

## REVIEW OF RESERVES

<b>Head of Service:</b>	Cagdas Canbolat, Director of Corporate Services and Section 151 Officer (Chief Finance Officer)
<b>Report Author:</b>	Cagdas Canbolat
<b>Wards affected:</b>	(All Wards);
<b>Appendices (attached):</b>	None

### 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 recommended General Fund unallocated reserve level of £1.5 million is appropriate for the sound management of the Council's finances;
- (2) Review the methodologies and levels of other reserves in light of the latest MTFS and report back to FSAG.

#### The Group is asked to recommend to full council:

- (3) Proposed changes to the General Fund unallocated reserve levels.

## 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 latest Medium-Term Financial Strategy (MTFS) was approved by Full Council in February 2025 following a review of the Council's financial standing.
- 2.2 The MTFS included the following objectives for budgets and revenue reserves:
  - 2.2.1 Produce a balanced revenue budget each year;

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2.2.2 Utilise reserves proactively to manage major risks to the Council's finances.

2.2.3 Maintain a prudent level of strategic reserves and a minimum balance of the following reserves:

- **Working Balance Reserves of £2.5m (Revised to £1.0m)**
- **Corporate Projects Reserves - £1m (Revised to £0)**
- **Capital Receipt - £1m (Unchanged)**

2.3 However, in May 2025, the EEBC Strategic Priorities 2025-27 report to Council proposed a reduction in the minimum level of corporate projects reserve from £1.0 million to zero, and a reduction in the minimum working balance from £2.5 million to £1.0 million.

2.4 Council agreed the revised minimum levels of these reserves and agreed to create a new strategic priorities reserve totalling £2.2 million using a transfer of £1.2 million from general fund working balance and £1.02 million from the corporate projects reserve.

2.5 Whilst the May report to Council considered the general fund working balance and corporate project reserves, the purpose of this report is to review the current level of all of the Council's reserves; to understand the known risks facing the Council; and to recommend new level of reserves to be held following a benchmarking exercise.

2.6 Due to change in landscape in Surrey, future financial decisions need to consider the Local Government Reorganisation context and its likely timescales of the vesting day on 1 April 2027.

### 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 several years, mainly through accumulated surplus of income over expenditure or one-off grants. The council has had healthy level of reserves to respond to unexpected change in local government finance. However, there has been some level of reliance on reserves which is not sustainable in the long run, diminishing reserve levels and increasing structural deficits that has not be sufficiently addressed.

3.3 All reserve balances on 31 March 2025 are provisional, pending the 2024/25 outturn position being reported to Strategy & Resources in July, and the external audit of financial year 2024/25.

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- 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 At EEBC General Fund reserves can be split into three sub-categories:

3.7.1 Reserves available for general use;

3.7.2 Contingencies unavailable for general use;

3.7.3 Ringfenced funds/grants for specific purposes.

### 1A. Reserves Available for General 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.£2.366 million (23% of Net Council Budget)

- 3.11 These reserves can be used to fund most types of expenditure and are presently relied upon to support the Council in covering unexpected and / or one off expenditure.

### 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 are clearly defined.

- 3.13 After deducting forecast transfers and commitments, these reserve balances total c.£13.818 million.

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- 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 general inflation and rising demand for services like temporary accommodation). The latest 2024/25 adverse variance outturn of £0.242 million will be covered from the general fund working balance reserve (and is reflected in the balance at 31 March 2025 in the table in 3.19).

### 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.£0.581 million.
- 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.

### Summary of Revenue Reserves

- 3.19 The following table shows a breakdown of all general fund revenue reserves which hold a forecast balance of £16.765 million after taking existing commitments and forecast transfers into account.

	Balance at 31 March 2024	Balance at 31 March 2025	Commitments & Forecast Transfers	Forecast Balance
	£'000	£'000	£'000	£'000
General Fund Working Balance	2,997	2,755	(1,200)	1,555
Corporate Projects Reserve	4,128	3,838	(3,027)	811
<b>Sub-Total - Reserves available for general use</b>	<b>7,125</b>	<b>6,593</b>	<b>(4,227)</b>	<b>2,366</b>
Strategic Priorities Reserve	0	0	2,072	2,072
Repairs and Renewals	596	686	(15)	671
Insurance	434	420	0	420
Property Maintenance	515	376	(345)	31
VAT Reserve	206	206	0	206

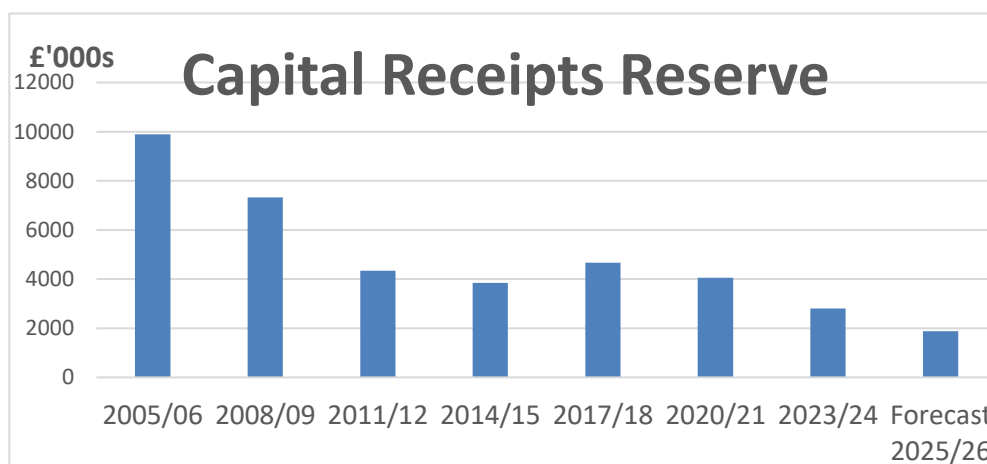
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Collection Fund Equalisation Reserve	3,824	2,837	(1,486)	1,351
Commuted Sums	1,439	1,439	0	1,439
Interest Equalisation Reserve	784	934	0	934
Property Income Equalisation Reserve	7,224	6,694	0	6,694
<b>Sub-Total - Contingencies unavailable for general use</b>	<b>15,022</b>	<b>13,592</b>	<b>226</b>	<b>13,818</b>
Residential Property Acquisition Fund	978	0	0	0
Community Safety	116	104	(17)	87
Sports & Leisure Development Projects Fund	123	121	(10)	111
Place Development Grants (d)	772	590	(520)	70
Prevention, Personalisation & Partnership Fund	125	93	(24)	69
Housing/Homelessness Support Grants	910	708	(708)	0
HIA Hardship fund	124	124	0	124
Basic Payments Scheme	136	124	(32)	92
Other smaller grants	28	28	0	28
<b>Sub-Total - Ringfenced funds/grants for specific use</b>	<b>3,313</b>	<b>1,892</b>	<b>(1,311)</b>	<b>581</b>
<b>Total Revenue Reserves</b>	<b>25,460</b>	<b>22,077</b>	<b>(5,312)</b>	<b>16,765</b>

### Capital Reserves

- 3.20 Capital receipts reserves are only available to finance future capital expenditure.
- 3.21 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.
- 3.22 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 £1.88 million after funding 2025/26's capital programme:



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3.23 To help protect the capital receipts reserve balance, the Council's MTFS includes the following agreed policy objectives:

3.23.1 Optimise the use of Council assets, realise capital receipts from sale of surplus assets;

3.23.2 Prioritise capital investment to ensure retained property is fit for purpose;

3.23.3 Maintain a minimum uncommitted level of capital receipts reserves of £1 million until 31 March 2028;

3.23.4 Aim to maintain a minimum of £0.5 million annual funding from revenue to fund the annual capital programme.

3.24 In addition to any proposed projects for the 2026/27 capital programme, there may be a requirement of up to £0.7 million to fund changes required to comply with the governments national waste strategy.

## 4 Review of Revenue Reserves

4.1 An assessment of key reserves will be part of this review.

4.2 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.

### Reserves Available for General Use

4.3 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.

4.4 The following reserves are included within this category.

### **General Fund Working Balance**

4.5 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.

4.6 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.

4.7 The working balance currently stands at £1.555 million (15% of Net Budget) slightly above the revised minimum balance of £1.0 million set in May 2025.

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- 4.8 A minimum balance of £1.0 million would represent approx. 9.7% of the Council's net operating expenditure budget of £10.269 million for 2025/26.
- 4.9 When we compare this to reserves levels of council's in Surrey this is at the low end. See table below:

	Budget	GF Reserves	% of Budget
Councils	£'M	£'M	%
Surrey County	<b>1,197.100</b>	49.100	4%
Runnymede Borough	<b>12.417</b>	18.944	153%
Surrey Heath Borough	<b>14.694</b>	7.424	51%
Guildford Borough	<b>16.709</b>	4.059	24%
Tandridge District	<b>12.798</b>	2.787	22%
Waverley Borough	<b>16.568</b>	3.536	21%
Elmbridge Borough	<b>21.818</b>	3.909	18%
Reigate & Banstead Borough	<b>22.378</b>	3.500	16%
Epsom & Ewell Borough	<b>10.269</b>	1.555	15%
Woking Borough	<b>31.400</b>	3.955	13%
Mole Valley District	<b>11.107</b>	0.958	9%

### Corporate Projects Reserve

- 4.10 This reserve was established to provide revenue funding for projects that fall outside of the day-to-day delivery of services, such as:
- 4.10.1 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;
  - 4.10.2 Funding for one-off corporate priority projects;
  - 4.10.3 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).

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- 4.11 The balance on the corporate projects reserve currently stands at £0.811 million, including funding a request to Strategy & Resources Committee in July 2025 of £0.25 million for Hook Road Arena.
- 4.12 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 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.
- 4.13 After carrying out some benchmarking in Surrey, it is recommended that the working balance at EEBC is at least 15% of net revenue budget.**

## Contingencies Unavailable for General Use

- 4.14 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.
- 4.15 All these reserves make up the largest proportion of forecast revenue reserves of £13.818 million.
- 4.16 However we recommend that the following reserves are reviewed throughout 2025/26 as part of the latest MTFS:
- Property Income Equalisation Reserve (£6,694m)
  - Collection Fund Equalisation Reserve (£1,351)
  - Interest Equalisation Reserve (£0.934m)
- 4.17 Due to the changing national and local context and the framework set within the latest MTFS report, it is recommended officers review the contingencies and methodologies linked to these reserves to ensure continued prudent level of reserves at the same time council priorities are met and report back to the Group.

## 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 new level of reserves and policies.

## 6 Risk Assessment



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### 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 The Council currently finances its capital financing requirement from £64.4 million of Public Works Loan Board loans and the balance from internal borrowing which relies on cash balances. Should reserve, and consequently cash balances, fall significantly, there is a risk that the internal borrowing would need to be replaced by external borrowing which would increase annual interest rates faced by the Council.

6.1.4 The Council's revenue budget is reliant on c.£1 million 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 million planned income for 2025/26. There is currently 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, LGR, 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.
- 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 **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.
- 9.6 **Local Government Reorganisation (LGR) Implications:** The £0.380 million recently announced by government to 'cover the cost' of proposals (for the whole of Surrey) was woefully inadequate but an indication of the level of funding that may be available for Councils in Surrey to address LGR. It is for this reason the council will review its reserves to ensure it has funds to cover unexpected costs during a time of such uncertainty.

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### 10 Background papers

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

#### **Previous reports:**

- [2025/26 Budget Report to Full Council, February 2025](#)

#### **Other papers:**

- [2024/25 Budget and Medium-Term Financial Plan 2024-2028, Council, February 2024](#)
- [Review of Reserves, Financial Strategy Advisory Group, July 2024](#)
- [EEBC Strategic Priorities 2025-27, Council, 6 May 2025](#)