |
| Wards affected: | (All Wards); |
| Urgent Decision? | No |
| Appendices (attached): | Appendix 1 – Financial Planning Timetable Appendix 2 – Revenue Budget Forecast Appendix 3 – Efficiency Plan |

Summary

This report seeks guidance on the approach to producing the Council's budget for 2025/26.

Recommendation(s)

The Group is asked to recommend to Strategy & Resources Committee:

- (1) The proposed approach to 2025/26 budget setting as set-out in sections 7 and 8 of this report;**
- (2) That officers work to progress the workstreams set out in section 7 of this report, to produce specific income generation and savings options, in addition to savings already targeted;**
- (3) That the proposed Five Year Plan and the budget process are aligned to ensure that any commitments are affordable;**
- (4) The budget reporting timetable in Appendix 1.**

1 Reason for Recommendation

- 1.1 Approving the recommendations will provide a clear framework for the Council to develop its budget for 2025/26. Strategy and Resources Committee has agreed one of its key priorities is to achieve financial stability for the Council.

2 Background

- 2.1 The Medium Term Financial Strategy (MTFS) 2024-28 was agreed at Full Council in February 2024. The MTFS aims to maintain the financial health of the Council whilst delivering the priorities in the Corporate Plan. This report proposes the approach needed to achieve a balanced budget for 2025/26 and future years during the term of the financial strategy.
- 2.2 The report proposes revenue and capital budget reporting timetables for preparing the 2025/26 budget.

3 Financial Position 2023/24

- 3.1 The Council is among a minority within Surrey to have audited accounts up to 31 March 2023, and has prepared unaudited accounts for 2023/24 which will be subject to audit over the summer.
- 3.2 The draft revenue outturn for 2023/24 shows that expenditure exceeded income by £121,000. An appropriation for this amount has been made from the general fund working balance and as at the end of 2023/24 the balance on this reserve was £2.99 million.
- 3.3 The Council had an approved capital programme of £5.1 million for 2023/24 and spent £2.2m with the majority of the unspent capital programme expected to be carried forward in to 2024/25. The level of uncommitted capital receipts reserves stood at £2.2m at the end of 2023/24.
- 3.4 More detail on the Council's financial performance for 2023/24 will be provided in the Provisional Financial Outturn report to Strategy & Resources Committee at the end of July.

4 Budgeted Position for 2024/25

- 4.1 The 2024/25 budget provides a good platform for budget planning. The service estimate, agreed by Council in February this year, required £2.3m of strategic reserves to fund services and balance the budget. Of this contribution from reserves, £1.7m was to fund non-recurring items (ie one-off factors such as the collection fund deficit due to government business rate relief announcements) and £0.6m was to fund an underlying budget gap. Shortly after the budget papers were produced, government announced an additional £96,000 funding for this authority, which reduces the underlying budget gap to £0.53m for 2024/25 and has been factored into the updated estimates provided at Appendix 2.
- 4.2 The approved budget includes a £500,000 revenue contribution to assist in the funding of the annual capital programme.

- 4.3 The Council is also expected to benefit from additional retained business rates by £150,000 in 2024/25 due to being invited to participate in the Surrey/Sutton Business Rate Pool. However, the invitation is for 2024/25 only, and not beyond.
- 4.4 The Council also set aside a c.£500,000 provision in 2024/25's budget, which acts as a contingency to mitigate financial risk, enabling the Council to fund elevated utility and operational costs due to elevated inflation.

5 Revenue Reserves

- 5.1 The current level of revenue reserves is reported to FSAG as a separate agenda item.
- 5.2 The Council uses its reserves proactively to manage risks, to invest in service transformation for the future, or to respond to unexpected events or emerging needs. Generally, reserves should not be used to fund day-to-day services on an ongoing basis, as reserves would eventually become depleted without a plan for replenishing them.
- 5.3 The 2024/25 budget plans to use c.£0.5m from the Council's reserves to balance an underlying deficit, which was considered a reasonable approach in the short term, as this use of reserves has provided the Council with time to consider a scheduled review of services (due to be reported to S&R Committee in July).
- 5.4 In agreeing to temporarily use reserves to fund 2024/25's budget, members supported this approach to identify savings to remove unsustainable reliance on reserves to fund the day-to-day revenue services.
- 5.5 The importance of removing reliance on reserves has been recently reiterated by the Council's external auditors, Grant Thornton, whose 2022/23 Annual Auditor's Report (dated March 2024) recommends:
- 5.6 *"The Council should continue to acknowledge the importance of seeking ways other than use of reserves to manage the financial budget gap in the medium term, given the finite nature of reserves. The challenges will continue so the need for the structured and disciplined approach to managing finances and reserves will continue to be crucial".*

6 Budgeted Forecast 2025/26 and Beyond

- 6.1 The 2024/25 local government finance settlement appeared to largely represent a 'holding position' until the next Parliament. As part of the settlement, Government also ruled out a business rates reset and a 'Fair Funding Review' until at least 2025/26, which should provide the Council with relative external funding stability until then. In addition, late in the budgeting process government announced an additional £96,000 funding for EEBC, which is included in the updated forecast at Appendix 2, and summarised in the following table:

| Budget Forecast | <u>2024/25</u> <u>Agreed</u> <u>Budget</u> | <u>2025/26</u> <u>Forecast</u> | <u>2026/27</u> <u>Forecast</u> | <u>2027/28</u> <u>Forecast</u> | <u>2028/29</u> <u>Forecast</u> |
|---|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Net Cost of Service b/f (before interest and planned use of reserves) | 11,393 | 12,457 | 12,041 | 12,118 | 12,252 |
| Pay & Prices Increases | 1,482 | 699 | 713 | 728 | 742 |
| Service Changes and Pressures | 394 | -476 | 70 | 100 | -100 |
| Increases in Fees & Charges | -456 | -483 | -256 | -264 | -272 |
| Identified savings | -356 | -156 | -450 | -430 | 0 |
| Forecast Net Cost of Services | 12,457 | 12,041 | 12,118 | 12,252 | 12,622 |
| Interest on Balances | -1,125 | -1,000 | -875 | -750 | -750 |
| Use of New Homes Bonus | -225 | 0 | 0 | 0 | 0 |
| Transfer from Collection Fund Reserve | -974 | 0 | 0 | 0 | -250 |
| Contribution from Property Income Equalisation Reserve | -700 | 0 | 0 | 0 | 0 |
| Contribution from Corporate Projects Reserve | -528 | 0 | 0 | 0 | 0 |
| Transfer from Working Balance (-) | 0 | 0 | 0 | 0 | 0 |
| Forecast Net Expenditure | 8,905 | 11,041 | 11,243 | 11,502 | 11,622 |
| Retained Business Rates Forecast | 1,749 | 1,784 | 1,820 | 1,856 | 1,392 |
| Compensation for underindexing the business rates multiplier | 292 | 301 | 306 | 312 | 318 |
| Council Tax Income Forecast | 7,636 | 7,904 | 8,182 | 8,470 | 8,767 |
| Council Tax Surplus | 58 | 0 | 0 | 0 | 0 |
| Retained Business Rates Surplus | -1,037 | 0 | 0 | 0 | 0 |
| Revenue Support/Other Grants | 207 | 479 | 415 | 423 | 425 |
| External Funding* | 8,905 | 10,468 | 10,723 | 11,061 | 10,902 |
| <i>Funding Shortfall / Savings to be Identified</i> | <i>0</i> | <i>573</i> | <i>520</i> | <i>440</i> | <i>720</i> |

6.2 It can be seen that the updated forecast anticipates that savings/additional income of c.£0.5 million per annum will be needed through to 2027/28 to achieve a balanced budget at the end of this period. Key assumptions within the forecast are as follows:

6.2.1 Annual staff pay inflation (i.e. the 'cost of living' uplift) and prices inflation are forecast at 2% per annum. This assumption will be updated when any new pay deal is agreed.

6.2.2 Fees and charges income is forecast to increase by 6% in 2025/26, then by 3% per annum (CPI +1%) until 2027/28, as per the Medium Term Financial Strategy agreed at Full Council in February 2024.

- 6.2.3 Council tax increases are forecast at 3% per annum for a Band D equivalent.
- 6.2.4 Treasury management investment income earned on reserves is projected to achieve a 4% annual return in 2025/26, reducing to 3% by 2027/28 as base rates (set by the Bank of England) are expected to decrease.
- 6.2.5 Revenue funding towards the financing of a sustainable capital programme is forecast to increase to £550,000 per annum by 2026/27.
- 6.2.6 Existing agreed savings totalling £1.4m will be delivered between 2024/25 and 2027/28, as set-out in the Efficiency Plan at Appendix 3.
- 6.2.7 Commercial property income will continue to be collected in line with existing lease agreements. In particular, the forecast assumes that rental income at the Council's subsidiary's Bracknell property (Arlington Square) will increase from half rent to the full annual rent of £1.77m from 1 April 2025, in line with the lease agreed at S&R Committee in March 2023.
- 6.2.8 Retained income from business rates and government grants is forecast to remain broadly stable until 2027/28, with the Fair Funding Review starting to adversely impact this funding stream from 2028/29. However, there is a specific risk that if central government's ongoing Fair Funding Review were implemented sooner, either by the current or a new incoming government, this income stream could reduce earlier than 2028/29.
- 6.3 The Fair Funding Review was being undertaken by the Conservative central government to re-assess the distribution of government and business rates funding between councils. When complete, it had been expected to favour unitary and upper tier councils, ahead of districts such as Epsom & Ewell Borough Council. However, with a General Election taking place on 4 July 2024, there is uncertainty regarding any incoming government's plans. As such, these forecasts will be updated and reported back to members when any new government policy becomes clear.
- 6.4 The highest service financial risks are considered to be the reliance on higher risk income streams from commercial property, the impact of increased inflation on the Council's costs and income streams, and the potential for increased demands for housing and homelessness prevention.

7 Approach to Achieving a Sustainable Balanced Budget

- 7.1 Officers have drafted a work programme to assist in addressing the £0.5m annual funding shortfall for 2025/26, rising to £0.7m by 2028/29 as set out in Table 1.
- 7.2 The key features of the programme comprise:-
 - 7.2.1 Service reviews focusing primarily on discretionary services to be considered at Strategy & Resources in July 2024, with the aim of increasing efficiencies and effectiveness whilst reducing cost.
 - 7.2.2 Ongoing review of existing asset utilisation to realise cost reductions in Council operational buildings and increased income from investment properties.
 - 7.2.3 Officers to be tasked with identifying further efficiencies and opportunities, although these are becoming harder to achieve after over a decade of austerity.
 - 7.2.4 A base review, which entails reviewing the year end position for 2023/24, identifying any potential savings, additional cost pressures and areas where savings can be developed.
 - 7.2.5 Continue to investigate and bring forward income streams which maximise revenue from new and existing services, such as invest to save opportunities. Ensure any new powers are considered to generate additional income for the Council, such as any new charging policy for waste.
 - 7.2.6 Undertake a review of reserves to be reported to Financial Strategy Advisory Group to seek support for recommended minimum reserve balances (see separate agenda item 4).
 - 7.2.7 A target to increase fees and charges income by 6% in 2025/26 (as previously agreed at Full Council in February 2024), then by CPI+1% from 2026/27 onwards. Increased income can come from higher volumes and does not necessarily have to be through increasing the published fee. Heads of Service review fees and charges annually to ensure any increases are achievable and report to policy committees for approval.
 - 7.2.8 To maximise external funding and partnership opportunities, for example submitting grant applications as opportunities arise.

8 New Five Year Plan and Budget

- 8.1 Available resources will need to be matched to deliverables within any new corporate plan, to ensure that objectives within the plan are prioritised, resourced and deliverable. To achieve this, the proposed Five Year Plan and budget setting process will need to be in alignment with each other.

- 8.2 It is proposed that owing to the Council's projected budget deficit, any additional new revenue growth items (i.e. service enhancements resulting in increased net expenditure) supported by Policy Committees will need to be fully funded from existing budgets.

9 Timetable for Delivery of 2025/26 Budget

- 9.1 A proposed formal committee timetable for the revenue and capital programme is presented at Appendix 1.
- 9.2 In addition to the formal committee meetings, officers will maintain engagement with Policy Chairs throughout the budgeting process.
- 9.3 The Council needs to make significant progress in achieving a balanced budget with no reliance on revenue reserves to fund the delivery of services. Based on the latest forecasts, the Council is anticipating a funding shortfall of £0.7m by 2028/29.

10 Risk Assessment

Legal or other duties

10.1 Risk Assessment

- 10.1.1 The Council has a statutory duty to set a balanced budget each year, demonstrating how planned expenditure on services will be fully funded.
- 10.1.2 Should the Council not progress the proposed budget strategy and fail to achieve a significant net reduction in its cost of services, there is a clear risk that reserves will continue to diminish with the Council eventually becoming unable to set a balanced budget.
- 10.1.3 A full budget risk assessment will be presented to Full Council alongside the final 2025/26 budget proposals in February 2025.
- 10.1.4 There is particularly heightened risk around commercial property and leisure centre income in the current environment. Should a tenant leave or rent reductions have to be agreed to retain them, the Council's budget deficit could increase significantly (this applies both for property owned by the Council and its subsidiary, EEPIC), and in the event of tenant departure, the Council would become liable for running and maintenance costs while a new tenant is found. To mitigate this risk, officers proactively engage with tenants and the Council holds the Property Income Equalisation Reserve as a buffer to mitigate the risk of income loss in the short term.
- 10.1.5 In addition, the risk of increasing homelessness expenditure remains significant, with the Council pursuing its Homelessness Reduction Action Plan to mitigate this pressure.

10.2 Crime & Disorder

10.2.1 None arising from the contents of this report.

10.3 Safeguarding

10.3.1 None arising from the contents of this report.

10.4 Dependencies

10.4.1 The Council's proposed Five Year Plan should be set to be deliverable within the Council's available financial resources.

10.5 Other

10.5.1 None arising from the contents of this report.

11 Financial Implications

11.1 The provisional financial outlook for 2025/26 and future years is covered in this report.

11.2 In preparing the Council's 2025/26 budget, the Council will also need to approve a new pay policy, enabling details from the new approved policies to be incorporated into the budget.

11.3 The Council has adequate resources to carry out a budget review supporting the delivery of the efficiency plan. Should the Council require a more comprehensive review of services, additional resources and expertise may be required.

11.4 **Section 151 Officer's comments:** The 2025/26 budget must ensure that the Council's finances are sustainable whilst delivering the priorities of the Council.

12 Legal Implications

12.1 The Council has a statutory responsibility to set a balanced budget each year.

12.2 The provisions of section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to the Council's budget setting meeting in February.

12.3 **Monitoring Officer's Comments:** None arising from the contents of this report.

13 Policies, Plans & Partnerships

- 13.1 **Council's Key Priorities:** The following Key Priorities are engaged:
Effective Council.
- 13.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 13.3 **Climate & Environmental Impact of recommendations:** Funding of the Climate Change Action Plan is determined on a business case basis, as funding opportunities arise.
- 13.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.
- 13.5 **Partnerships:** None arising from the contents of this report.

14 Background papers

- 14.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2024/25 Budget Report to Full Council, February 2024

Other papers:

- [Medium Term Financial Plan 2024-2028](#)

This page is intentionally left blank

APPENDIX 1 - REVENUE BUDGET PLANNING 2025/26 - REPORTING TIMETABLE

| MONTH | TOPIC | REPORT TO | OBJECTIVE |
|-----------------|---|-----------------------------------|---|
| JULY 2024 | Provisional Financial Outturn for 2023/24 | Strategy & Resources Committee | Report unaudited outturn figures for last year Agree year end transfers for 2023/24 to/from strategic reserves |
| | Financial Planning for 2025/26 | Strategy & Resources Committee | Update Four Year Budget Forecast Set Budget Targets for 2025/26 Agree financial planning strategy Confirm budget reporting timetable |
| | Service Reviews | Strategy & Resources Committee | Agree schedule of services to be reviewed |
| SEPT & OCT 2024 | Budget Targets 2025/26 | Policy Committees | Communicate budget targets for 2024/25 and guidance on the preparation of service budget reports |
| | 2023/24 Audited Financial Statements & Audit Findings | Audit & Scrutiny Committee | Report audited financial position for the year ended 2023/24 |
| | First Quarter Budget Monitoring for 2024/25 | Audit & Scrutiny Committee | Report revenue and capital quarter 1 forecast outturn |
| NOV 2024 | Second Quarter Budget Monitoring | Audit & Scrutiny Committee | Report revenue and capital quarter 2 forecast outturn |
| | Budget Update | Strategy & Resources Committee | Update on budget preparation and local government funding (if required) |
| JAN 2025 | Service Estimates | Policy Committees | Recommend service budgets to Council |
| FEB 2025 | Third Quarter Budget Monitoring | Audit & Scrutiny Committee | Report revenue and capital quarter 3 forecast outturn for 2024/25 |
| | Local Govt. Finance Settlement | Financial Strategy Advisory Group | Guidance on Council Tax Options following announcement of grant settlement / business rates |
| | 2025/26 Treasury Management Strategy | Financial Strategy Advisory Group | Update of Financial Plan Recommend the Treasury Management Strategy to Full Council for approval |

Agenda Item 3
Appendix 1

| MONTH | TOPIC | REPORT TO | OBJECTIVE |
|-------|----------------|--------------|----------------------------------|
| | Budget Meeting | Full Council | Council Tax and Budget decisions |

CAPITAL PROGRAMME REVIEW 2025/26 - REPORTING TIMETABLE

| MONTH | TOPIC | REPORT TO | OBJECTIVE |
|-------------------------|-----------------------------------|-----------------------------------|--|
| JUNE 2024 | Capital Programme | Member Briefing | To brief members on the capital programme and resources |
| SEPT to NOV 2024 | 2025/26 Capital Proposals | Financial Strategy Advisory Group | To assess 2025/26 capital proposals and an indicative programme for 2026/27 to 2029/30 |
| JAN 2025 | Capital Project Appraisals | Policy Committees | Recommend capital schemes to Council |
| FEB 2025 | Budget 2025/26: Capital Programme | Full Council | Approve capital programme for 2025/26 and updated provisional programme 2026/27 to 2029/30 |
| MARCH 2025 | Publish Capital Programme | | |

This page is intentionally left blank

REVENUE BUDGET FOUR YEAR FORECAST

| | | | | | | | | | | |
|---|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Status: Financial Planning Updated for 2025/26 Budget | | | | | | | | | | |
| FOUR YEAR BUDGET PROFILES | MTFS | | | | FORECAST | | | | | |
| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 | 2033/34 |
| | Budget | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| NET SPEND B/F FROM PREVIOUS YEAR | 8,290 | 8,905 | 11,041 | 11,243 | 11,502 | 11,622 | 12,199 | 12,783 | 13,434 | 13,821 |
| add back: Use of New Homes Bonus in Previous Year | 0 | 225 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| add back: Interest on Balances as credited to the revenue account in previous year | 720 | 1,125 | 1,000 | 875 | 750 | 750 | 750 | 750 | 750 | 750 |
| add back: Use of Reserves/Provisions in Previous Year | 2,383 | 2,202 | 0 | 0 | 0 | 250 | 150 | 50 | 0 | 0 |
| Net Expenditure on Services before changes (Base Budget excluding use of interest on balances and use of working balance) | 11,394 | 12,457 | 12,041 | 12,118 | 12,252 | 12,622 | 13,099 | 13,583 | 14,184 | 14,571 |
| Allowance for Pay and Price Inflation | | | | | | | | | | |
| General Inflation - price base | +500 | +210 | +214 | +218 | +223 | +227 | +232 | +236 | +241 | +246 |
| General Inflation - pay base | +982 | +489 | +499 | +509 | +519 | +530 | +540 | +551 | +562 | +573 |
| Prices Increases net of Increased Fees & Charges | +1,482 | +699 | +713 | +728 | +742 | +757 | +772 | +788 | +803 | +819 |
| Increases in costs / Reductions in income | | | | | | | | | | |
| Pension Fund Valuation 2022 | -57 | -61 | | | | | | | | |
| Provision for members allowances | +94 | | | | | | | | | |
| Impact of Covid | | | | | | | | | | |
| Change in national insurance contributions | | | | | | | | | | |
| Net reduction in income from commercial property | | | | | | | | | | |
| Increase in debt repayments | +26 | +27 | +27 | +28 | +29 | +29 | +30 | +31 | +32 | +32 |
| Increase in provision for property maintenance | | | | | | | | | | |
| Local elections | -80 | | | +100 | -100 | | | +110 | -110 | |
| Provision for increased IT revenue costs | +209 | -55 | +10 | | | | | | | |
| Funding of projects within the capital programme | +0 | +90 | -40 | | | | | | | |
| Provision for increased cost of living | +0 | +100 | +100 | | | | | | | |
| Loss of 70 East Street tenant | | | | | | | | | | |
| Parkside House income | -566 | | | | | | | | | |
| Increased cost of homelessness | +300 | | | | | | | | | |
| Reduced planning fee income | +100 | | | | | | | | | |
| Loss of on-street parking income | -137 | | | | | | | | | |
| Changes to EEPIC Dividend | +674 | -727 | -27 | -28 | -29 | -29 | -30 | -31 | -32 | -32 |
| Increased cost of external audit fees nationally | | | | | | | | | | |
| Contingency for elevated utilities and contract inflation | | | | | | | | | | |
| Other | -170 | | | | | | | | | |
| Savings to be identified to finance rebasing exercise | | | | | | | | | | |
| Increases in costs / Reductions in income | +393 | -626 | +70 | +100 | -100 | +0 | +0 | +110 | -110 | +0 |
| Changes to External Funding | | | | | | | | | | |
| 2023/24 & 2024/25 Surrey Business Rates Pool | +0 | +150 | | | | | | | | |
| Removal of Local Council Tax Support Admin Grant | | | | | | | | | | |
| 2022/23 Government Services Grant | | | | | | | | | | |
| Changes to External Funding | +0 | +150 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 |
| New Homes Bonus | | | | | | | | | | |
| Estimated New Homes Bonus | -498 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 |
| Transfer to Corporate Project Reserve | +273 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 |
| NHB Funding used to support General Fund services | -225 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 |
| Cost Reduction Plan | | | | | | | | | | |
| 2020 Star Chambers | | | | | | | | | | |
| 2022 Star Chambers | | | | | | | | | | |
| Efficiency/Cost Reduction Plan | -356 | -156 | -450 | -430 | | | | | | |
| Homelessness savings target | | | | | | | | | | |
| Cost Reduction Plan | -356 | -156 | -450 | -430 | +0 | +0 | +0 | +0 | +0 | +0 |

| | MTFS | | | | FORECAST | | | | | |
|---|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| FOUR YEAR BUDGET PROFILES | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 | 2033/34 |
| | Budget | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Contributions from Reserves/Provisions | | | | | | | | | | |
| Funding from Collection Fund Equalisation Reserve | -974 | | | | -250 | -150 | -50 | | | |
| Contribution from Property Income Equalisation Reserve | -700 | | | | | | | | | |
| Funding from Corporate Projects Reserve | -528 | | | | | | | | | |
| | -2,202 | +0 | +0 | +0 | -250 | -150 | -50 | +0 | +0 | +0 |
| Fees and Charges | | | | | | | | | | |
| Increased yield on discretionary Fees and Charges | -456 | -483 | -256 | -264 | -272 | -280 | -288 | -297 | -306 | -315 |
| | -456 | -483 | -256 | -264 | -272 | -280 | -288 | -297 | -306 | -315 |
| Interest on Balances (excludes interest credited to strategic reserves) | | | | | | | | | | |
| | | | | | | | | | | |
| Cash Investments (average) | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Assumed return | 4.50% | 4.00% | 3.50% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Total Interest Forecast | -1,125 | -1,000 | -875 | -750 | -750 | -750 | -750 | -750 | -750 | -750 |
| Interest credited to General Fund to Finance Services | -1,125 | -1,000 | -875 | -750 | -750 | -750 | -750 | -750 | -750 | -750 |
| SUMMARY OF FORECASTS | | | | | | | | | | |
| Net Expenditure on Services before changes (Base Budget excluding use of interest on balances and use of working balance) | 11,394 | 12,457 | 12,041 | 12,118 | 12,252 | 12,622 | 13,099 | 13,583 | 14,184 | 14,571 |
| Price Increases (inflation) | +1,482 | +699 | 713 | +728 | +742 | +757 | +772 | +788 | +803 | +819 |
| Increases in costs / Reductions in income | +393 | -626 | 70 | +100 | -100 | +0 | +0 | +110 | -110 | +0 |
| Changes to External Funding | +0 | +150 | 0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 |
| NHB Funding used to support General Fund services | -225 | +0 | 0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 |
| Cost Reduction Plan | -356 | -156 | -450 | -430 | +0 | +0 | +0 | +0 | +0 | +0 |
| Contributions from Reserves/Provisions | -2,202 | +0 | 0 | +0 | -250 | -150 | -50 | +0 | +0 | +0 |
| Fees and Charges | -456 | -483 | -256 | -264 | -272 | -280 | -288 | -297 | -306 | -315 |
| Interest credited to General Fund to Finance Services | -1,125 | -1,000 | -875 | -750 | -750 | -750 | -750 | -750 | -750 | -750 |
| Forecast Net Cost of Services | 8,905 | 11,041 | 11,243 | 11,502 | 11,622 | 12,199 | 12,783 | 13,434 | 13,821 | 14,325 |
| Projected Outturn variance | | | | | | | | | | |
| Revised Net cost of Services | 8,905 | 11,041 | 11,243 | 11,502 | 11,622 | 12,199 | 12,783 | 13,434 | 13,821 | 14,325 |
| SETTLEMENT ASSESSMENT FUNDING FORECAST | | | | | | | | | | |
| RSG | +56 | +58 | +59 | +60 | +62 | +63 | +64 | +65 | +67 | +68 |
| Lower Tier Services Grant | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 |
| Retained Business Rates | 1,749 | 1,784 | 1,820 | 1,856 | 1,392 | 1,260 | 1,125 | 1,148 | 1,171 | 1,194 |
| Business Rate Multiplier Underindexation Grant | 292 | 301 | 306 | 312 | 318 | 325 | 331 | 338 | 345 | 351 |
| Services Grant | 10 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| CSP Minimum Guaranteed Funding | 141 | 412 | 347 | 354 | 354 | 354 | 354 | 354 | 354 | 354 |
| Formula Grant / Business Rate Retention | 2,248 | 2,564 | 2,541 | 2,592 | 2,135 | 2,011 | 1,884 | 1,914 | 1,945 | 1,977 |
| Base Income from Council Tax | 7,361 | 7,636 | 7,904 | 8,182 | 8,470 | 8,767 | 9,075 | 9,394 | 9,724 | 10,066 |
| Increase in council tax base (0.5% per annum from 2025/26) | +53 | +38 | +40 | +41 | +42 | +44 | +45 | +47 | +49 | +50 |
| | 7,414 | 7,674 | 7,944 | 8,223 | 8,512 | 8,811 | 9,120 | 9,441 | 9,773 | 10,116 |
| Forecast for increase in Council Tax income (3% per annum) | +222 | +230 | +238 | +247 | +255 | +264 | +274 | +283 | +293 | +303 |
| Council Tax Income Forecast | 7,636 | 7,904 | 8,182 | 8,470 | 8,767 | 9,075 | 9,394 | 9,724 | 10,066 | 10,419 |
| Surplus / (Deficit) on Retained Business Rates | -1,037 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Council Tax Surplus / (Deficit) | 58 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Assumed Collection Fund Income (Formula Grant + Council Tax) | 8,905 | 10,468 | 10,723 | 11,061 | 10,902 | 11,085 | 11,278 | 11,638 | 12,011 | 12,396 |
| | | | | | | | | | | |
| Actual/Forecast Budget Shortfall (required use of working balance) | 0 | 573 | 520 | 440 | 720 | 1,114 | 1,505 | 1,796 | 1,811 | 1,930 |
| GENERAL FUND WORKING BALANCE PROJECTION: AFTER SERVICE COST REDUCTION | | | | | | | | | | |
| Estimated Working Balance b/f | 3,019 | 3,019 | 2,446 | 1,926 | 1,485 | 765 | -349 | -1,854 | -3,650 | -5,460 |
| Resulting Working Balance c/f | 3,019 | 2,446 | 1,926 | 1,485 | 765 | -349 | -1,854 | -3,650 | -5,460 | -7,390 |

UPDATED EFFICIENCY PLAN - 2024/25 to 2027/28

| | | | | | Total £'000 |
|--|------------------|------------------|------------------|------------------|----------------|
| | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 | 2027/28 £'000 | |
| Operational efficiencies and income generation | 27 | 58 | 50 | - | 135 |
| Strategy & Resources Committee | | | | | |
| Commercial property rent reviews | 249 | 38 | - | - | 287 |
| Review of Town Hall | - | - | - | 400 | 400 |
| Environment Committee | | | | | |
| Review of Parks | - | - | - | 30 | 30 |
| Review of Borough Beautification | - | 30 | - | - | 30 |
| Community & Wellbeing Committee | | | | | |
| Reduce level of subsidy for operating the Community & Wellbeing Centre | 30 | 30 | - | - | 60 |
| Review of homelessness | - | - | 300 | - | 300 |
| Licensing & Planning Policy Committee | | | | | |
| Additional Licensing Income | 50 | - | - | - | 50 |
| Additional Planning Income | - | - | 100 | - | 100 |
| Total Identified Savings | 356 | 156 | 450 | 430 | 1,392 |
| | | | | | |
| Unidentified Savings Target | 624 | 573 | 520 | 440 | |
| | | | | | |
| Total Savings to Achieve Balanced Budget | 980 | 729 | 970 | 870 | |

This page is intentionally left blank

REVIEW OF RESERVES

| | |
|---|---|
| Head of Service: | Brendan Bradley, Chief Finance Officer |
| Report Author: | Brendan Bradley |
| Wards affected: | (All Wards); |
| Urgent Decision? | No |
| If yes, reason urgent decision required: | N/A |
| Appendices (attached): | 1 – Reserve policies and recommended minimum balances |

Summary

This report presents a review of reserves and recommends minimum reserve balances to ensure sound management of the Council's finances.

Recommendation (s)

The Group is asked to:

- (1) Consider and review whether the overall level of reserves and contingencies are appropriate for the sound management of the Council's finances;
- (2) Review the individual reserve and contingency balances and consider whether to support the recommended minimum balances in the report;
- (3) Support the proposed transfer of £0.5m from the Collection Fund Equalisation Reserve to the Corporate Projects Reserve.

1 Reason for Recommendations

- 1.1 The recommendations will ensure that the Council maintains an appropriate level of reserves for the sound management of the Council's finances.

2 Background

- 2.1 The Medium-Term Financial Strategy 2024-28 (MTFS) was approved by Full Council in February 2024 following a review of the Council's financial standing.
- 2.2 The MTFS includes the following objectives for budgets, revenue reserves and investment:
 - 2.2.1 Produce a balanced revenue budget each year;

- 2.2.2 Maintain a prudent level of strategic reserves and a minimum balance of £1m in the corporate projects reserve;
- 2.2.3 Utilise reserves proactively to manage major risks to the Council's finances;
- 2.2.4 Maintain a minimum working balance of £2.5m at 31 March 2028.
- 2.2.5 Maintain a minimum uncommitted level of capital reserves of £1m at 31 March 2028.
- 2.3 The MTFS presented a trend analysis of revenue and capital reserves from 2016 to 2023 and an overview of reserves held at March 2023.
- 2.4 The purpose of this report is to review the current level of reserves; to understand the known risks facing the Council; and to recommend a minimum level of reserves to be held.

3 Reserves

- 3.1 In local government, reserves play a crucial role in sound financial management. They typically exist to enable councils to invest in service transformation for the future, and/or to manage risks by providing resources to respond to unexpected events or emerging needs.
 - 3.2 Reserves have been built up over a number of years, mainly through accumulated surplus of income over expenditure or one-off grants.
 - 3.3 All reserve balances at 31 March 2024 are provisional, pending the 2023/24 outturn position being reported to Strategy & Resources in July, and the external audit of financial year 2023/24.
 - 3.4 Reserves held by EEBC are distinguished between general fund and capital; there is clear guidance and statutory rules for how these two different types of reserves can be applied.
1. General Fund Revenue Reserves
- 3.5 The Council's general fund accounts for the day-to-day running of Council services. General fund reserves can be applied to fund revenue expenditure and can also be used to fund capital expenditure.
 - 3.6 However, these reserves should not be utilised as a source of long-term funding for day-to-day revenue expenditure on an ongoing basis; this would be unsustainable as the reserves would eventually deplete.
 - 3.7 General fund reserves can be split into three sub-categories:
 - 3.7.1 Reserves available for use;
 - 3.7.2 Contingencies unavailable for general use;

3.7.3 Ringfenced funds/grants for specific purposes.

1A. Reserves Available for Use

- 3.8 This category includes the working balance, which accounts for the day to day running of Council services and is maintained to safeguard against potential financial risks beyond those for which specific contingencies have been created.
- 3.9 The corporate projects reserve is also available to fund one-off corporate priority projects.
- 3.10 After deducting forecast transfers and commitments, these reserve balances total c.£4.8m.
- 3.11 These reserves can be used to fund most types of expenditure and are presently relied upon to support the Council in managing its way to delivering a sustainable annual revenue budget that requires no underlying use of reserves to balance.

1B. Contingencies Unavailable for General Use

- 3.12 Contingencies unavailable for general use are amounts set aside to manage key material risks faced by the Council. For each contingency, the purpose and usage is clearly defined.
- 3.13 After deducting forecast transfers and commitments, these reserve balances total c.£11.8m.
- 3.14 Contingencies are necessary to manage elevated risks around the present funding sources for services. In particular, compared to pre-2010 the Council is now far more reliant on higher risk income from investment properties and fees and charges to fund services. These higher risk income streams replaced previously 'guaranteed/lower risk' grant funding from central government, which was cut significantly across the 2010's.
- 3.15 The current economic environment has also created a significant demand on reserves to fund elevated expenditure on some services (such as utility/employee/supplier costs and homelessness demands), as identified in the budget reported to Full Council in February 2024. For 2024/25 the Council expects to transfer £0.5m from reserves to cover the revenue budget deficit.

1C. Ringfenced Funds/Grants for Specific Use

- 3.16 Ringfenced funds are reserves that the Council has previously agreed to set aside for a specific policy purpose, for example the Residential Property Acquisition Fund. Where it is a local decision to ringfence funds, Council can decide to un-ringfence funds if the specific policy purpose is no longer a priority or has been achieved.

- 3.17 After deducting forecast transfers and commitments, these reserve balances total c.£0.8m.
- 3.18 This category also includes specific external grants, which were received with conditions attached requiring them to be used for a specific purpose/service.
- 3.19 The following table shows a breakdown of all general fund revenue reserves which hold a forecast balance of £17.2m after taking existing commitments and forecast transfers into account.

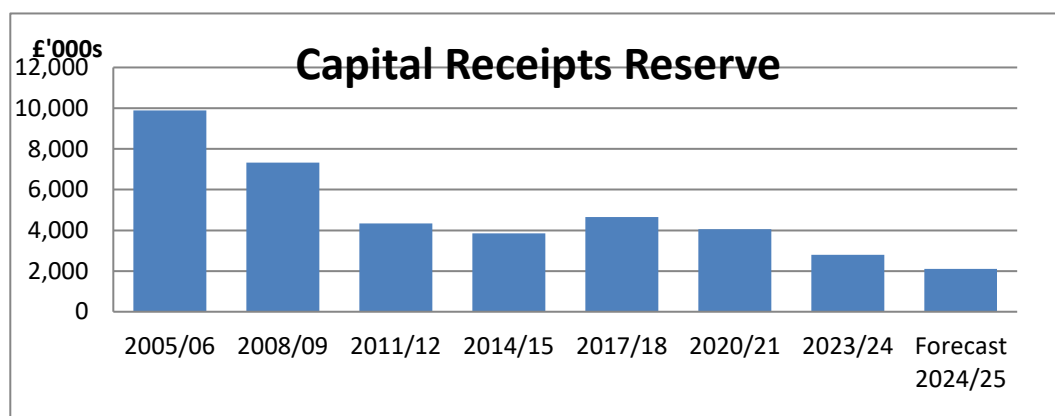
| General Fund Revenue Reserves | Balance at 31 March 2023 | Provisional Balance at 31 March 2024 | Commitments & Forecast Transfers | Forecast Balance |
|--|--------------------------------|---|--|---------------------|
| | £'000 | £'000 | £'000 | £'000 |
| General Fund Working Balance | 3,118 | 2,997 | 0 | 2,997 |
| Corporate Projects Reserve | 4,148 | 4,128 | (2,561) | 1,568 |
| Sub-Total - Reserves available for general use | 7,266 | 7,125 | (2,561) | 4,565 |
| Repairs and Renewals | 532 | 596 | (5) | 592 |
| Insurance | 434 | 434 | 0 | 434 |
| Property Maintenance | 650 | 515 | (332) | 183 |
| VAT Reserve | 206 | 206 | 0 | 206 |
| Collection Fund Equalisation Reserve | 4,002 | 3,824 | (1,486) | 2,338 |
| Commuted Sums | 1,439 | 1,439 | 0 | 1,439 |
| Interest Equalisation Reserve | 0 | 784 | 0 | 784 |
| Property Income Equalisation Reserve | 9,882 | 7,224 | (1,400) | 5,824 |
| Sub-Total - Contingencies unavailable for general use | 17,145 | 15,022 | (3,223) | 11,800 |
| Residential Property Acquisition Fund | 978 | 978 | (828) | 150 |
| Community Safety | 140 | 116 | (20) | 96 |
| Sports & Leisure Development Projects Fund | 142 | 123 | (61) | 62 |
| Place Development Grants | 681 | 772 | (762) | 10 |
| Personalisation, Prevention & Partnership | 111 | 125 | (56) | 69 |
| Housing/Homelessness Support Grants | 1,032 | 910 | (786) | 124 |
| HIA Hardship Fund | 124 | 124 | 0 | 124 |
| Basic Payments Scheme | 142 | 136 | 0 | 136 |
| Other smaller grants | 28 | 28 | 0 | 28 |
| Sub-Total - Ringfenced funds/grants for specific use | 3,379 | 3,312 | (2,513) | 799 |
| Total Revenue Reserves | 27,790 | 25,460 | (8,296) | 17,164 |

3.20 Of the revenue reserves, the Council has already committed the need to use £7.5m, commitments and forecast transfers over £100k are summarised in the following table:

| Description | Date agreed/reported | Commitment £'000 | Reserve funded from: |
|--|---|---------------------|---------------------------------------|
| Funding the revenue budget 2024/25 | Full Council, February 2024 | 528 | Corporate Projects Reserve |
| Town Hall relocation revenue funding | Full Council, December 2023 | 485 | Corporate Projects Reserve |
| Local Plan and planning appeals resources | S&R Committee (various) | 1,209 | Corporate Projects Reserve |
| Chalk Pit Investigations | S&R Committee, March 2024 | 140 | Corporate Projects Reserve |
| Feasibility Studies for property and investment opportunities | S&R Committee (various) | 105 | Corporate Projects Reserve |
| 2024/25 Property Maintenance Programme | S&R Committee, March 2024 | 332 | Property Maintenance Reserve |
| Other smaller committed sums - corporate projects reserve | Various | 94 | Corporate Projects Reserve |
| DLUHC Proptech Engagement, Planning Software and other Grants | LPPC Committee (various) | 762 | Place Development Grants Reserve |
| Prior year collection fund deficit and mitigation of Fair Funding Review | Full Council, February 2024 | 1,486 | Collection Fund Equalisation Reserve |
| Contribution to offset reduced property rental income at Arlington Square in 2024/25 | S&R, Committee, March 2023 | 700 | Property Income Equalisation Reserve |
| Provision for reduced interest income owing to timing of Town Hall relocation funding. | Full Council, December 2023 | 700 | Property Income Equalisation Reserve |
| Funding for homelessness and Syrian, Afghan and Ukrainian refugees | Government grants to deliver homelessness and refugee support | 727 | Housing/Homelessness Grants |
| Proposed acquisition of property on Calverley Road | Urgent Decision S&R, June 2024 | 828 | Residential Property Acquisition Fund |
| Other smaller committed sums | | 200 | Various |
| Total – Committed/Forecast Use of Revenue Reserves | | 8,296 | Revenue Reserves |

2. Capital Reserves

- 3.21 Capital receipts reserves are only available to finance future capital expenditure.
- 3.22 Capital reserves are used to invest in services/assets and are monitored closely along with other funding sources, such as community infrastructure levy (CIL) and section 106 planning funds, in quarterly reports to Audit & Scrutiny Committee.
- 3.23 The Council's own capital receipts reserves have been diminishing over a number of years, as shown by the following table, with the uncommitted balance now forecast at just £2.2m after funding 2024/25's capital programme:



- 3.24 To help protect the capital receipts reserve balance, the Council's MTFS includes the following agreed policy objectives:
- 3.24.1 Optimise the use of Council assets, realise capital receipts from sale of surplus assets;
- 3.24.2 Prioritise capital investment to ensure retained property is fit for purpose;
- 3.24.3 Maintain a minimum uncommitted level of capital receipts reserves of £1 million at 31 March 2028;
- 3.24.4 Aim to maintain a minimum of £0.5m annual funding from revenue to fund the annual capital programme.

4 Review of Revenue Reserves

- 4.1 The Council received its Annual Auditor's Report in May 2024 from Grant Thornton. The auditors made specific reference to the Council's financial/reserves position, as follows:
- 4.2 *"The Council's remains financially resilient given its historic position but the challenges in the next few years are significant, as outlined in the Financial Plan....The uncertainty of funding places additional pressures on the longer-term financial position of the Council...The Council has prudent levels of reserves, but these will be reduced over the medium term...Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council."*
- 4.3 This feedback from the auditors provides a positive context for the present review of reserves, but also highlights the need to retain a prudent level of reserves to enable the Council to manage future risks.
- 4.4 An assessment of each reserve is made in Appendix 1 showing:-
- 4.4.1 The policy & objective for each reserve;
- 4.4.2 The recommended minimum balance where applicable.
- 4.5 Each reserve has a clearly specified and defined use either as a contingency, as part of the council's financial risk management, or to meet specific funding commitments in future years.
- 4.6 As previously stated, revenue reserves are split between three categories. The following section reviews each category in turn and considers the scope for releasing funds or the need to strengthen individual reserves with a balance of over £250,000.

I. Reserves Available for General Use

- 4.7 These reserves can be used to fund most types of expenditure and are presently relied upon to support the Council in managing its way to delivering a sustainable annual revenue budget that requires no underlying use of reserves to balance.
- 4.8 Available reserve balances total £4.5m but taking into account combined recommended minimum balances of £3.5m (set out in the following paragraphs), **the Council holds just £1.0m of revenue reserves available for investment.**
- 4.9 The following reserves are included within this category.

General Fund Working Balance

- 4.10 The working balance accounts for the day-to-day running of Council services and is maintained to safeguard against potential financial risks beyond those for which specific contingencies have been created.
- 4.11 The 'normal' level of un-earmarked reserves should reflect the Council's long-term needs and be based on ongoing operational requirements. This will include a number of factors, the main ones being the gross annual expenditure and the extent to which long-term service contracts reduce the Council's flexibility to respond to financial shocks. Previously the Audit Commission had suggested that a yardstick for normal unearmarked reserves is somewhere between 5% and 100% of net operating expenditure.
- 4.12 The working balance provisionally stands at £2.99m as at 31 March 2024 just above the minimum balance of £2.5m targeted by the MTFS.
- 4.13 At between £2.5m-£3.0m, the balance would represent between 28% to 34% of the Council's net operating expenditure budget of £8.9m for 2024/25.
- 4.14 **Given that the working balance is within the previous recommended range, the current recommended minimum working balance of £2.5m is considered appropriate for this Council.**

Corporate Projects Reserve

- 4.15 This reserve was established to provide revenue funding for projects that fall outside of the day-to-day delivery of services, such as:
 - 4.15.1 Spend to save one-off costs - some of the Council's spend to save initiatives involve one-off pump priming costs which cannot be contained within the base budget;
 - 4.15.2 Funding for one-off corporate priority projects;
 - 4.15.3 Partnership funding - grants of contributions for schemes that cover a number of years can be held in this fund until expenditure is incurred (for example, government new burdens grants).
- 4.16 The balance on the corporate projects reserve at 31 March 2024 was £4.1m. However, the Council is expected to drawdown £2.5m from this reserve in the next couple of years, which reduces the uncommitted balance to around £1.6m.

- 4.17 The opportunities to replenish this reserve have significantly reduced in recent years, due to reductions in funding from new homes bonus grant, which had been the main source of funding for this reserve in the past. Furthermore, with the Council facing an underlying revenue budget gap of c.£0.5m per annum, this reserve may come under significant pressure in future years while the Council progresses transformations necessary to reduce and eliminate the reliance on reserves to fund the day-to-day revenue budget.
- 4.18 It is recommended that future spend-to-save projects, funded from this reserve, should plan to make a contribution back to the reserve to ensure funds remain available to progress future investment opportunities.
- 4.19 The Council's MTFS recommends a minimum balance of £1m is held in this reserve to enable the Council to continue to invest in projects as set out above.**
- 4.20 In addition, to improve this reserve's capacity to support strategic priorities and transformation in the coming years, it is recommended that £0.5m be transferred from the Collection Fund Equalisation Reserve into the Corporate Projects Reserve.**

II. Contingencies Unavailable for General Use

- 4.21 A second category of revenue reserves are contingencies, which are funds set-aside to allow the Council to respond to particular risks and circumstances. If these resources were not set-aside to mitigate potential losses/costs, then the Council would be required to find alternative funding potentially from cuts to services within the general fund.

These reserves make up the largest proportion of forecast revenue reserves (£11.8m) and are reviewed individually as follows.

Property Income Equalisation Reserve

- 4.22 Around half of the uncommitted balances, £5.8m is held within the Property Income Equalisation Reserve. The reserve aims to hold funds to mitigate the risks associated with future rental income streams from investment properties purchased in previous years with the support of external borrowing. The reserve's target is to hold sufficient funds to cover the potential loss of 1 year's rental income for each property acquired in this way, which currently totals £5.6m.
- 4.23 The reserve has enabled the Council to temporarily endure the loss of two key tenants at Parkside House and 70 East Street in recent years, without having to make short-term cuts to services while new tenants are sought and/or transformation plans for the Town Hall relocation are progressed.
- 4.24 It is recommended that the Council continues to maintain a minimum target balance on this reserve equating to one year's rental income from properties financed with the use of external borrowing.**

- 4.25 However, it is anticipated that the Council may experience further pressure on this reserve in forthcoming periods. As such and given the risks associated with commercial property, opportunities to increase the reserve in future should be considered in order to strengthen the Council's financial resilience to fluctuations in commercial property income.**

Collection Fund Equalisation Reserve

- 4.26 This reserve was established back in 2013 to mitigate new risks associated with the introduction of the current redistribution mechanism of retained business rates. It was created to manage variations to estimates of retained business rate and subsequently council tax income.
- 4.27 The Council has benefitted in recent years from being part of the 100% business rates retention scheme in 2020 and Surrey business rate pools, which has enabled the significant balance in this reserve to be accumulated.
- 4.28 The current reserve balance is £3.8m, but with commitments and forecast transfers, the forecast reserve balance reduces to £2.3 million. This is due to the statutory mechanism for redistributing collection fund deficits, which will require this reserve to fund the £1m collection fund deficit brought forward from previous years.
- 4.29 In addition, the current financial plan anticipates a further £0.5m use from this reserve in future years, to partially mitigate expected business rate reductions in funding over this period that may arise from the Fair Funding and Business Rate Retention Reviews.
- 4.30 In the context of potential future government cuts to the Council's business rates funding, it is considered prudent to maintain a minimum balance on this reserve to compensate for approximately one year's loss of business rates funding. On this basis, it is recommended that a minimum balance of £1.5m is set for this reserve.**
- 4.31 With the forecast reserve balance of £2.3m above this recommended minimum threshold, it is also recommended that £0.5m be transferred from this reserve to the Corporate Projects Reserve.**

Interest Equalisation Reserve

- 4.32 The interest equalisation reserve has been re-established to manage fluctuations in investment returns available to support general fund services; (a) in year so that a reduction in investment returns did not require a reduction of service budgets (b) in the medium term so that variations in interest rate returns can be smoothed.
- 4.33 The Council relies on c.£1m of interest generated on cash and reserve balances each year to help fund services.

- 4.34 One of the challenges that the Council may face in future is if interest rates and/or cash/reserves fall, this will reduce the interest that can be generated from treasury management investments to fund services.
- 4.35 The MTFP assumes average investment returns will reduce gradually from 4.5% in 2024/25 to 3.0% in 2027/28. However, should interest rates or cash fall faster than anticipated, the interest equalisation reserve will be required to provide additional funding for services if these levels of returns cannot be achieved.

The reserve stands at £784,000 at 31 March 2024. The Council is reliant on £0.75m of interest per annum to fund services from 2027/28. To ensure the Council could cope with one year's loss of treasury management income in future years, a minimum reserve balance of £750,000 is recommended.

Commuted Sums

- 4.36 This reserve holds down payments of £1.4m which the Council received upon the historic transfer of land. The funds must be used to fund future maintenance of specific open spaces, in perpetuity. As such, the funds are held within the Council's treasury investment portfolio and the interest earned is credited to the open spaces budget to fund on-going grounds maintenance costs. **As the funds are contractually restricted in this way, no changes are recommended to balances currently held.**

Repairs and Renewals Fund

- 4.37 This reserve holds funds set-aside in previous years for the replacement or repair of plant, equipment and vehicles owned by the council.
- 4.38 The level of reserve reflects past contributions to the fund from service budgets, less spending authorised. It is not based on a detailed assessment or forward plan of items that will need replacement or repair. This provides greater flexibility for managers to review their assets outside of the normal budget process. It also enables them to make a case to fund one-off items for which there is a service requirement that cannot otherwise be met within the constraints of revenue budgets or funded from capital. Since most vehicles are covered by a separate maintenance contract, recently funded items have mainly been plant and equipment.
- 4.39 The forecast balance on the reserve is £0.6m.
- 4.40 As the reserve is funded by budgeted contributions from service budgets, **no minimum balance is recommended for this reserve.**

Insurance Reserve

- 4.41 The Council maintains this reserve as a provision for any uninsured losses (e.g. sums below the council's insurance excess limits) on all unsettled claims, which can go back several years. The reserve is reviewed annually based on broker assessments of potential liabilities and the current forecast balance of £0.4m is sufficient to meet the forecast of outstanding liabilities based on the most recent March 2024 assessment.
- 4.42 To ensure the potential liabilities detailed at Appendix 1 can be covered, **a £300,000 minimum balance is recommended for this reserve.**

Property Maintenance Reserve

- 4.43 This reserve was established to provide additional resources to deal with backlog repairs to council property.
- 4.44 The Council now has a base budget of £230,000 per annum for prioritised repairs to buildings and other assets such as hard surfaces. This budget is additional to the programmed and reactive maintenance works that are covered under the facilities management contract. Work is prioritised by the Council's Senior Surveyor in consultation with the Head of Property and Regeneration, and the programme is reported annually to Strategy and Resources Committee. Part of the budget is left uncommitted at the start of the year, to finance any unforeseen urgent unplanned works.
- 4.45 Any unspent maintenance budget is transferred at year end to the Property Maintenance Reserve, so the funds are set-aside to finance completion of the maintenance programme in the following year(s).
- 4.46 The uncommitted balance on this reserve is £0.5m. **It is recommended that the Council maintains a minimum balance on this reserve of £250,000, to provide sufficient cover for unforeseen works.** The recommended minimum balance equates to just over one year of the annual maintenance budget.
- 4.47 Although the reserve balance stands at £515,000 at 31 March 2024, forecast transfers during 2024/25 are now expected to reduce the balance to £183,000, below the recommended minimum threshold. As such, during the 2025/26 budget setting process options will need to be considered for how this reserve can be replenished.

III. Strategic Reserves - Ringfenced funds/grants for specific use

- 4.48 The Council holds a number of funds to deal with specific policy areas, risks or liabilities, which typically have conditions attached to the funding. The ability to redeploy these funds for alternative use is restricted due to the conditions attached; the funds are therefore only available for specific uses, and not for general use. The total of these types of reserves at 31 March 2024 is £3.3m, with the largest balance held within the Residential Property Acquisition Fund.

Residential Property Acquisition Fund

4.49 This fund was created in 2016/17, mainly from new homes bonus. The fund has been used to purchase residential properties to support the Council's housing activities. The remaining fund balance at 31 March 2024 was £978,000.

4.50 It is expected that further opportunities to utilise the fund may arise in coming year, such as the potential acquisition of property at Calverley Road, which would reduce the reserve balance down to c.£150,000

4.51 As these reserves/balances can only be used for specific activities and are limited in their application, it is recommended that no transfers are made from these to other reserves, nor would it be appropriate to set individual minimum balances.

5 Proposals

5.1 It is proposed that the Group:

5.1.1 Consider and review whether the overall level of reserves and contingencies are appropriate for the sound management of the Council's finances;

5.1.2 Review the individual reserve and contingency balances and consider whether to support the recommended minimum balances in the report;

5.1.3 Support the proposed transfer of £0.5m from the Collection Fund Equalisation Reserve to the Corporate Projects Reserve.

6 Risk Assessment

Legal or other duties

6.1 Impact Assessment

6.1.1 The Council holds reserves both as a contingency against unforeseen expenditure and as provisions for known, future expenditure. The Council's reserves are actively managed as part of the MTFS. Any significant reduction in the level of reserves would naturally carry the risk of reducing the Council's financial resilience and the ability to deal with unforeseen circumstances.

6.1.2 In recent years the level of reserves has enabled the Council to manage the financial impact of Covid-19, elevated interest rates/inflation, energy bill shocks and the loss of commercial property tenants, in a planned and structured way. The prospect of further funding cuts through central government's Fair Funding and Retained Business Rates Reviews means that the retention and ability to use strategic reserves to smooth out any funding reductions changes has become even more critical as reductions to the net budget become harder to deliver.

6.1.3 As well as reserves, the Council also has long-term liabilities, mainly in the form of underlying debt of c.£87.5m, (also known as the Capital Financing Requirement), £64.4m of which is externalised with the Public Works Loan Board. This debt was acquired when purchasing commercial properties and must be repaid within the next 50 years alongside interest which is payable annually. The Council has made provision within the revenue budget to fund the necessary interest and debt repayments, which total circa £2.8m per annum. Should reserve and consequently cash balances fall significantly, there is a risk that underlying debt not yet externalised totalling £23.1m may need to be externalised, which could increase annual interest payments faced by the Council.

6.1.4 The Council's revenue budget is reliant on c.£1m of interest being generated from cash/reserve balances each year to fund services. Should cash/reserve balances fall, less interest income would be generated/available to fund services, which would increase the Council's projected budget deficit.

6.2 Crime & Disorder

6.2.1 None arising directly from the contents of this report.

6.3 Safeguarding

6.3.1 None arising directly from the contents of this report.

6.4 Dependencies

6.4.1 None arising directly from the contents of this report.

6.5 Other

6.5.1 None arising directly from the contents of this report.

7 Financial Implications

7.1 Financial implications are set-out in the body of the report.

- 7.2 Interest generated from reserves and balances held by the Council provide a significant level of funding for its services, with £1,125,000 planned income for 2024/25. There is no requirement for the Council to apply interest to individual balances held such as CIL and S106.
- 7.3 **Section 151 Officer's comments:** The Council maintains a reasonable level of reserves and balances to help manage the risks faced. However, over the next couple of years these reserves are expected to come under further pressure to help fund services as the Council progresses its transition to a sustainable revenue budget that requires no use of reserves to balance.
- 7.4 Factors such as uncertainty caused by elevated inflation, the Town Hall move, the outcome of the Fair Funding Review, the Council's reliance on higher risk income streams (such as from commercial property), and demands on housing/homelessness services, all pose greater risk to the Council's finances. However, by agreeing to maintain a minimum level of reserves for specific funds this provides the Council with greater resilience to mitigate any further unplanned costs/losses.
- 7.5 This report should be read in conjunction with the strategic financial planning budget report also included on the agenda for this meeting.

8 Legal Implications

- 8.1 None arising from the contents of this report.
- 8.2 **Legal Officer's comments:** None arising from the contents of this report.

9 Policies, Plans & Partnerships

- 9.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.
- 9.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 9.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.
- 9.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.
- 9.5 **Partnerships:** None arising from the contents of this report.

10 Background papers

- 10.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2024/25 Budget Report to Full Council, February 2024

Other papers:

- None.

| <u>REVENUE RESERVES / CONTINGENCIES</u> | <u>Minimum Balance</u> | <u>Description</u> | <u>Policy/Objective</u> |
|--|----------------------------|---|---|
| | <u>£000</u> | | |
| RESERVES AVAILABLE FOR GENERAL USE | | | |
| General Fund Working Balance | 2,500 | The Council's working balance | (1) Provision for unforeseen expenditure (2) Used to support the Revenue Budget in the Medium Term Financial Strategy / Four Year Financial Plan (3) Interest on balance used to finance the General Fund revenue account. |
| Corporate Project Reserve | 1,000 | General corporate contingency (revenue funds) against additional scheme costs and spend to save initiatives. | (1) To provide contingency funding or high risk projects and developments (2) To fund or meet one-off costs on spend-to-save schemes (revenue funding) (3) To hold revenue funding for corporate projects where funded from partnerships or grants, including New Homes Bonus |
| CONTINGENCIES UNAVAILABLE FOR GENERAL USE | | | |
| Repairs and Renewals Fund | None | Provides funding for replacement of certain vehicles, plant and equipment | (1) Provides for the replacement of plant and equipment which cannot be funded within revenue budget. (2) Manages the risk of unplanned expenditure at Council properties, including health and safety requirements, where there is no separate budget. |
| Insurance | 300 | Provides funding for self-insured losses | (1) Reserve on outstanding insurance claims (2) £100,000 held for risks on LB Sutton Partnership (3) Smooths impact of variations in insurance costs on general fund (4) Provision of £85,000 for MMI mutual run down (5) Provides cover for uninsured losses |
| Property Maintenance Reserve | 250 | Funding held for prioritised backlog property repairs | (1) To fund approved programme where works not completed by the year-end and budget available (2) Used to finance urgent unplanned works where approved programme cannot be rescheduled |
| VAT Reserve | 200 | Provides funding for unplanned VAT liabilities | (1) To manage the risk that the Council exceeds the 5% threshold for VAT on commercial trading activity (2) To meet other potential VAT liabilities (3) The balance on this reserve should as a minimum be at a level that can provide funding for 1 year of the potential annual VAT liability. |
| Interest Equalisation Reserve | 750 | Provides funding cover for year on year variations in investment income | (1) Reserve used to protect the general fund so that variations in interest rates do not affect funding for service provision once the budget has been set. (2) Reserve used to guarantee a minimum level of revenue from interest on balances as part of the four year financial plan. (3) Minimum level of reserve maintained at £750k |
| Collection Fund Equalisation Reserve | 1,500 | Provides funding to offset future taxation deficits chargeable to the General Fund | Reserve used to protect funding from the Council's share of council tax and localised business rates, used to smooth the impact of changes such as increase in appeals. The reserve should be maintained at a minimum balance of £1.5m million to compensate for approximately one year's loss of business rates income, or when council tax may fall below budgeted baseline levels. |
| Recreation Commuted Sums | 1,430 | Sums held following the transfer of land to the Council and used to finance additional maintenance costs | Principal sum invested with 2% interest earned applied to fund on-going recreation grounds maintenance liabilities. |
| Property Income Equalisation Reserve | 5,600 | The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from properties acquired through borrowing | The reserve is to be maintained at a level to cover the potential loss of at least one year's rental income from each property acquired thorough the use of external borrowing. |

| <u>REVENUE RESERVES / CONTINGENCIES</u> | <u>Minimum Balance</u> | <u>Description</u> | <u>Policy/Objective</u> |
|--|----------------------------|---|--|
| | <u>£000</u> | | |
| RINGFENCED GRANTS OR FUNDS FOR SPECIFIC USE | | | |
| Residential Property Acquisition Fund | N/A | A limited fund of £3 million for the purchase of properties to use as temporary accommodation. | A specific fund created at S&R on 27 January 2016, for the purchase of suitable properties for use as temporary accommodation, to generate an income stream, reduce emergency temporary accommodation costs incurred and provide a long term asset value growth. |
| Community Safety Partnership | N/A | To fund Community Safety activities agreed with Surrey County Council and Surrey Police | To deliver objectives set by the Community Safety Partnership. To provide funding for domestic homicide reviews. |
| Sports & Leisure Development Projects Fund | N/A | External funding set aside to support sports & leisure development projects | Funding for Sports & Leisure Development Projects; BMX/skateboard maintenance, youth diversion, Let Get Active 50+ and community football coaching |
| Place Development Grants | N/A | Provides funding for planning development expertise | (1) Grants received to provide resources for the local plan and other place development related workstreams. |
| Prevention, Personalisation and Partnership Fund | N/A | Surrey County Council funding for District initiatives supporting adult social care from March 2013 to March 2017 | Funding from ring fenced grant for local authorities to undertake new public health functions |
| Housing/Homelessness Support Grants | N/A | Grant funding used to support homelessness prevention measures | The funding is to be used on preventing homelessness and to offset reduced rental income on temporary accommodation arising from benefit changes |
| Other | N/A | | |