



Harborough District Council

RESERVES STRATEGY

Version control

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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.

2.3 **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 20% 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 20% 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 20%. 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 20% 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
- 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 this reserve will be in line with prescribed guidelines/conditions.