

## 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>Urgent Decision?(yes/no)</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Appendices (attached):</b>	None

### Summary

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

### Recommendation (s)

#### The Committee is asked to:

- (1) Note the new assumptions made for Property Income Equalisation, Collection Fund Equalisation and Interest Equalisation Reserves.**
- (2) Reappropriate identified reserves into Corporate Projects and Maintenance Reserves to support council priorities.**

## 1 Reason for Recommendation

- 1.1 The recommendations will ensure that the Council revises its main reserve assumptions, maintain an appropriate level of reserves for the sound management of the Council's finances and reappropriate reserves to support council priorities.

## 2 Background

- 2.1 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.

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- 2.2 Reserves have been built up over several years, mainly through accumulated surplus of income over expenditure or one-off grants. The council has healthy level of reserves to respond to unexpected change in local government finance.
- 2.3 In July 2025, it was agreed that some of the key reserve's methodologies would be reviewed, and proposals for prudent balance levels would be developed and proposed for approval by Strategy & Resources Committee.
- 2.4 As part of this exercise the following key reserves were reviewed:
- Property Income Equalisation Reserve
  - Collection Fund Equalisation Reserve
  - Interest Equalisation Reserve
- 2.5 It's worth noting the assessment considers the post-pandemic landscape, ongoing uncertainty around funding sources, interest rate stability, income collection rates, unprecedented cost pressures, particularly in housing, and the anticipated financial implications of Local Government Reorganisation, including the expected vesting day of 1 April 2027.

### **3 Review of Key Reserves**

#### **Property Income Equalisation (PIE) Reserve**

- 3.1 The Property Income Equalisation Reserve was established to smooth fluctuations in income generated from the council's property investments. Given that rental income can vary due to market conditions, void periods, or tenant defaults, this reserve helps ensure budget stability by offsetting any shortfalls in expected income. It also provides a buffer to manage unforeseen costs related to property issues or market downturns.
- 3.2 The Council typically maintains reserves equivalent to 12 months of rental income for each of its commercial properties for which it has borrowed funds to purchase. However, for the Bracknell property, a higher reserve of 24 months' rental income is held to reflect the elevated level of risk associated with this asset.
- 3.3 Following a review of current market conditions and the stability of commercial income streams with the service, the Council has revised its approach to the level of PIE reserve. Going forward, it will maintain reserves equivalent to six months of rental income for each commercial property. However, for the Bracknell property, a higher reserve of 24 months' rental income will continue to be held, reflecting the risk profile of this asset.

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- 3.4 This change in assumptions is expected to reappropriate approximately c.£1 million from existing reserves, which is proposed to be transferred to the Corporate Project Reserve to support council priorities.

### **Collection Fund Equalisation Reserve**

- 3.5 A Collection Fund Equalisation Reserve is used by councils to manage the timing differences and volatility in local taxation income, particularly from Council Tax and Business Rates (NNDR).
- 3.6 It is also held to mitigate the financial impact of fluctuations in Council Tax and Business Rates income. These revenues can vary year to year due to changes in collection rates, appeals, or economic conditions. The reserve helps smooth these variations, ensuring the Council can maintain stable funding for services despite short-term income shortfalls or surpluses.
- 3.7 In anticipation of the Government's proposed Business Rates Reset, the Council rightly assumed reduction in retained business rates income, particularly for district councils, which expected to be disproportionately affected.
- 3.8 The forthcoming Business Rates Reset is expected to be implemented as part of the Government's Fair Funding Review (FFR). While the reset is still likely to reduce the Council's retained business rates income, particularly impacting district councils, recent funding models have suggested that there could be a gain but we are monitoring this closely and we will have a better understanding towards year end.
- 3.9 The Collection Fund Equalisation Reserve has held approximately 24–29% of total collection fund income over the past three years. The maximum annual volatility in collection fund income has not exceeded 14%. With the business rates reset scheduled for implementation in the 2026/27 financial year, it is expected that volatility in business rates income will reduce.
- 3.10 As a minimum, the Council plans to reduce the current reserve level from 24% to 14% of total collection fund income. This would release approximately £1 million, which will be transferred to the Corporate Projects Reserve to support Council priorities.

### **Interest Equalisation Reserve**

- 3.11 The Interest Equalisation Reserve is held to manage the financial risks associated with fluctuations in interest rates. As councils often rely on investment income or may incur borrowing costs, changes in interest rates can have a material impact on the budget. This reserve provides a buffer to smooth out the effects of rate volatility, helping to maintain financial stability and protect the Council's medium-term financial strategy.

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- 3.12 As part of the latest Medium Term Financial Strategy, the Council has reduced its forecast for treasury income by £125,000 for 2026/27 and future years, in line with market expectations of falling interest rates.
- 3.13 Over the past three years, the Council has maintained reserves equivalent to approximately 93–113% of total treasury income. Given the planned reduction in the base budget to mitigate potential pressures in this area, it is considered prudent to reduce the current reserve level from 93% to 50%. This revised level is expected to absorb and major reductions in investment balances and interest rates for at least two years. The adjustment enables the reallocation of funds to support corporate priorities.
- 3.14 Accordingly, the Council will reappropriate c.£0.5 million from treasury reserves to the Planned Maintenance Reserve to help address rising costs associated with maintaining key Council assets.

### **Corporate Projects Reserve**

- 3.15 This reserve was established to provide revenue funding for projects that fall outside of the day-to-day delivery of services, such as:
- 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;
  - Funding for one-off corporate priority projects;
  - 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).
- 3.16 The uncommitted balance on the corporate projects reserve currently stands at £811,000. However, the quarter 2 revenue budget monitoring report to Audit & Scrutiny in November 2025 indicates that £510,000 of this balance may be required to meet the deficit position on the revenue budget forecast for year end. This would leave a balance of only £301,000 for future Council projects.
- 3.17 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.
- 3.18 Replenishing the corporate project reserve with c.£2m will help to ensure it meets council priorities.

### **Planned Maintenance Reserve**

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- 3.19 The Planned Maintenance Reserve is held to fund planned and unforeseen maintenance of the Council's assets, such as buildings, infrastructure, and equipment. This reserve ensures that essential repairs and upkeep can be carried out without placing unexpected pressure on the revenue budget. It supports asset longevity, health and safety compliance, and service continuity by providing a financial buffer for both routine and emergency maintenance needs.
- 3.20 Given the ageing profile of some properties and infrastructure, alongside rising costs of materials and labour, it is prudent to increase this reserve by £0.5 million. This adjustment will strengthen the Council's ability to respond to urgent maintenance needs and reduce the risk of unplanned budget pressures in future years.
- 3.21 The current uncommitted balance of this reserve is £231,000. Over the past three years, an average of £160,000 of the reserve has been used to supplement the planned maintenance programme, therefore the reserve will need to be replenished to allow this support to continue for future years.
- 3.22 The following table shows the changes in the key reserves:

Reserves	Current	Proposed	Change
	£'000	£'000	£'000
Property Income Equalisation (PIE)	6,694	5,694	1,000
Collection Fund Equalisation	2,282	1,282	1,000
Interest Equalisation	934	434	500
		Total	2.5000

## 4 Risk Assessment

### Legal or other duties

#### 4.1 Equality Impact Assessment

4.1.1 None arising directly from the contents of this report.

#### 4.2 Crime & Disorder

4.2.1 None arising directly from the contents of this report.

#### 4.3 Safeguarding

4.3.1 None arising directly from the contents of this report.

#### 4.4 Dependencies

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4.4.1 None arising directly from the contents of this report.

### 4.5 Other

4.5.1 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.

4.5.2 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.

4.5.3 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.

## 5 Financial Implications

5.1 The financial implications are set out in the body of the report.

5.2 **Section 151 Officer's comments:** The Council maintains a reasonable level of reserves and balances to help manage the risks faced. Change in local government and Surrey landscape has meant that councils are reviewing their reserve assumptions along with other priorities.

5.3 The council continues to have healthy levels of reserves, and any reappropriation of reserves would ensure to help meet other council priorities.

## 6 Legal Implications

6.1 **Legal Officer's comments:** None arising from the content of this report.

## 7 Policies, Plans & Partnerships

7.1 **Council's Key Priorities:** The following Key Priorities are engaged:

- Effective Council.

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- 7.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 7.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.
- 7.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.
- 7.5 **Partnerships:** None arising from the contents of this report.
- 7.6 **Local Government Reorganisation 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.

## 8 Background papers

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

### Previous reports:

- [Review of Reserves to Financial Strategy Advisory Group on 27 June 2025.](#)

### Other papers:

- None.