

# Appendix B – Background and Purpose to Spelthorne Borough Council’s Reserves

## 1.1 Background

- (a) Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to consider the level of reserves when setting a Budget Requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting the Budget Requirement each February.
- (b) Reserves are an important part of the Council’s financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its strong financial standing and resilience. The Chartered Institute of Public Finance and Accountancy (CIPFA) monitors trends in movements in reserves as part of its Resilience Index. In recent years the Council has been steadily increasing the level of its reserves, particularly its Sinking Funds. The Council’s key sources of funding face an uncertain future and the Council therefore holds earmarked reserves and a working balance in order to mitigate future financial risks.
- (c) Earmarked reserves are reviewed annually as part of the budget process, to determine whether the original purpose for the creation of the reserve still exists and whether the reserves should be released in full or in part. Particular attention is paid in the annual review to those reserves whose balances have not moved over a three-year period.
- (d) The Council’s overall approach to reserves will be defined by the system of internal control. The system of internal control is set out, and its effectiveness reviewed, in the Annual Governance Statement. Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management and performance management.
- (e) The Council currently maintains:
  - i) · a General Fund general reserve.
  - ii) · various earmarked general reserves.
  - iii) · a Capital Grants reserve; and
  - iv) · a Capital Receipts reserve.
- (f) Additionally, the Council is required to maintain unusable reserves to comply with accounting requirements although, as the term suggests, these reserves are not available to fund expenditure.
- (g) The level of the general reserve is a matter for the Council to determine having had regard to the advice of the Chief Finance (S151) Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. It

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will also take account of the extent to which specific risks are supported through earmarked reserves.

- (h) In principle, only the income derived from the investment of reserve funds should be available to support recurring spending.

### 1.2 **Purpose**

1.3 Reserves are therefore held for the following purposes, some of which may overlap and include:

- (a) Providing a working balance i.e. the General Fund general reserves.
- (b) Smoothing the impact of uneven expenditure profiles between years e.g. local elections, structural building maintenance and carrying forward expenditure between years.
- (c) Holding funds for future spending plans e.g. Capital Expenditure Reserve, and for the renewal of operational assets e.g. repairs and renewal, and Information Technology renewal.
- (d) Meeting future costs and liabilities where an accounting ‘provision’ cannot be justified.
- (e) Meeting future costs and liabilities to cushion the effect on services e.g. The Insurance Reserve for self-funded liabilities arising from insurance claims.
- (f) To provide resilience against future risks.
- (g) To create policy capacity in a context of forecast declining future external resources e.g. COVID-19 Resilience Reserve

1.4 All earmarked reserves are held for a specific purpose. This, together with a summary on the movement on each reserve, is published annually, to accompany the annual Statement of Accounts.

1.5 The use of some reserves is limited by regulation e.g. the Collection Fund balance must be set against Council Tax levels

1.6 As part of the Annual Budget, Treasury Management Strategy and the Capital Strategy setting process, Officers will review the reserves and apply reserves as part of the Capital Financing Requirement (CFR), typically, using Capital Receipts, Capital Grants or contributions from revenue in the first instance. (The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue)