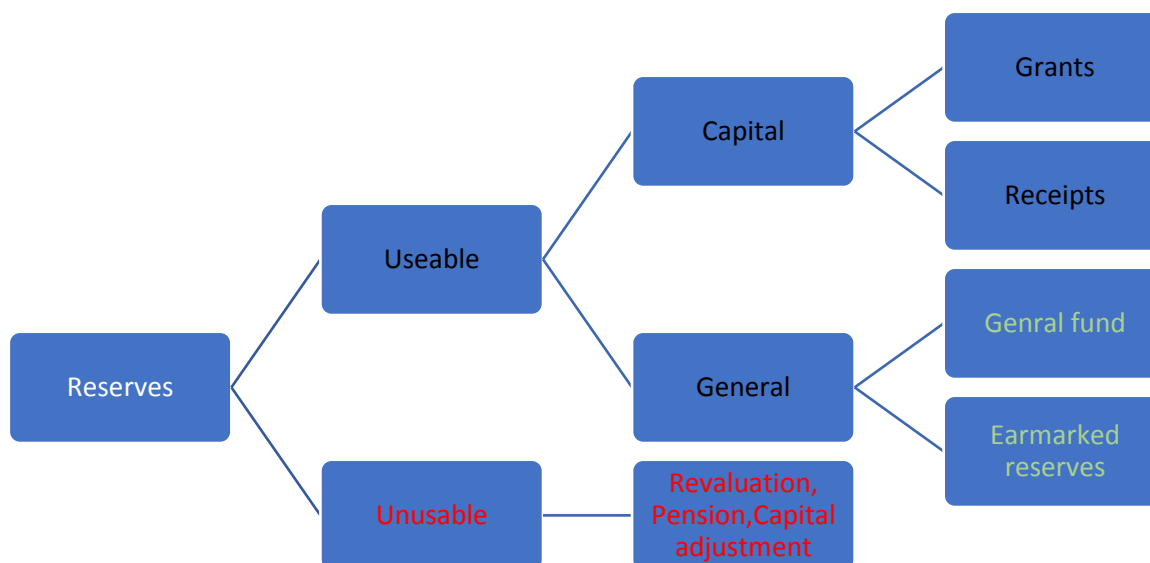


## Appendix A – 2023/24 Capital & Revenue Reserves Report – definitions

### 1. Overview, background, strategic context, purpose and management

- 1.1 The Council manage its money by dividing it between two types of reserves - useable reserves and unusable reserves (an explanation of these terms can be found below).
- 1.2 Managing our money in this way means that we can budget successfully for what we need to deliver services now whilst building up funds that will grow over time for a specific purpose or to protect services in the future.
- 1.3 The chart and explanations below illustrate how those reserves are split.



- 1.4 **Useable reserves:** This is money that each council has set aside to provide services such as rubbish collection and for its day to day running. Useable reserves are made up of two further pots known as the 'general fund' and 'capital reserves'. These two useable reserves are in turn made up of other pots of money.
  - (a) **General Fund balance:** This is a contingency fund - money set aside for emergencies or to cover any unexpected costs that may occur during the year, such as unexpected repairs.
  - (b) **Earmarked reserves:** This is money that has been set aside by Council for a particular purpose, such as buying or repairing equipment or the maintenance of public parks or buildings or equalising over time a particular income stream.
  - (c) **Capital receipts:** This is the name given to the income received when assets are sold (such as land or buildings) in Spelthorne BC, these receipts will include the monies received from KGE. Capital receipts can only be used to buy or fund capital expenditure. Capital expenditure is the money spent on buying assets that have a lasting value. These assets could be land, buildings or large pieces of equipment such as refuse vehicles.

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- (d) **Capital grants:** Capital grants are sums of money given to councils by the government. This money can only be used as capital expenditure, in other words this money can only be used to buy assets of lasting value.
- 1.5 **Unusable reserves:** The unusable reserves contain funds that cannot be used to provide services or used for day to day running costs. These reserves are required by the accounting and statutory regulations the Council follows and enable proper accounting practice to be applied and then reversed out to ensure no impact on council tax bottom line. The unusable reserves hold funds that have 'unrealised gains or losses'. This means that we have assets such as buildings whose value changes over time. There may also be commitments linked to these assets such as loans or maintenance needs. The funds held in the unusable reserves fund can only be unlocked and turned into usable money if the assets are sold.
- 1.6 Reserves play an important part in the Council's medium-term 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.
- 1.7 The Council holds reserves to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities; and to enable the Council to resource policy developments and initiatives without a disruptive impact on Council Tax.
- 1.8 Capital reserves play a crucial role in funding the Council's Capital Strategy. The Capital Receipts Reserve are used to create capacity to meet future capital investment.
- 1.9 The Council relies on interest earned through holding reserves to support its general revenue spending plans.
- 1.10 Reserves are one-off money. The Council aims to avoid using reserves to meet ongoing financial commitments other than as part of a sustainable budget plan.
- 1.11 The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long-term future planning.