

REVIEW OF RESERVES

Head of Service/Contact:	Lee Duffy, Chief Finance Officer
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	
Annexes/Appendices (attached):	Annex 1 - Policy on reserves
Other available papers (not attached):	2018/19 Financial statements 2019/20 Budget book

Report summary

This report reviews the level of the Council's reserves compared to District Council benchmarks as part of a financial health check, and seeks the Panel's guidance on transfers between the reserves.

Recommendation (s)

The Panel reviews:

- (1) the overall level of the Council's reserves and provisions and considers whether they are appropriate for sound management of the Council's finances.
- (2) the level of individual reserves and provisions and considers whether it supports the transfers between reserves as set out in paragraphs 7.18, 7.22, 7.35 and 7.51 of this report.

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 The Council's Medium Term Financial Strategy includes the following objectives for the budget position and revenue reserves:-

- Produce a balanced revenue budget each year
- Maintain a prudent level of strategic reserves and a minimum of £1 million in the Corporate Projects Reserve
- Utilise reserves pro-actively to manage major risks to the Council's finances

Financial Policy Panel

10 September 2019

- Maintain a minimum working balance of £2.5 million at 31 March 2020.

1.2 The Council's Medium Term Financial Strategy includes the following objectives for Investment:

- The Council has committed a significant level of funding to capital investment in the four year financial plan however it is seeking to maintain an uncommitted level of capital reserves of £1 million at 31 March 2020.

2 Background

- 2.1 The Financial Plan 2016-20, including the Medium Term Financial Strategy, was approved by the Council in February 2016 following a review of the Council's financial standing (section 3).
- 2.2 The plan included a trend analysis of the Council's revenue and capital reserves between 2008 and 2015 and an overview of reserves held at March 2015.
- 2.3 The plan also provided a four year revenue budget forecast and an overview of the forecast level of reserves and provisions up to March 2020 (section 15).
- 2.4 The Council already carries out an annual review of its reserves and provisions and uses this information for budget planning and the capital programme review.

3 Reserves

- 3.1 For Local Government, reserves play a crucial role in good public financial management. They exist so that the Council can invest in service transformation for the future or respond to unexpected events or emerging needs.
- 3.2 Reserves held by this Council can be distinguished between general fund and capital. There is clear guidance on how these types of reserves can be applied and it varies for the two types.

General Fund Revenue Reserves

- 3.3 The Council's General Fund is where all the revenue income and expenditure of the Council is accounted for. It does not include specific funds, such as the Collection Fund, which account for monies that the Council is acting as agent for.
- 3.4 The reserves are the accumulated surplus of income over expenditure.
- 3.5 General Fund reserves should not be used to fund revenue expenditure on an ongoing basis.

Financial Policy Panel

10 September 2019

- 3.6 General fund reserves are classified as either earmarked or un-earmarked.

General Working Balance (Un-earmarked reserves)

- 3.7 Working balance is often referred to as un-earmarked reserves and is maintained to safeguard the Council against potential financial risks beyond those for which specific earmarked reserves have been created.
- 3.8 The 'normal' level of un-earmarked reserves will reflect the long-term needs of the Council and be based on the ongoing operational requirements of the Council. This will include a number of factors, the main ones being the gross expenditure of the Council and the extent to which long-term service contracts reduce the Council's flexibility to respond to financial shocks. Previously the Audit Commission suggested that a yardstick for 'normal' un-earmarked reserves is somewhere between 5% and 100% of 'net operating expenditure'.

Strategic (Earmarked) Reserves

- 3.9 Strategic reserves are also called earmarked reserves and they are amounts set aside for specific policy purposes or for general contingencies and cash flow management. For each reserve established, the purpose and usage needs to be clearly defined.

Capital Reserves

- 3.10 Capital Receipts Reserve represents receipts available to finance future capital expenditure.

4 Current Level of Reserves

- 4.1 The following table shows at a high level the Council's revenue and capital reserves as contained in the draft financial statements for 2018/19 and the forecast change in reserves anticipated for 2019/20.

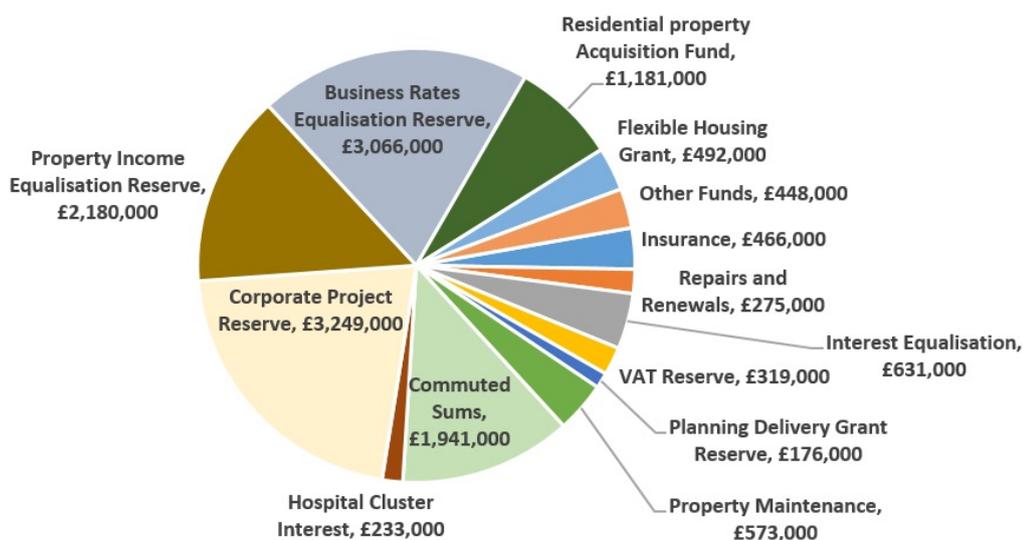
	Actual 2017/18	Actual 2018/19	Movement 2018/19	Forecast Movement 2019/20
	£'m	£'m	£'m	£'m
General Working Balance	3.3	3.4	+ 0.1	+0.0
Strategic Reserves	12.9	15.2	+ 2.3	-0.9
Capital Reserves	4.9	4.9	+ 0.0	-1.7

Financial Policy Panel

10 September 2019

- 4.2 The General Fund working balance increased by a surplus of £68,000 in 2018/19.
- 4.3 Strategic reserves were improved by planned transfers of New Homes Bonus Grant to Corporate Projects Reserve, the expected increase in the share of business rates income as a result of being in a Pilot and planned appropriations to Property Income Equalisation Reserve from income from recently acquired properties financed by borrowing.
- 4.4 The main reason capital reserves remained unchanged is due to the carry forward of capital programme commitments into 2019/20 of approximately £1,090,000.
- 4.5 The following diagram shows the Revenue Reserves totalling £15 million as at 31 March 2019.

REVENUE RESERVES (March 2019)



5 Financial Standing

General Fund Working Balance

- 5.1 The Council's general fund working balance at £3.4 million represents 41% of the Council's annual net revenue expenditure. This is broadly in line with the national average held by District Councils of around 39% of their net annual revenue expenditure at the end of 2017/18.

Financial Policy Panel

10 September 2019

- 5.2 Since 2015/16 the Council's working balance has remained at around £3.4 million.
- 5.3 Given the size of the Council and the fact that the working balance is around the average for district councils compared to net revenue expenditure, the current level of reserve is not considered to be a concern.

Earmarked General Fund Reserves

- 5.4 The Council's earmarked or strategic reserves have increased since 2015/16 from £7.3 million to £15.2 million in 2018/19.
- 5.5 It should be noted that specific local circumstances more significantly affect the level of earmarked reserves and, whilst the ratio of net expenditure to working balance is useful for the general reserve, any ratios should be used more cautiously for strategic reserves.
- 5.6 There are four main reasons why there has been an increase in the level of strategic reserves in the last four years, not only to cover greater uncertainty and increased risk in relation to Councils' future finances but also to reflect changes to sums now defined as reserves.
- 5.7 Firstly, the Council has created a property income equalisation reserve with a balance of £2.2 million to mitigate against the risk of loss of rental income, from investment property tenants, which currently fund the Council's external debt and make a contribution to finance services to residents.
- 5.8 Secondly, in the last four years the balance on the business rates equalisation reserve has increased by £2.4m, however, in 2019/20 £1.9m must be used as planned from this reserve to finance a deficit chargeable from the business rates collection fund account.
- 5.9 Thirdly, New Homes Bonus grant has been set aside to the corporate projects reserve to provide funding for one off projects, the balance within this reserve has increased by £1.5m in the last 4 years.
- 5.10 Fourthly, due to changes in the presentation of grant funding £800k of grant income received for specific purposes are now included within strategic reserves when in 2015/16 these would have been shown elsewhere on the Council's balance sheet.

Capital Reserves

- 5.11 Capital reserves at the end of 2018/19 were at £4.3million (excluding £0.6m earmarked for Horton Chapel), however, the Council has already committed £1.7m to fund approved projects within the Council's capital programme for 2019/20.

Financial Policy Panel

10 September 2019

6 Medium Term Financial Planning

- 6.1 The latest forecast suggests that this Council will need to reduce its net revenue budget by around £2 million over the next four years to maintain a balanced budget with no use of working balances. A separate report regarding financial planning is included on this agenda.
- 6.2 To reduce the level of savings required to meet the budget gap a review of current budgeted contributions to reserves has been undertaken. In 2019/20 the Council has budgeted net contributions to strategic reserves of c£900k (excluding the transfer from the business rates equalisation reserve of £1.8m). The majority of the budgeted contribution is £660k to the property income equalisation.
- 6.3 In 2016/17 the Council decided to acquire commercial property to provide Epsom & Ewell Borough Council with new rental income streams to help address cuts made in Government funding.
- 6.4 The Council at the same time agreed to acquire these properties using external borrowing and created a new property income equalisation reserve that would be maintained at a level to mitigate one year's loss of rental income from each property acquired through borrowing.
- 6.5 The current level of funds needed on the property income equalisation fund to meet the requirement of 1 year's rental income is c£5 million. Currently the balance on this reserve as at the end of 2018/19 is £2.2 million and at the present rate of contributions it will be in 2024/25 before the target balance will be achieved, and contributions to this reserve from the general fund are expected to reduce.
- 6.6 Following review, there is an opportunity to transfer surplus strategic reserve balances to the property income equalisation reserve which would enable the Council to realise a reduction in its contributions from the general fund earlier than planned. Such transfers to the property income equalisation reserve as set out in paragraphs 7.18, 7.22, 7.35 and 7.51 would, therefore, assist the Council in meeting the budget savings target of £2 million by 2023/24, thereby helping to protect the revenue resources available for the delivery of services to residents.

7 Review of Reserves

- 7.1 The level of reserves is also consistent with the Council's own policy as set out in the Medium Term Financial Strategy.
- 7.2 As set out in Grant Thornton Audit Findings report for 2018/19 they stated the following regarding the Council's level of reserves:

"You have maintained a strong reserves increasing the level of usable reserves by £2.8m in the year to £28.9m overall. You have demonstrated robust financial planning by earmarking 52% of these reserves for specific strategic purposes which will allow you to meet your strategic objectives over the medium term. This

Financial Policy Panel

10 September 2019

demonstrates planned spending for specific purposes which will ensure you are able to deliver the services and developments committed to for the benefit of residents of the Borough.

You have set yourself a minimum general fund balance of £2.5m which you wish to hold to ensure a minimum level of funds is available for non-specific expenditure should it be required. You have demonstrated that you have exceeded this minimum threshold for 2018/19 by holding a general fund reserve of £3.4m and have plans to maintain the minimum level in the medium term.

Conclusion

Accordingly, in our view, appropriate arrangements are in place to support your medium term financial position.”

- 7.3 A more detailed assessment is made of each reserve in **Annex 1** showing:-
- The level of the reserve as at March 2019 compared to March 2018
 - The policy for each reserve
 - The objective of holding each reserve
 - Commitments made against each of the reserves
- 7.4 The purpose of the annexe is to set out clearly the purpose of individual reserves or provisions and to identify any shortfalls or the opportunity to use funds in other areas including service delivery.
- 7.5 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.
- 7.6 The following section considers the scope for releasing funds or the need to strengthen individual reserves and covers all revenue reserves over £200,000.
- 7.7 The Panel will consider capital reserves after the Capital Member Group has prepared a draft programme in December 2019. The capital reserves are used to invest in services and are monitored closely along with other funding sources such as Community Infrastructure Levy (CIL) Section 106 planning gain funds.

General Fund Working Balance

- 7.8 The General Fund Working Balance provides the main contingency for unforeseen services. The current policy is that a minimum of £2.5 million should be retained and this compares to a current Council turnover of around c£50 million (5%).

Financial Policy Panel

10 September 2019

- 7.9 The minimum level of working balance agreed by Strategy Resources Committee has remained at £2.5 million for the last six years.
- 7.10 As the reserve currently stands at £3.4m, this effectively provides a surplus of £900,000 which is currently uncommitted in the short term. The main use of this 'surplus' element is to manage the longer term budget position so that the Council has time to respond to government funding cuts in a planned manner rather than through emergency service reduction. The surplus also means that the Council can mitigate annual overspends on its revenue budget up to a certain level, without breaching the agreed minimum £2.5m threshold.
- 7.11 The Council would need to accept a higher risk to service funding in the medium term if the working balance were reduced. In the current climate of public sector funding cuts and risks to other income streams any reliance on use of reserves is not recommended. The Panel should continue to review the level of the working balance as an essential tool in medium term financial planning and it is recommended that the Council keeps the minimum level of working balance at £2.5 million.

Strategic Reserves

Recreation Commuted Sums

- 7.12 This comprises 'dowries' of £1,941,000 received upon the transfer of land to fund future maintenance. The sums are held with the Council's investment portfolio and the interest earned credited to the Community and Wellbeing Committee open spaces account as a permanent contribution to grounds maintenance costs. No changes are recommended to the balances held.

Business Rates Equalisation Reserve

- 7.13 A Business Rates Equalisation Reserve was established with the introduction of the current system for redistribution of retained business rates back in 2013. It was created to manage variations to estimates of retained business rate income.
- 7.14 In 2017/18 it was agreed that Central Government funding of £1,381,000 for small business rate relief and safety net payment be transferred to this reserve to help finance the deficit on the Council's share of retained business rates income payable in 2019/20 of £1.8 million.
- 7.15 In 2018/19 the Council benefitted from being part of a 100% Business Rates Pilot, although not all the gain from the Pilot was realisable in 2018/19 as part of the additional income will not be received from the fund until 2020/21.
- 7.16 The balance on this reserve as at 31/3/19 was £3,066,000 and this is expected to reduce to £1.3 million by the end of 2019/20 after funding the prior year deficit from the fund.

Financial Policy Panel

10 September 2019

- 7.17 The current Financial Plan includes the use of a total of £0.5 million of this reserve during 2021/22 to 2024/25 to offset expected business rate reductions in funding over this period through the Fair Funding and Business Rate Retention reviews.
- 7.18 It is prudent to maintain a minimum balance of £0.5 million on this reserve to compensate for at least two years where business rates retained income could fall below the budgeted funding baseline. Therefore, it is proposed that a surplus balance of **£221,000 is transferred from this reserve to Property Income Equalisation Reserve.**

Hospital Cluster Interest Reserve

- 7.19 The terms of the transfer of Horton Chapel to the Council in the 2000's provided that the commuted sum for investment, received by the Council at the transfer of the property, would be repayable with added interest if the Council were unable to fulfil the terms of the property transfer.
- 7.20 This reserve was established to hold the interest accrued on the commuted sums, to ensure that, should a community facility not be achieved, any interest repayable would not fall on the general fund and could be met from the earmarked reserve. Should a successful outcome be achieved the sum could also act as a contingency provision for additional one-off costs. The balance of the reserve at 31 March 2019 was £233,000.
- 7.21 The Council gave approval for the transfer of Horton Chapel to the Horton Chapel Arts & Heritage Society in September 2016 for its refurbishment for community use.
- 7.22 It is proposed that the full balance of **£233,000 on this reserve be transferred to Property Income Equalisation reserve**, once the Council has fulfilled its obligations on completion of works to Horton Chapel.

Insurance Reserve

- 7.23 The Council maintains a provision for uninsured losses (e.g. sums below the Council's insurance excess limits) on all unsettled claims. These will go back several years. The reserve is reviewed annually based on broker assessments of potential liabilities and at £466,000 is above the forecast for outstanding liabilities as at March 2019 assessment.
- 7.24 The Council has been notified by the Scheme Administrator for Municipal Mutual Insurance Ltd that the amount subject to levy is £83,615 which may be claimed by Municipal Mutual Insurance Ltd in relation to future liabilities as at 31 March 2019.
- 7.25 The Council's base budget requires an on-going contribution from this reserve of £25,000 per annum to fund the increased cost of insurance for this Council, therefore no further transfers from this reserve are currently recommended.

Financial Policy Panel

10 September 2019

Corporate Project Reserve

7.26 This fund was established to provide revenue funding for projects outside of the day to day delivery of services. This has successfully assisted the delivery of a number of programmes:-

7.26.1 Partnership Funding – Grants or contributions for schemes that cover a number of years can be held in this fund until expenditure is incurred (e.g. parks improvement funding, EU exit funding and funds allocated for new government burdens)

7.26.2 Spend to save one off costs – some of the Councils spend to save initiatives involve one-off staffing or financing costs which cannot be contained within the base budget

7.26.3 Funding for one-off corporate priority projects.

7.27 The balance of the Corporate Project Reserve at 31 March 2019 was £3,249,000, comprised of the following sources:

	£'000
New Homes Bonus	2,614
Partnership Funding	379
Non-specific	256
Total	3,249

7.28 Additional funding of £444,000 from New Homes Bonus for 2019/20 is budgeted to be transferred into this reserve. This will result in a balance on this reserve of £2,614,000. However, New Homes Bonus funding has been drastically reduced in recent years and is under further threat as part of the Government's 'Fair Funding Review'. The level of future contributions from New Homes Bonus to this reserve is expected to further reduce in future years.

7.29 The Partnership Funding element of this reserve is expected to be used to finance specific expenditure in future years.

7.30 The non-specific sum on the Corporate Projects Reserve is £256,000 and could be released however the use of this sum for financial management purposes as set out above (partnership funding, development holding costs, spend to save funding) provides greater flexibility for the Council and extra capacity to deliver corporate projects. This is essential as resilience is reduced due to funding constraints.

Financial Policy Panel

10 September 2019

- 7.31 The budget for 2019/20 includes transfers of £145,000 from the non-specific element of this reserve which reduces the balance on this fund to £111,000. No transfers are recommended to or from this reserve at this time.

Value Added Tax Reserve

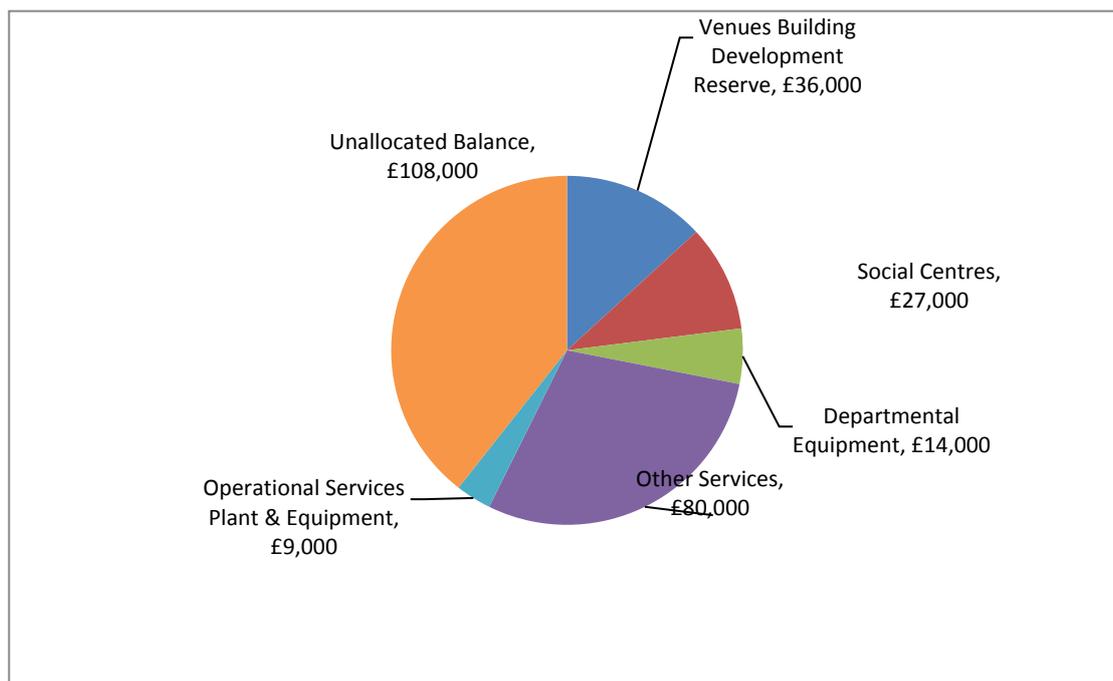
- 7.32 The Council is able to recover most VAT paid (netted against VAT receipts). The main risk for District Council's is a potential annual VAT liability where VAT on its 'trading activity' as defined by the HMRC exceeds 5% of total VAT. Up to this point the Council can recover all VAT incurred on trading activities. Under 'partial exemption' rules as soon as this 5% trigger point is breached the Council must pay the full VAT liability estimated at around £100,000 in any year. The Council has exceeded the 5% figure in 2013/14 and 2016/17, however the Council was able to avoid repayment of the recovered VAT by taking mitigating action.
- 7.33 The Council manages this risk by holding a VAT reserve that, should the 5% limit be breached, enables the liability to be met for the previous inspected year and provides additional funding should action not be available to remove the liability in the current year.
- 7.34 The current reserve balance is £319,000, it is recommended that the balance on this reserve should provide funding for 2½ years of the potential annual VAT liability.
- 7.35 Therefore, it is recommended that **£69,000 is transferred to the Property Income Equalisation Reserve.**

Repairs and Renewals Fund

- 7.36 The repairs and renewals fund comprises of a provision for the replacement or repair of plant, equipment and vehicles where they are owned by the Council.
- 7.37 The level of reserve held 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 the of the normal budget process. It enables them to make a case for funds when there is a service requirement that cannot be met within constrained revenue budgets or funded from capital. Since most vehicles are covered by a separate lease/maintenance contract, the items that have recently been funded have been mainly plant and equipment.
- 7.38 The balance on the reserve as at 31 March 2019 was £274,000.
- 7.39 Based on allocations made from specific service budgets, net of expenditure from the fund, the fund is earmarked as follows:-

Financial Policy Panel

10 September 2019



- 7.40 Another important use of the reserve is for ad hoc health and safety expenditures where the required spend cannot be met from other budgets.
- 7.41 The 2019/20 revenue budget includes contributions of £46,000 into the reserve. No further transfers are recommended to or from this reserve at this time.

Property Maintenance Fund

- 7.42 The Property Maintenance Fund was established to provide additional resources to deal with the backlog of repairs to Council property.
- 7.43 The Council now has a base budget of £210,000 per annum for prioritised repairs to buildings and other assets such as hard surfaces. This sum is additional to the programmed and reactive maintenance budget covered in the facilities management contract. Work is prioritised by the Senior Surveyor, in consultation with the Head of Property and Regeneration, and the programme is reported either to this Panel or the Strategy and Resources Committee. Part of the budget is left uncommitted at the start of the year to help finance any urgent unplanned works
- 7.44 Budget allocations for works approved but not completed by the year end are transferred to the Property Maintenance Reserve at 31 March so that they can be used to finance the completion of the programme the following year.
- 7.45 The current position on the reserve is as follows:-

Financial Policy Panel

10 September 2019

Property Maintenance Fund	£000
Balance carried forward 1 April 2019	573
Drawdown for commitments carried forward from 2018/19	-70
Uncommitted balance	503

- 7.46 The level of uncommitted reserve is considered adequate taking into account the size of the Council's property portfolio and no changes are recommended to this reserve.

Interest Equalisation Reserve

- 7.47 The interest equalisation account was 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.
- 7.48 Prior to the 2008 financial crisis when capital reserves were higher and interest rates were higher, the Council relied more significantly on interest generated to help fund services, by over £1m per annum at one time.
- 7.49 One of the challenges that the Council has managed in the past few years is coping with significantly reduced revenue from treasury management investments.
- 7.50 In the budget targets report the updated financial forecast assumes that average investment returns will stay at low levels, but will increase gradually over the next 5 years from around 1 to 2½ percent. This reserve will be required to provide additional funding for services if these levels of returns cannot be achieved.
- 7.51 This reserve is therefore still extremely useful for financial planning. The reserve stands at £631,000 at 31 March 2019. However given current interest rates it is suggested that a minimum of £400,000 is retained to manage the medium term financial position and a **transfer of £231,000 is made out to the Property Income equalisation reserve.**

Planning Delivery Grant Reserve

- 7.52 This reserve was created from received Government Housing and Planning Delivery Grants and is earmarked for providing funds for planning development expertise. The use of the balance on this reserve was agreed at Strategy & Resources Committee on 30 July 2019.

Financial Policy Panel

10 September 2019

Residential Property Acquisition Fund

- 7.53 This fund was created in 2016/17 from New Homes Bonus funding and is used to purchase residential properties to support the Council's housing activities, the balance on this fund as at the 31/3/2019 was £1,181,000. No transfers are recommended to or from this reserve at this time.

Property Income Equalisation Reserve

- 7.54 The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from investment properties purchased through the Commercial Property Acquisition Fund, which is supported by external borrowing. The reserve's target is to accumulate sufficient funds to cover the potential loss of one year's rental income from each property.
- 7.55 Following a contribution to the reserve of £0.83m in 2018/19, the reserve balance stands at £2.18m, £2.79m below its target balance of £4.97m.
- 7.56 If the proposed transfers of £754,000 as set out in this report are agreed and with annual budgeted contributions to the reserve of £0.66m; at this rate, the target balance is on track to be achieved in 2021/22.

Flexible Housing Grant

- 7.57 The grant is held in a reserve and is used to support homelessness prevention measures and to offset reduced rental income on temporary accommodation arising from benefit changes. As at the end of 2018/19 the balance on this reserve was £492,000. These monies are held for a specific use and therefore not recommended to be transferred.

Other Reserves

- 7.58 The remaining strategic reserves are excluded from this report either due to funds having restrictions on their use or they are of relatively low value.

8 Proposals

- 8.1 It is proposed that the Panel:
- 8.1.1 reviews the overall level of the Council's reserves and provisions and considers whether they are appropriate for sound management of the Council's finances, taking into account current pressures on funding services
 - 8.1.2 reviews the level of individual reserves and provisions and considers whether it wishes to support transfers of £221k from the Business Equalisation Reserve, £69k from the Value added Tax Reserve, £231k from the Interest Equalisation Reserve and £233k from Hospital Cluster Interest Reserve into the Property Income Equalisation Reserve;

Financial Policy Panel

10 September 2019

9 Financial and Manpower Implications

- 9.1 **Chief Finance Officer's comments:** This report should be read in conjunction with the budget targets report (also included on the agenda for this meeting) which sets out the Council's projected financial position for the next four years.
- 9.2 The proposal to transfer a total of £754k to the Property Income Equalisation reserve from other earmarked reserves as set out in paragraphs 7.18, 7.22, 7.35 and 7.51 will enable the Council to reduce its budgeted general fund contributions to the Property Income Equalisation reserve earlier than planned. This will assist the Council in meeting its budget savings target of £2 million by 2023/24, thereby helping to protect the revenue resources that are available for the delivery of services to residents.
- 9.3 There are no specific manpower implications arising from this report.

10 Legal Implications (including implications for matters relating to equality)

- 10.1 There is no regulation as to an appropriate the level the reserves.
- 10.2 The Chief Finance Officer is required to prepare a statement on reserves as part of the budget report.
- 10.3 ***Monitoring Officer's comments: none arising from the contents of this report.***

11 Sustainability Policy and Community Safety Implications

- 11.1 None for the purpose of this report.

12 Partnerships

- 12.1 There are a number of specific reserves held for partnership funding as identified in Annexe 1 of this report.

13 Risk Assessment

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

Financial Policy Panel

10 September 2019

- 13.2 The level of reserves has enabled the Council to manage the impacts to date of public sector funding cuts in a planned and structured way. The prospect of further funding cuts through the Fair Funding and Retained Business Rates reviews means that the ability to use strategic reserves to smooth out these changes has become even more critical as reductions to the net budget become harder to deliver.
- 13.3 This report does not cover the Council's long term liabilities. The Council has long term external debt of £64 million acquired whilst purchasing commercial investment properties, plus a further £20m of commercial investment properties funded through internal borrowing. The Council has a pension fund liability which is managed through payment of additional monetary contributions. The pension is managed by Surrey County Council as part of the Surrey Pension Fund administration and is currently subject to a triennial valuation.

14 Conclusion and Recommendations

- 14.1 There is increased scrutiny over the level of local authority reserves at a time where government funding cuts are leading to service reduction.
- 14.2 The transfer of surplus funds totalling £754,000 from those reserves identified in this report will enable the achievement of the minimum required balance in the Property income Equalisation Reserve earlier than previously forecast. The achievement of this minimum level of reserve will allow property rental income of £500,000 previously earmarked to be transferred in to the reserve to be used to contribute to reducing the level of savings required by 2023/24 within the general fund.
- 14.3 The Council has carried out reviews of its revenue and capital reserves and previous reports have sought to clarify the purpose of individual reserves held and their contribution to financial management and service delivery.

Ward(s) affected: (All Wards);