

APPENDIX 2 - RESERVES POLICY 2024/25

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 Council Tax and are a key element of its strong financial standing and resilience. The Council's key sources of funding face an uncertain future so a limited number of earmarked reserves and a working balance are held to mitigate future financial risks.

Reserves are formally reviewed and presented to Leadership Team for noting and approval as part of the quarterly financial reporting process. This involves scrutiny of balances to determine whether the original purpose for creating the reserve still stands, and whether there is scope to release the reserve balance in part or in full. The terms of reference for usable reserves set out the conditions for use of existing reserves and new applications for funding, and this acts as a source of reference to support clear and transparent decision making.

The table below shows the 2022/23 closing reserve balances and the three-year forecast position at quarter 3. The forecast will be further updated following the reporting of the quarter 3 budget monitoring position to Leadership Team in March 2024. Further information on each reserve is also detailed below.

2022/23 Closing Reserve Balances and 3-Year Forecast (at Quarter 3 2023/24)

Classification	Reserve Heading	Closing Balance 2022/23	Forecast 31/03/2024	Forecast 31/03/2025	Forecast 31/03/2026	Forecast 31/03/2027
		£'000	£'000	£'000	£'000	£'000
Usable (Unearmarked)	Budget Stabilisation	(27,996)	(22,444)	(16,898)	(16,898)	(16,898)
Usable (Unearmarked)	Budget Carry Forward	(10,035)	(5,984)	(4,948)	(4,617)	(4,429)
Usable (Unearmarked)	COVID-19 Recovery/Cost of Living	(4,766)	(3,982)	(3,779)	(3,728)	(3,728)
Usable (Unearmarked)	Council Plan Implementation	0	(1,000)	(1,000)	(1,000)	(1,000)
Usable (Unearmarked)	Council Plan Implementation - Ward Improvements	0	(305)	(2,135)	(3,135)	(4,135)
Usable (Unearmarked)	Special Projects	(10,035)	(1,897)	(319)	(158)	(158)
Usable (Unearmarked)	Contingency	(5,359)	(5,359)	0	0	0
Total		(58,191)	(40,972)	(29,079)	(29,536)	(30,348)
Usable (Earmarked)	Affordable Housing	(9,900)	0	0	0	0
Usable (Earmarked)	Car Parking	(22,375)	(20,783)	(19,527)	(18,527)	(17,489)
Usable (Earmarked)	Civil Claim Settlement	0	(4,250)	(8,150)	(4,550)	0
Usable (Earmarked)	Grenfell	(13,611)	(8,571)	(2,824)	0	0
Usable (Earmarked)	Insurance	(23)	(6,261)	(6,261)	(6,261)	(6,261)
Usable (Earmarked)	Local Projects	(710)	(885)	(1,060)	(1,235)	(1,410)
Usable (Earmarked)	Notting Hill Carnival	(375)	0	0	0	0
Usable (Earmarked)	Proceeds of Crime	(142)	(183)	(163)	(123)	(83)
Usable (Earmarked)	Public Health	(8,660)	(6,604)	(4,403)	(2,201)	0
Usable (Earmarked)	Reorganisation	(132)	(15)	(1,188)	(1,188)	(1,188)
Usable (Earmarked)	Street Trading	(184)	(214)	(214)	(214)	(214)
Usable (Earmarked)	Troubled Families	(1,029)	(943)	(472)	0	0
Unusable	Schools Reserves	(9,199)	(7,699)	(6,199)	(4,499)	(2,425)
Total		(66,340)	(56,408)	(50,460)	(38,797)	(29,069)
Unusable	Collection Fund	(15,852)	(14,707)	(4,234)	(2,234)	(2,234)
Other	General Fund Working Balance	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Total General Fund Reserves		(150,383)	(122,087)	(93,773)	(80,568)	(71,651)

Budget Stabilisation

The Budget Stabilisation Reserve is used to manage the impact of uncertainties, such as changes arising from government funding. Estimates of known requirements will be set out in the annual Council Tax and Budget Setting Report – or the Quarterly Budget Monitoring Reports, where applicable.

Budget Carry Forward

The Budget Carry Forward Reserve includes balances set aside in previous years for which there may be planned use in future years. The reserve also provides the opportunity for resources to be mobilised swiftly to enable the Council to respond efficiently in the face of unforeseen circumstances that were not known at the time of budget setting. In the past it has been used interchangeably with the Special Projects Reserve, with a focus on meeting one-off, unbudgeted costs in the short-term. Funds have also been committed to supporting Covid-19 recovery and more recently the Council's response to the cost of living crisis.

Covid-19 Recovery/Cost of Living

The Council has committed £8.0m to providing support with Covid-19 recovery, and more recently for managing the response to the cost of living crisis and its impact on residents and local communities. Funds have been contributed equally from the Budget Carry Forward Reserve and Public Health Reserve, and the review process is overseen by the Cost of Living Financial Resilience Group.

The Covid-19 Recovery/Cost of Living Reserve is tabled separately; however it is not treated as a separate reserve in the Council's accounts.

Council Plan Implementation

This reserve was newly established in 2023/24 with an opening balance of £1.0m. Funds will be used to support delivery of the Council Plan and our ambition to become the best Council for residents in a borough that is greener, fairer, and safer.

Council Plan Implementation – Ward Improvements

This reserve was newly established in 2023/24 with an opening balance of £1.0m to support delivery of the Council's cross-cutting ambitions and ward-based improvements. It will be used to kick start projects and address one-off and time-limited needs. Funding will also be one-off and time-limited in nature and may be spent on both revenue and capital schemes.

Special Projects

The Special Projects Reserve was established with a focus on meeting one-off funding requirements. Funds have been used to support service redesign and transformation, revenue costs associated with the delivery of capital schemes, and pump-priming for invest-to-save projects. With significant budget reductions still to be identified, further

use will be required in the short-term to meet one-off costs and provide support with the identification and delivery of new savings.

Contingency

The Council has historically maintained a central contingency budget to manage the impact of unforeseen one-off budget pressures, unexpected events, and risks such as slippage in the delivery of savings. At the end of 2022/23, the contingency budget reported an underspend and this surplus was used to establish the Contingency Reserve.

The reserve will be used in 2024/25 to manage pressures that would ordinarily be funded from the central contingency budget, which will be removed to achieve corporate savings. Financial plans from 2025/26 assume this budget will be required again, and the reserve will be fully utilised.

Car Parking

The Car Parking Reserve holds the unapplied surplus generated by the Parking Service. There may be transfers to or from the reserve each year depending on the amount of eligible spend that is funded from the Parking surplus. The reserve is used to fund capital schemes and one-off projects that meet the criteria for spend, such as highways maintenance and local environmental improvements.

Civil Claims Settlement

The Civil Claims Settlement Reserve was also newly established in 2023/24, with an opening balance of £7.25m from planned savings arising from the 2-year temporary reduction to the Council's employer pension contributions following the triennial actuarial valuation of the pension fund.

Last year the Council requested approval from the Secretary of State for Levelling Up, Housing and Communities (DLUHC) for a capitalisation direction of up to £75m to help cover the cost of resolving all claims that have been lodged since the Grenfell tragedy. The Council received letter on 4th January 2024 from the DLUHC issuing an initial capitalisation direction of £23.2m. We expect the remaining £51.8m the Council requested to be agreed before the end of 2023/24. These payments will therefore be funded by external borrowing at a premium rate in line with the terms of the capitalisation direction (PWLB plus 1%). The revenue implications associated with this borrowing will be funded from the reserve, which is due to be utilised in full by 2026/27.

Grenfell

In January 2019, the Council committed £50m of revenue funding to support delivery of the Grenfell Recovery Strategy over five years from 2019/20 to 2023/24. In December 2020, the Grenfell Recovery Resourcing Framework, building on the original strategy, set out plans to work with bereaved and survivors, residents and community partners to shape the remaining three years of the programme. Unspent

funds are carried forward each year and delivery is now extending into 2024/25 and potentially beyond.

Insurance

These funds enable the Council to meet its retained self-insurance liabilities (deductibles) up to the annual total cap of its financial liabilities. They represent the value of future unknown claims - in contrast to the insurance provision, which is held to manage known liabilities at year-end based on the calculated self-funding value of outstanding insurance claims. The Insurance Reserve is also comprised of funds held to mitigate against the impact of unforeseen events and emergencies where no alternative budget provision exists.

Local Projects

An amount equal to the annual council tax from the bereaved and survivors of the Grenfell Tower fire will be paid into the reserve each year. Funds are ringfenced and focused on providing opportunities for disadvantaged young people and those needing support around employment and skills living in social housing in the borough. Decisions on how funds are to be spent across projects are taken in accordance with the Council's governance process and subject to Leadership Team approval.

Proceeds of Crime

The Proceeds of Crime Act 2002 (POCA) provides for the confiscation or civil recovery of the proceeds from crime and contains the principal money laundering legislation in the UK. POCA sets out the legislation for the recovery of criminal assets with criminal confiscation being the most used power. The Asset Recovery Agency (ARA) was created alongside POCA to monitor financial recovery and use of funds. Deemed an incentivisation scheme, any confiscated or collected POCA funds had to be ringfenced and reinvested into crime prevention/reduction projects.

Recipients of POCA funds, including the Council, were required to complete an annual return detailing monies received and information on spend, to demonstrate a suitable use of POCA monies. The ARA was closed in 2008 and their powers and responsibilities passed to the National Crime Agency (NCA). Although returns have not been requested by NCA since pre-pandemic, in accordance with the terms of the incentivisation scheme, a POCA reserve continues.

Public Health

Public Health funding supports delivery of the Council Plan, and this includes a recurrent investment of £5m across the organisation. The grant terms allow the Council to hold a balance in its earmarked Public Health Reserve, and spending plans for this are in place and have been agreed with the Office for Health Improvements and Disparities (OHID). These plans will reduce the reserve balance to around £1.5m by the end of 2026/27, and this will be held as a contingency to manage the impact of future demand, any unplanned reductions to grant funding, and health protection mobilisation.

Public Health reserves have also been committed to supporting Covid-19 recovery and the Council's response to the cost of living crisis.

Reorganisation

The Reorganisation Reserve is used to manage transformation-related expenditure, and the impact of redundancy costs that cannot be contained within departmental budgets.

Street Trading

The surplus of street trading income over and above expenses is held in a ringfenced reserve for investment back into the markets. It is also used to manage the impact of unforeseen expenditure in line with the London Local Authorities Act 1990.

Troubled Families

This reserve is used to manage fluctuations in service delivery that may otherwise occur as a result of any changes to the Council's annual Supporting Families (previously Troubled Families) grant allocation. There may be transfers to or from the reserve, according to levels of service delivery.

Schools Reserve

The Schools Reserve is comprised of cumulative balances that are held on behalf of maintained schools across the borough. Based on current trends and known pressures, it is anticipated that the reserve will be utilised in full over the next five years. This position is, however, subject to schools' funding levels and may therefore change.

Collection Fund

The Collection Fund is used to manage the surplus or deficit arising from the difference between the Council's actual and estimated council tax base in monetary terms. Balances are subsequently recovered from or paid back to Government by forming part of the estimate for the following year.