

Reserves Policy

1. Croydon's finances are under strain from inflationary pressures and increasing demand for essential social care, housing and welfare services. The Council's financial challenge is compounded by a well-documented history of local legacy issues that included an imprudent use of reserves to balance its budget.
2. Under Section 25 of the Local Government Act 2003, the Director of Resources (section 151 Officer – S151 Officer) is required to include, in budget reports, her view on the adequacy of balances and reserves.
3. The Code of Practice on Local Authority Accounting sets out the accounting treatment for reserves. CIPFA has issued Local Authority Accounting Panel (LAAP) Bulletin No.55, Guidance Note on Local Authority Reserves and Balances and LAAP Bulletin 99 (Local Authority Reserves and Provisions). Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial (S151) Officer in local government.
4. This policy accords with the statutory regime and relevant non-statutory guidance regarding reserves. It acknowledges the financial challenge facing Croydon and how reserves play a crucial role in good public financial management:
 - They provide resilience against unexpected events and emergent needs.
 - Can enable investment in service transformation and priorities.As one-off resources they can only be spent once.

Overview

5. Croydon's overall approach to reserves is defined by the system of internal control set out in the Council's 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.
6. Croydon maintains reserves for the following purposes:
 - As a contingency to cushion the impact of unexpected events or emergencies – this forms part of general balances.
 - To build up funds for known or predicted requirements; these specific reserves are known as earmarked reserves.
 - Separate balances and reserves are maintained for the General Fund, Schools and Housing Revenue Account (HRA).
 - The Council is also required to maintain unusable reserves to comply with accounting requirements. As the term suggests these reserves are not available to fund expenditure.
7. For 2023-24 Croydon carried forward estimated General Fund reserves and balances of £171.4m. The final confirmation of earmarked reserves is still being established through the closedown of the accounts for 2019-20 to 2022-23.

Table 1 – General Balance and Earmarked Reserves

Balance carried forward to 2023-24	
<i>General Fund</i>	£'m
General Balance	27.5
Earmarked Reserves	60.4
Restricted Reserves	76.8
Schools	6.7
	171.4
HRA General Balance	30.0

8. The level of the general balance is a matter for the Council to determine having had regard to the advice of the S151 Officer. It is a matter of judgement which will take account of the extent to which specific risks are supported through earmarked reserves. The latest comparative data produced by DLUHC¹ indicates that Croydon's general and earmarked reserves are still below the median level for a London Borough (46% of service expenditure compared to the median for London of 59%).

Strategic Approach

9. To ensure effective strategic oversight of the level and use of reserves Croydon's approach is based on the following key principles:
- General Balances and risk assumptions need to be reviewed annually as part of the Council Tax and Budget report.
 - Those reserves no longer required for their intended purpose are identified and made available for other defined priorities.
 - A long-term view will be used when assessing the use of reserves to ensure that existing commitments and agreed priorities can be delivered.
 - Whilst use of the general balance can be a part of a plan to ease future budget reductions, and to allow longer term savings to come to fruition, it is not a prudent use to draw down from the general balance with no clear plan on how any future budget gap will be bridged.
 - The use of reserves will be minimised through consideration of appropriate contributions from partners, alternative revenue contributions and regular balance sheet review.
 - When the Council is in receipt of one-off and non-recurrent resources it should aim to use them to replenish and top-up reserves.

¹ Local authority general fund earmarked and unallocated reserve levels, 2017-18 to 2021-22- DLUHC paper published 18 May 2023

Use of Reserves

General Balance

10. General Balances cover unforeseen financial risks and provide cover for unexpected or unavoidable additional costs. Following the legacy budget adjustments made regarding the 'Opening the Books' exercise the Council's restated general fund balance was £27.5m at the start of 2023-24. This is not anticipated to reduce further before 2024-25 albeit the Council's Accounts for the years 2019-20 to 2022-23 are subject to finalisation. The Corporate Director of Resources is of the view that this should be the minimum level of general fund balance that the Council holds given its scale, complexity as a unitary council and historically high-risk profile.

Earmarked Reserves

11. Earmarked reserves are held for several purposes:
 - Sums set aside for council priorities and initiatives.
 - Insurance reserves
 - Service transformation and improvement.
 - To meet one-off pressures.
 - As mitigation against future risks such as government funding reform.
 - To smooth expenditure profiles between years, such as local elections.
 - To smooth income profiles such as business rates and council tax
 - The carry forward of unspent revenue grants or funding, such as the Croydon Growth Zone, held for a specific purpose.
12. Some earmarked reserves have restrictions placed on their use. For example, reserves relating to unspent revenue grants may have conditions attached. The need for each reserve is reviewed annually to ensure they are still required for their intended purpose and a summary on the movement in reserves is published annually, to accompany the annual Statement of Accounts.
13. The use of some reserves is also limited by Regulation e.g. the Collection Fund balance must be set against Council Tax levels, reserves established through the HRA can only be applied within that. Schools' reserves are also ring-fenced for their use, although there are certain regulatory exceptions.

Management

14. All reserves are reviewed as part of the budget preparation, financial management and closing processes. The Council will consider a report from the S151 Officer on the adequacy of the reserves in the annual budget-setting process. The report will contain estimates of reserves where necessary. The Audit and Governance Committee will consider actual reserves when approving the statement of accounts each year.

15. For each reserve established, the purpose, usage, procedures for the management and control of reserves, and basis of transactions should be clearly identified. The creation, addition or reduction of, and authorisation of expenditure from, reserves is subject to agreement by the Corporate Director of Resources (S151) Officer.
16. The following matters apply to individual reserves:
 - The General Fund working balance will not fall below the level recommended at Budget Council without the approval of Cabinet.
 - The Capital Financing Reserve is applied to meet future investment plans and is available to fund investment directly or to support other financing costs. The reserve can also be used for preliminary costs of capital schemes e.g. feasibility.
 - The Schools Reserve, HRA Reserve and the Insurance Reserve are clearly defined and require no further authority for the financing of relevant expenditure.
17. The Council will review the Reserves Policy on an annual basis.