

Huntingdonshire District Council

RESERVES STRATEGY

2015

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Version 1

Definition

Reserves within local government are split between:

- **Usable**

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.

- **Unusable**

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.

Principles for Maintaining Reserves

- **Risk**

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.

- **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.
- **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.
- **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.

Level of Reserves

- **General Fund Balance**
There is no statutory minimum level of reserves that the Council has to have available in the General Fund.

In January 2015, Cabinet confirmed that the minimum level of the General Fund Balance should be £3.0m; this represents 15% of the 2015/16 “Budget Requirement”. This percentage is therefore the minimum level that the Council will maintain relative to the Councils “Budget Requirement”.
- **Earmarked Reserves**
There is no minimum or maximum level for Earmarked Reserves, what will be held is based on prudent estimates of future need.
- **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.

Governance of:

- **the General Fund Balance**
Estimated contributions to/from the General Fund Balance will be reported and approved by Council when the budget is set in the February prior to the start of the financial year.

Variations in service spend throughout the year will either a positive or negative impact on the forecast General Fund Balance. This will be actively monitored as part of the Councils routine budget monitoring process with appropriate reporting of forecast General Fund Balances.

Where there are to be specific contributions to/from the General Fund Balance outside of routine service spend, these will only be made when approved by Cabinet.

➤ **Earmarked Reserves**

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 Executive Portfolio Holder for Resources (with retrospective reporting to Cabinet). However, 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
- be only be made when agreed with the Section 151 officer.

➤ **Capital Receipts Reserve**

The Council will primarily receive capital receipts as a consequence of the sale of capital assets that support either:

- General service activity, or the
- Commercial Investment Strategy

General service activity

Where capital receipts are generated following the sale of assets that previously supported general service activity, these receipts will only be applied for similar such activity.

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.

The only time that such capital receipts can be applied to the Commercial Investment Strategy is following specific approval by Cabinet.

Commercial Investment Strategy

Where capital receipts are generated following the sale of assets that previously were purchased within the auspices of the Commercial Investment Strategy, these receipts will only be applied against other investments permitted within the Commercial Investment Strategy. The only time that such capital receipts can be applied to General service activity is following specific approval by Cabinet.

➤ **Capital Grants Unapplied Reserve**

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 prescribed grant regulations/conditions.

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