

## Medway Council Reserves Strategy 2025/26

### Introduction

CIPFA states in the Financial Management Code that “*the aim of the authority’s financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges.*”

The Council has managed its reserves effectively in line with this aim to date, including growing the level of General Reserves from £5million in March 2018 to almost £27million in March 2022 including doubling the minimum working balance required by the Section 151 Officer to £10million. Since then, it has been necessary to use reserves to manage the significant budget pressures impacting all local authorities, particularly those with upper tier responsibilities, however the Council has maintained the level of General Reserves at a level above the minimum required.

The introduction of a Reserves Strategy during 2025/26 is intended to increase transparency and improve the level of awareness across the Council. It will help our officers and Members to understand our reserves and ensure that they are actively managed, proportionate to the risks and uncertainties the Council faces and provide a degree of financial resilience.

The Strategy sets out the Council’s current reserves position and explains why effective management of reserves is important and how we make decisions about the level of reserves we hold. It also articulates our aspirations and the action planned to increase the level of General Reserves, alongside arrangements to ensure reserves are used most effectively to support the Council’s medium term financial position.

This strategy relates primarily to the Council’s usable reserves and the distinction between these and its unusable reserves is explained below:

- **Usable reserves:** these are cash-backed and are available to the Council to finance its activities in future years. They can be either revenue or capital.
- **Unusable reserves:** these are created by movements in the value of the Council’s assets and liabilities, and are therefore not cash-backed, so are not available to the Council to finance future activity. The most significant reserves included in this category for Medway are the Revaluation Reserve, Pension Reserve and Capital Adjustment Account. Their purpose is of a technical accounting nature and cannot be used to support the services of the authority.

In addition to its reserves, the Council holds a variety of provisions on its balance sheet. Local Government accounting rules require Councils to be prudent in the way they manage their finances, and as such if there is a possibility that a financial expense will be incurred in the future, councils must provide for an estimate of this cost. For example, despite its best efforts, it is unlikely that the Council will recover 100% of the council tax and business rates owing in the financial year. Therefore,

officers will make an estimate of the percentage amount that is considered doubtful and provide for this amount in a provision for 'bad' or doubtful debts.

### Summary of Reserve Balances

The Council holds reserves for a range of purposes, including to mitigate financial risks such that the risk materialising would not undermine the Council's financial position or service delivery, to ensure the Council meets funding conditions that restrict the use of grants or developer contributions, to accumulate funding for larger investments and projects in the future (including transformation) or to build up sums to cover potential damage to assets (i.e. self-insurance). The (Draft) Statement of Accounts for 2024/25 sets out the Council's reserve balances as follows:

Reserve classification	Balance at 31/03/2025 £000s	Commentary
<b>Revenue Reserves</b>		
General Reserve	10,061	This is the 'working balance' of the Council and acts as a contingency to fund unforeseen eventualities.
Housing Revenue Account	7,206	This contains any surplus or deficit arising from the provision of social housing by the Council and earmarked Housing Revenue Account reserves. It can only be used for local authority housing provision.
Earmarked General Fund Reserves	27,462	These are reserves created to fund specific revenue or capital expenditure relating to the General Fund, for example, for building repairs and maintenance or ICT replacement. Revenue Section 106 contributions also sit here.
Insurance Fund	2,414	This fund supports the management of the Council's insurance arrangements, with some risks self-insured and external insurance policies in place for others. Premiums and settlements relating to claims along with staffing and administration costs are charged to the Fund and the total cost is recharged to Council service budgets alongside the support service recharges.
Schools Balances	852	Balances held by the local authority on behalf of schools.
Dedicated Schools Grant Reserve	7,131	Significant increases in Special Educational Needs (SEN) expenditure in 2018/19 and 2019/20 was transferred here. The deficit on this reserve was transferred to an unusable reserve, the Dedicated Schools Grant Adjustment Account during 2020/21, the purpose of which will be to manage the deficit on Schools Budgets that would otherwise impact on the Earmarked Schools Reserves. Statutory arrangements require that the impact on the General Fund balances is neutralised by this transfer.
<b>Capital Reserves</b>	60,143	This range of reserves contains Government grants, other contributions (e.g. Section 106) and capital receipts, which are held to finance future capital expenditure.
<b>Total Usable Reserves</b>	<b>115,269</b>	
<b>Total Unusable Reserves</b>	<b>414,433</b>	

## **Strategic aim to build reserves**

Since 2010 local authorities have been operating in an extremely challenging environment, with limited funding increases and ever-growing pressures on statutory services. As a result, local authorities are exposed to and are required to manage increasingly higher levels of risk and an effective reserves strategy, supporting an adequate level of reserves, is a key tool in support of the effective management of financial risks.

As at 31 March 2026, the Council is projected to hold a circa £10.0million General Fund balance. The General Reserves balance therefore represents less than 2% of the 2025/26 net revenue budget. This Strategy sets a target to increase the General Fund balance to a level commensurate with 5% of the annual Budget Requirement to ensure a sufficient safety net to insulate the Council from financial shocks.

The Medium Term Financial Outlook 2025-2030 projects that the Council's net revenue budget will reach £576million in 2029/30, which would therefore require General Reserves of circa £29million to reach this 5% aspiration, a growth of £19million compared to the current level.

As set out in the 'Governance, management and monitoring' section below, the Council carries out a review of its reserve balances at least twice each year. The latest review of the Council's earmarked reserves has concluded that the sum of £1.6million, which had been earmarked to offset projected shortfalls in business rates income as the Covid-19 grant schemes were wound up, is no longer needed as no shortfall materialised and instead the collection fund was in a surplus position at the end of the 2024/25 financial year. This sum can therefore be declassified from earmarked reserves to increase General Reserves, taking the General Reserves balance to a projected £11.6million at 31 March 2026.

The Medium Term Financial Outlook projections from 2027/28 onwards reflect the contribution of £5million each year from the revenue budget to General Reserves. If these sums were to be incorporated into the budgets for those financial years, the Council's General Reserves would stand at a projected £26.6million, representing almost 5% of the projected Budget Requirement by 2029/30.

## **Governance, management and monitoring**

The Council's Constitution determines that the Chief Operating Officer is the officer responsible for the proper administration of the authority's financial affairs in line with Section 151 of the Local Government Finance Act 1972. In delivering this role, the Chief Operating Officer has operational responsibility for the management of the Council's reserves, alongside the Council's insurance cover and insurance fund, and is supported to do so by the Chief Finance Officer and the Heads of Revenue and Corporate Accounts. The Chief Operating Officer is required to report to the Council annually on the robustness of estimates and financial reserves, with this requirement met through the Section 25 report from this Officer included in the annual budget reports to Cabinet and Council each February.

Reserve balances held are monitored regularly by the Chief Operating Officer and the Finance Team, with full reviews carried out at least twice each year; in the process to produce the Medium Term Financial Outlook (presented to the Cabinet in August of each year) and again in the process to finalise the budget for the coming year (presented to the Cabinet and Council in February of each year).

The Constitution does not include any delegated responsibility for decisions around the creation, management, use or removal of reserves or provisions (aside from the Insurance Fund referenced above) and as such, all decisions are a matter for Council following recommendations from the Cabinet, typically via the Budget and Budget Monitoring reports from Finance. The Budget and Policy Framework Rules in the Constitution do however define budget transfers and virements as applying to both revenue and capital budgets and the creation or use of reserves, as follows:

- Budget Transfer: A movement of budget between two or more cost centres to reflect changes in structures or reallocation of recharges, but where the original purpose of the budget remains unchanged.
- Budget Virement: A movement of budget between two or more cost centres where the budget is being redeployed to fund a different service or activity from that for which it was originally allocated.

The Constitution then sets out the Budget Virement limits as follows:

Limits applicable to the Cabinet:

- i. Revenue item up to £1,000,000
- ii. Capital item up to £2,000,000

Limits applicable to Chief Executive and directors:

- i. Revenue item up to £500,000
- ii. Capital item up to £1,000,000

### **Guiding principles in the use of reserves**

Just as the creation and maintenance of the Council's reserves arises in a structured way through the process to develop the annual budget, so too must the release of reserves be similarly planned and controlled. The key principles are:

- All planned use of reserves will be included in the Council's annual budget reports to Cabinet and Council each February.
- The creation of any new reserves, movements between reserves and/or the release of any reserves to the revenue budget be reported to the Cabinet through the Revenue Budget Monitoring Reports.
- The Chief Operating Officer must agree to any action that will result in a change to the level of General Reserves.
- Reserves cannot be used to fund overspends without the Cabinet agreement of a plan to mitigate the causes of the overspend.