

HARBOROUGH DISTRICT COUNCIL

REPORT TO THE CABINET MEETING OF 30 NOVEMBER 2020

PUBLIC REPORT: Yes

EXEMPT REPORT: No

Report Title	Reserves Strategy; the Councils approach to effective reserve management.				
KEY DECISION	No				
Report Author	Clive Mason, Chief Officer: Finance & Assets				
Purpose of Report	<ul style="list-style-type: none"> To establish a Reserve Strategy to provide a framework through which the Council will be able to effectively manage and govern its use of Reserves 				
Reason for Decision	<ul style="list-style-type: none"> Reserves are a key mechanism through which a Council can manage its financial resources. Although the Council must hold several statutory and discretionary reserves, the Council does not have a strategy or associated governance processes to effectively manage them. 				
Portfolio (holder)	<ul style="list-style-type: none"> Councillor James Hallam; Finance 				
Corporate Priorities	<table border="1"> <tr> <td colspan="2">YOUR COUNCIL: creative, proactive and efficient</td> </tr> <tr> <td>CO 08</td> <td>Deliver financial sustainability for the future</td> </tr> </table>	YOUR COUNCIL: creative, proactive and efficient		CO 08	Deliver financial sustainability for the future
YOUR COUNCIL: creative, proactive and efficient					
CO 08	Deliver financial sustainability for the future				
Financial Implications	<ul style="list-style-type: none"> The strategy and associated governance will enable to the Council to proactively support the delivery of its current and future services and provide a framework through which is can effectively manage risk. 				
Risk Management Implications	<ul style="list-style-type: none"> Reserves are the Councils primary means through which it can manage service risk. The recent Covid-19 crisis is the clearest example of this. However, even in such extreme situations it is essential that there is clear governance through the use of its reserves. 				
Environmental Implications	<ul style="list-style-type: none"> There are no direct environmental implications arising from this report. 				
Legal Implications	<ul style="list-style-type: none"> This report supports the Chief Financial Officer in meeting his statutory responsibilities in respect of the proper administration of the Councils financial affairs [s.151 of the Local Government Act 1972]. 				
Equality Implications	<ul style="list-style-type: none"> There are no direct equality implications arising from this report. 				
Data Protection Implications	<ul style="list-style-type: none"> There are no direct data protection implications arising from this report. 				
Consultation	<ul style="list-style-type: none"> Cabinet. 				
Background Papers	<ul style="list-style-type: none"> None. 				
Appendices	<ul style="list-style-type: none"> Appendix 1: Annual Financial Report 2019/20: Movement in Reserves Statement Appendix 2: Establishment of New Earmarked Reserves and Reallocation of Excess General Fund Appendix 3: Draft Reserves Strategy 				

Recommendations	<p>That Cabinet approves the Reserves Strategy (Appendix 3), specifically agreeing:</p> <ol style="list-style-type: none">1. “Net Expenditure” now being defined as the net of service revenue costs and minimum revenue provision (para 2.1).2. A minimum level of Reserves at 20% of the Councils “Net Expenditure” (para 3.7)3. The establishment of new Earmarked Reserve strategic groupings and the reallocation of “excess” General Fund to these strategic groupings, as noted at para 3.9 (Table 4, Appendix 2)
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1. INTRODUCTION

- 1.1 Members will recall at the Full Council meeting in February 2020 that it will be facing a significant financial challenge over the Medium Term.
- 1.2 As part of the budget setting process for 2020/21 the Council did not approve a Medium Term Financial Strategy [MTFS]; although members will be asked to approve one when the budget is set for 2021/22 and the MTFS will cover the 4-year period up to 2024/25. As reported to members last February, the Council will have to face into several significant budgetary pressures, including
- Service growth, which for the past few years has been financed from reserves.
 - Expected reductions in central government grant [primarily New Homes Bonus], and
 - Increasing pressure on services by customers.
- 1.3 To meet this challenge the Council has embarked on a Zero-Based Budgeting exercise; Budget Challenge 2025 (BC25). The aim of this exercise will be to “transform/redesign” services so they can deliver in a more cost effective, customer orientated way and within a lower overall cost envelope.
- 1.4 However, the resetting of service budgets via BC25 is only one part of the overall budget setting process; what is equally essential is the effective management of its reserves. Effective reserve management will help the Council to deliver sustainable services over the medium term by smoothing peaks and troughs in expenditure, ensuring that the Council has a financial safety net but also has effectively provided for known risks and commitments.
- 1.5 To ensure that the Council can effectively manage its reserves, it will be necessary for it to:
- Redefine what it considers Net Expenditure.
 - Consider its reserve holdings, this will entail it to approve a minimum level of reserves for the General Fund (Unallocated) Reserve and reallocate Earmarked Reserves.
 - Approve a Reserves Strategy.

2. NET EXPENDITURE

- 2.1 Previously, the Council has defined “Net Expenditure” as the total of service revenue expenditure. It is recommended to expand this definition to also include the revenue cost of capital (Minimum Revenue Provision, MRP) – this wider definition is more reflective of the true revenue cost in delivering services over the medium term. This is illustrated in **Table 1** below.

Past Financial Performance			Table 1
Year	Revenue Service Expenditure £000	Revenue Cost of Capital (MRP) £000	Net Expenditure £000
2019/20	12,346	799	13,145
2018/19	11,108	682	11,790
2017/28	10,541	617	11,128
NB. Net Expenditure, this is the total of service expenditure and the revenue cost of capital (MRP: minimum revenue provision)			

3. RESERVES

Summary of Reserves held by the Council

- 3.1 The Council maintains a suite of Reserves, some of these are “cash” and some “non-cash” and how they make up the Councils total reserve position is shown in the Movement of Reserves Statement that was included in the 2019/20 Annual Financial Report (**Appendix 1**).
- 3.2 The Councils “non-cash” (unusable) reserves are technical reserves that the Council must maintain to meet statutory obligations relating to capital, pensions, and other smaller technical accounting requirements. The Council has no control on their operation as they are strictly controlled by accounting regulations.
- 3.3 However, the Councils “cash reserves” (usable) are more fluid in nature and the Council has a lot more direct control over their use. As at the end of 2019/20 the Council had in total £18.4m in useable reserves These reserves are a mix of capital and revenue and are summarised in **Table 2** below.

Useable Reserves as at 31 st March 2020 (2019/20).	Table 2
Revenue	£000
General Fund (Unallocated) Reserve	9,238
Earmarked Reserves	4,014
Total Revenue Reserves	13,252
Capital	£000
Capital Receipts Reserves	3,903
Capital Grants Unapplied	1,237
Total Capital Reserves	5,140
Total Useable Reserves	18,392

- 3.4 The Revenue Reserves noted in **Table 2** are collectively known as General Fund Reserves; however, they are split between the
- General Fund (Unallocated) Reserve; these are funds that are held for unspecified purposes.
 - Earmarked Reserves; there are funds that have been “pigeonholed” for specific purposes.

- 3.5 The Capital Reserves noted in **Table 2** are held for specific purposes; the
- Capital Receipts Reserve holds the accumulated capital receipts from the sale of assets.
 - Capital Grants Unapplied holds the accumulated grant receipts that can be used to finance capital assets.

General Fund (Unallocated) Reserve (GFUR) and Setting the Minimum Level of Reserves (MLR)

- 3.6 The purpose of the GFUR is to maintain a minimum level of reserves (MLR) that the Council considers it prudent to hold such reserves to meet unforeseen events; the most straight forward means of calculation of an MLR is as a percentage of Net Expenditure (this is a common approach across local government). The Chartered Institute for Public Finance and Accountancy will not recommend an MLR, so Councils are free to set their MLT at a level that they consider is appropriate. It is good practice for local authorities to hold a prudent level, but only hold the amount it considers it needs to meet the cost of unforeseen events (emergencies); if a Council holds excessive GFUR it means that it is reducing its ability to effectively support decisions by either curtailing resources that can support ongoing delivery of its services or providing investment funding for its community.
- 3.7 **Table 3** below compares the current MLR for the Council with other Districts in Leicestershire, and this shows that the Councils MLR is excessive – of the other Districts North West Leicestershire DC is the highest (52.8%) and Oadby & Wigston BC is the lowest (10%). If times had been “normal” the recommendation would have been to set a MLR of 15%; however, considering the current fiscal environment it is therefore considered appropriate to recommend that Cabinet approve an MLP of 20% of Net Expenditure (£2.6m); with this being reviewed again in 2 years’ time.

Comparative Minimum Levels of Reserves at Leicestershire District Councils			Table 3
Leicestershire DC	GFUR £000	Net Expenditure (b) £000	Minimum Level of Reserves (a)
Harborough DC	9,238	13,145	70%
North West Leicestershire DC	7,818	14,796	52.8%
Blaby DC	4,021	12,857	31%
Hinckley & Bosworth BC	1,500	10,000	15%
Charnwood BC	2,000	18,778	11%
Melton BC	640	6,100	10.5%
Oadby & Wigston BC	604	6,038	10%
Average for Non-Harborough DC Councils			24.3%
NB.			
<ul style="list-style-type: none"> • Net Expenditure: Total revenue expenditure (service expenditure + MRP) • % of MLP = GFUR / Net Expenditure • HDC amounts based on 2019/20 Provisional Outturn 			

3.8 Further, setting the Councils MLR at 20% (£2.6m) is not considered an overly prudent position. By way of demonstration the currently modelled “gross and net” impact of Covid-19 is £1.9m/£0.9m respectively, an excess of £0.7m to the proposed MLR allows the Council some additional head-room for concurrent events.

Earmarked Reserves

3.9 The Council currently has Earmarked Reserves totalling £4m (**Appendix 1**) and these are for various but specific purposes. It is recommended that these are maintained but regrouped into more strategic groupings. Further, If Cabinet agree to the establishment of a MLR for the GFUR of 15% (£2m), it is recommended that the “excess” General Fund (£7.2m) is reallocated to these new strategic Earmarked Reserve groupings. The detailed reallocation is shown in **Appendix 2** and summarised in **Table 4** below.

New Earmarked Reserve Groupings		Table 4
New Earmarked Reserve Grouping	Purpose of Reserve	Amount £000
Budget Surplus Reserve	To “passport” balances between the GFUR and specific Earmarked Reserves (see 2 below)	0
HDC (CV19) Recovery Reserve	To meet the financial implications of CV19.	1,900
Transformation Reserve	To meet the service transformation costs resulting from the Budget Challenge 2025 programme.	2,000
Projects & Risks Reserve	To meet future known costs that the Council cannot avoid (e.g. Elections, Local Plan etc).	316
Capital & Contracts	To meet future obligations where the Council has committed to support Partnerships, Special Expenses etc).	457
Community, Economic & Infrastructure Investment	To meet costs relating to community, economic and infrastructure investment.	2,465
Commercial Investment	To meet costs relating to future commercial investment opportunities.	1,500
Total Earmarked Reserves		8,638
NB.		
<p>1. Reserves amounts as at 31 March 2020 (2019/20 Annual Financial Report) adjusted for:</p> <ul style="list-style-type: none"> • the reallocation of the former General Fun Reserve greater than the new MLR. • reserve allocations agreed to fund the 2020/21 Budget (£1.985m). <p>2. There will be a further reserve, entitled the Budget Surplus Reserve; this reserve is not shown in Appendix 2 as at formation it will have a nil balance.</p> <p>The purpose of this reserve will be to act as a “pass-through” reserve in which surpluses or deficits and associated contra balances will be ensure that the MLR is maintained at the agreed rate.</p>		

4. RESERVES STRATEGY

- 4.1 Reserves are the cornerstone of any organisations Councils financial management; it is essential that Reserves are managed and governed in an appropriate way, and the most effective means of doing this is via a Reserves Strategy. A draft Reserves Strategy is shown at **Appendix 3**, which Cabinet is recommended to approve.

Principles related to a Reserves Strategy

- 4.2 A Reserves Strategy should be developed in light of four overriding principles, these are discussed in detail in **Appendix 3** and are summarised below:
- **Risk**; reserves are maintained based upon the risks that the Council faces and its plans for the medium-term.
 - **Prudential Financial Management**; reserves are an essential part of the Councils prudential financial management framework
 - **Medium-Term Financial Planning**; reserves support the medium-term financial planning of the Council.
 - **Funding Source of Last Resort**; reserves must be viewed as the “funding source of last resort”; in that they should not be used to fund ongoing service expenditure.

Governance

- 4.3 The management of reserves must be transparent so all stakeholders can see how the reserves will be actively managed. Regarding each type of reserve, the following is proposed
- **General Fund (Unallocated) Reserve**; Proposals for the application of forecast service under or overspends against the GFUR will be reported to Cabinet on a quarterly basis. Cabinet will confirm if they accept the reported forecasts and if there is a need for a specific contribution to/from the GFUR, this will be actioned via a Budget Surplus Reserve. In this way, the GFUR will be consistently maintained at the agreed MLR of 20% and contribution’s to/from Earmarked Reserves will be transparently seen.
 - **Earmarked Reserves**: Earmarked Reserves will be established or deleted in line with the principles for reserves noted at 4.1. However, there will be predetermined controls around their operation as follows:
 - The S.151 officer will be able to create reserves, following consultation with the Portfolio Holder for Resources.
 - Earmarked Reserves will only be able to be removed with the agreement of Cabinet.
 - Contributions to/from Earmarked Reserves will:
 - either be in line with statutory requirements or service need, and
 - only be made when agreed with the Section 1151 officer.

- **Capital Receipts Reserve;** The Council will receive capital receipts through the sale of capital assets.

5. Legal Issues

- 5.1 The management of reserves is a key element of ensuring that the Council achieves its responsibilities under S.151 of the Local Government Act 1972.

6. Resource Issues

- 6.1 Resources are detailed in the main body of this report. It must be recognised that Reserves move on an ongoing basis – to work effectively they should be organic in nature. Consequently, reserves movements and actual holdings reported at budget setting for the forthcoming year can change only a few months later when the accounts are produced for the previous year. Also, during any given year, reserves should move to reflect an organisations current financial position i.e. as Net Expenditure changes, so should the General Fund (Unallocated) Reserve.

- 6.2 The Reserves Strategy will be reviewed in 12 months from Cabinet approval; thereafter if it is considered that it has operated effectively it will be reviewed on a bi-annual basis.

7. Equality Analysis Implications/Outcomes

- 7.1 There are no direct equality implications arising from this report.

8. Risk Management Implications

- 8.1 Reserves are the Councils primary means through which it can manage service risk. The recent Covid-19 crisis is the clearest example of this. However, even in such extreme situations it is essential that there is clear governance through the use of its reserves.

9. Consultation

- 9.1 There are not direct consultation requirements arising from this report.

10. Background Papers

- 10.1 Noted in the summary at the start of this report.

ANNUAL FINANCIAL REPORT 2019/20: Movement in Reserves Statement

APPENDIX 1

	Usable Reserves (£'000)						Unusable Reserves (£'000)								Total Authority Reserves (£'000)
	General Fund (GF) Balance	Earmarked GF Reserves	General Reserves	Capital Receipts Reserve	Receipts in Advance Unapplied	Total Usable Reserves	Financial Instruments Adjustment Account	Revaluation Reserve	Capital Adjustment Account	Deferred Capital Receipts	Collection Fund Adjustment Account	Pension Reserve	Accumulated Absences Account	Total Unusable Reserves	
Balance at 31 March 2019 carried forward	6,723	5,869	935	3,736	1,022	18,285	(124)	25,371	18,685	0	423	(35,512)	(64)	8,779	27,064
Movement in reserves during 2019/20															
Surplus or (deficit) on provision of services (accounting basis)	(3,655)	0	0	0	0	(3,655)	0	0	0	0	0	0	0	0	(3,655)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(1,503)	0	0	0	9,633	0	8,130	8,130
Total Comprehensive Income and Expenditure	(3,655)	0	0	0	0	(3,655)	0	(1,503)	0	0	0	9,633	0	8,130	4,475
Adjustments between accounting basis and funding basis under regulations	3,380	0	0	167	215	3,762	(49)	(327)	(1,185)	0	(459)	(1,729)	(13)	(3,762)	0
Not Increase/Decrease before Transfers to Earmarked Reserves	(275)	0	0	167	215	107	(49)	(1,830)	(1,185)	0	(459)	7,904	(13)	4,368	4,475
Transfers to/from Earmarked Reserves	2,790	(1,855)	(935)	0	0	0	0	0	0	0	0	0	0	0	0
Increase/Decrease in year	2,515	(1,855)	(935)	167	215	107	(49)	(1,830)	(1,185)	0	(459)	7,904	(13)	4,368	4,475
Balance at 31 March 2020 carried forward	9,238	4,014	0	3,903	1,237	18,392	(173)	23,541	17,500	0	(36)	(27,608)	(77)	13,147	31,539

NB. The "Receipts in Advance Unapplied" reserve noted above should be "Capital Grants Unapplied".

REPORT NO. 5

Establishment of New Earmarked Reserves and Reallocation of Excess General Fund

Appendix 2 (i)

Reserves @ 31 March 2020 Reported Balances £000		Purpose of Reserve	2020/21 Budget Application of Reserves (as per Cabinet/Council February 2020)		"Proposed New Reserve Allocations" (See Appendix 2 (ii) for definitions for these Reserves)								
£			A Reallocated use of Reserves to Meet 2020/21 Budget Requirement	Net Reserves after A	Reallocation of Current ER's to Strategic ER Groupings		New Reserves Allocations						
£			£	£	£	£	Reallocation of "Excess" General Fund to ER's		£	£			
General Fund (Unallocated) Reserve	9,238	To meet unplanned expenditure.	(1,473)	7,765	General Fund (Unallocated) Reserve						2,629	20.0%	
Earmarked Reserves					Earmarked Reserves								
					Strategic ER Grouping	Individual ER Reserves names (those in italics are former reserve names and will not be used going forward)							
					HDC (CV19) Internal Recovery Reserve							1,900	
					Transformation Reserve							2,000	
					Projects & Risk Reserve	Elections	80			13	93		
						Local Development Framework (Local Plan)	131			21	152		
						Neighbour Planning	62	273	Sinking Fund needed, additional "start-up" contribution beneficial.	10	72	316	
					Capital & Contracts Reserve	Development Commuted Contributions	72				72		
						Community Safety Partnership	32				32		
						Air Quality Management	41				41		
						Special Expenses	53				53		
						Whittle Plane Sponsorship	15	457	No additional contribution needed as balance reflects known grant allocations.		15	457	
						Local Lottery	16				16		
						Grants Carried Forward	228				228		
					Community, Economic & Infrastructure Reserve	<i>Business Rates Growth</i>	2,772			(307)	2,465		
					Commercial Investment Reserve	<i>NewHomes Bonus</i>	0			1,500	1,500		
Total Earmarked Reserves	4,014		(512)	3,502	Total Earmarked Reserves						8,638		
TOTAL USEABLE RESERVES	13,252		(1,985)	11,267	TOTAL USEABLE RESERVES						11,267		

Definition of Reserve		Appendix 2 (ii)	
Reserve Name	Purpose	Minor Reserve	Purpose
General Fund (Unallocated) Reserve	To meet unforeseen/emergency expenditure		
Earmarked Reserves			
HDC (CV19) Internal Recovery Reserve	To meet known impacts of the current Covid-19 crisis.		
Transformation Reserve	To meet the potential Transformation costs resulting from the Budget Challenge 2025 programme.		
Projects & Risk Reserve	A group of earmarked reserves to support projects and known risks. Some of these reserves will operate like sinking funds; receiving annual contributions and used	Elections	A sinking fund, to provide funding for local District Elections.
		Local Development Framework (Local Plan)	A sinking fund, to provide funding for the Local Plan
		Neighbour Planning	A sinking fund to provide funding for the development of Neighbourhood Plans
Capital & Contracts Reserve	A group of earmarked reserves to meet ongoing capital commitments and where the Council is bound by contractual obligations.	Development Commuted Contributions	This reserve holds onto S.106 commuted sums for those sites where the Council is responsible for maintaining. Balances are held and used in line with S.106 agreements.
		Community Safety Partnership	This reserves holds onto residual amounts for the CSP.
		Air Quality Management	This reserves holds onto residual amounts for the AQM.
		Special Expenses	This reserves holds onto residual amounts for the Market Harborough Special Expenses account.
		Whittle Plane Sponsorship	This reserves holds onto amounts for the maintenance of the Whittle Plane monument.
		Local Lottery	This reserves holds onto residual amounts for the Harborough Local Lottery.
		Grants Carried Forward	This reserves holds onto amounts the Council has received in grant funding, brought forward from previous years.
Community, Economic & Infrastructure Reserve	The former Business Rates Growth reserve. This reserve will provide funding to support future local capital projects.		
Commercial Investment Reserve	This reserve will provide funding to support future commercial investment.		



Harborough District Council

RESERVES STRATEGY

Version control

Title: Reserves Strategy

Date agreed: 30 November 2020

Last date amended: November 2020

Review date: 30 November 2021

Contents

- 1. Background**
- 2. Definition of Reserves**
- 3. Principles for Maintaining Reserve**
- 4. Level of Reserves**
- 5. Governance of Reserves**

1. Background

- 1.1 The Council's reserves are the corner stone of its financial sustainability; they are the foundation upon which the Council delivers its broad range of services and delivers its significant capital investment.
- 1.2 Reserves should be actively used to ensure effective financial management; this includes the establishment of a minimum level of reserves, and a number of specific earmarked reserves that will directly support the delivery of corporate priorities.

2. Definition of Reserves

2.1 Reserves within local government are split between: Useable and Unusable

2.2 **Usable Reserves** are those that represent "real" cash and can be used to directly support services or the development of assets.

- **General Fund Balance**

The General Fund is the statutory fund into which all receipts of a Council are required to be paid and all liabilities are to be met (subject to statutory override).

The General Fund Balance is therefore the net surplus of the Council's general resources at the end of any financial year

- **Earmarked Reserves**

These are reserves held for a defined purpose.

However, they do represent immediately available resources and are therefore considered as part of the wider General Fund Balance

- **Capital Receipts Reserve**

This reserve holds the proceeds from the disposal of land or other (capital) assets which are restricted by statute from being used other than to fund new capital expenditure (or to be set aside to finance historical capital expenditure).

- **Capital Grants Unapplied Reserve**

This reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies, but which have yet to be applied to meet expenditure.

2.2 **Unusable Reserves** are "technical accounting" reserves that support the Council's balance sheet. These reserves can involve contributions of real cash, but this is mainly to support capital related income or expenditure. As contributions to /from these reserves are strictly controlled by statutory regulation they will not be addressed within this strategy.

3. Principles for Maintaining Reserves

3.1 Risk Management

Reserves will be maintained based upon the risks that the Council faces and its plans for the medium-term. They will be viewed as an effective means by which the Council can address one-off costs of transformation, future local and national funding & policy, environmental impacts, and unforeseen service pressures.

3.2 Prudential Financial Management

Reserves are to be an essential part of the Councils prudential financial management framework, including its ongoing ability to meet the statutory requirement for a balanced budget.

3.3 Medium-Term Financial Planning

Reserves are built up over the long term and their level and use will be a key part of effective medium-term financial planning.

3.4 Funding Source of Last Resort

Although reserves can be viewed as an effective means by which to support the contraction in public expenditure. The Council will view its use of Reserves as the “funding source of last resort” by which the Council will deliver the progressive reductions in government support over the medium term.

4 Level of Reserves

4.1 General Fund Balance

The General Fund Balance includes all revenue reserves, both the General Fund Unallocated Reserve and Earmarked Reserve.

4.2 General Fund Unallocated Reserve

There is no statutory minimum level of reserves that the Council must have available in the General Fund Unallocated Reserve

If this Reserves Strategy is approved, the Cabinet will approve a minimum level of General Fund Unallocated Reserves of 15% of Net Expenditure (Net Expenditure being defined as service expenditure + revenue costs of capital financing).

4.3 Earmarked Reserves

There is no minimum or maximum level for Earmarked Reserves, what will be held is based on prudent estimates of future need. Earmarked Reserves will also include the Budget Surplus Reserve.

4.4 Capital Receipts Reserve/Capital Grants Unapplied Reserve

These reserves will be reactive to what capital receipts or grants have been received in the year and remain uncommitted at the year-end.

5. Governance of Reserves

5.1 the General Fund (Unallocated) Reserve

5.1.1 At budget setting and throughout the year the General Fund (Unallocated) Reserve will be actively managed to ensure that it is maintained at 15% of Net Expenditure. This will ensure that the Council has enough reserves to delivery its core services in the event of an emergency.

5.1.2 Variations in service spend throughout the year will have either a positive or negative impact on the forecast outturn which will require either a contribution to or from Earmarked Reserves to ensure that the General Fund Unallocated Balance is maintained at 15%. This will be actively monitored as part of the Councils routine budget monitoring process with appropriate reporting to members to demonstrate:

- The maintenance of the General Fund Unallocated Reserve at 15% of Net Expenditure.
- The use of a Budget Surplus Reserve (BSR) that will act as a “holding” reserve between the General Fund Unallocated Reserve and Earmarked Reserves. Its purpose is to:
 - Either hold onto surplus funds (underspends) before they are allocated to Earmarked Reserves, or
 - Where a contribution is required to support Service Expenditure, then the BSR will be used to demonstrate to members as part of the budget monitoring reporting process the net deficit that needs to be funded by the application of Earmarked Reserves. Consequently, where specific contributions to/from the General Fund Balance outside of routine service spend are required, these will only be made when approved by Cabinet.

5.2 Earmarked Reserves

5.2.1 New earmarked reserves will be established, and old reserves deleted in line with the principles noted above. The Section 151 officer will be able to create reserves, following consultation with the Portfolio Holder for Resources. However, Earmarked Reserves will only be able to be removed with the agreement of Cabinet.

5.2.2 Contributions to/from Earmarked Reserves will:

- either be in line with statutory requirements or service need
- be only be made when agreed with the Section 151 officer.

5.3 Capital Receipts Reserve

5.3.1 The Council will primarily receive capital receipts because of the sale of capital assets that support general service activity these receipts will only be applied for similar such activity.

5.3.2 The first call for the application of such receipts will be to finance in-year capital expenditure, this will have the effect of minimising the Councils statutory obligations in respect of Minimum Revenue Provision.

5.4 Capital Grants Unapplied Reserve

5.4.1 This reserve will only hold capital grants that will have been acquired by the Council for a specific purpose. The use of these grants will be in line with pre