

### **2021 Reserves Strategy and Action Plan**

#### **Summary**

The Council faces an unprecedented financial challenge due to the impact of the Coronavirus (Covid-19) pandemic, the continuation of underlying budget pressures from increased demand and demographic pressures and uncertainty regarding future government policy and funding. Continued action is required to ensure that reserves remain adequate to meet the pressures facing the council over the medium term and deal with future unexpected events. The reserves strategy acknowledges the challenges facing the council. It is supported by an action plan that proposes measures which improve the medium-term outlook. The measures taken since the action plan was approved in 2019/20 have already improved the reserves forecast by £23.5m.

Hammersmith & Fulham carried forward a general balance of £19.0m and earmarked reserves of £61.2m at the start of 2020/21. Based on the most recent comparative data (the start of 2019/20) the council's reserves are slightly below average, both in overall value and as a percentage of net revenue expenditure, for a London Borough.

The Council has already committed to use reserves to fund several major initiatives and priorities. It also faces significant current and future financial risks (such as the current year forecast budget overspend of £5.7m regarding the impact of Covid-19 and other budget pressures) and potential costs of future service improvements.

#### **Detailed Analysis**

1. Local government reserves play a crucial role in good public financial management. They exist so that a council can make one off investment in service transformation for the future or to respond to one off unexpected events or emerging priorities and needs. They are the foundation for good financial management and resilience. As one-off resources they can only be spent once.
2. The Chartered Institute of Public Finance & Accountancy (CIPFA) maintains guidance on the establishment and maintenance of local authority reserves and balances. The guidance identifies that reserves can be held for three main purposes:
  - As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general balances
  - As a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general balances: the current Covid-19 pandemic emphasises the need to maintain reserves at an adequate level with several councils across the country now running into difficulties without an adequate safety net
  - As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves.
3. At the start of 2020/21 Hammersmith & Fulham carried forward General Fund reserves and balances of £80.2m. The split, and trend since 2016/17, between the general balance and earmarked reserves is set out in Table 1.

**Table 1 – The general balance and earmarked reserves 2016/17 to 2020/21**

	Opening balance 2016/17 £m	Opening balance 2017/18 £m	Opening balance 2018/19 £m	Opening balance 2019/20 £m	Opening Balance 2020/21 £m
General balance	19.0	19.0	19.0	19.0	19.0
Earmarked reserves	90.0	82.9	94.4	62.3	61.2
<b>Total</b>	<b>109.0</b>	<b>101.9</b>	<b>113.4</b>	<b>81.3</b>	<b>80.2</b>

4. Based on the most recent comparative data (the start of 2019/20) the council's reserves are slightly below average, both in overall value and as a percentage of net revenue expenditure, for a London Borough. A comparison against the average for a London Borough is set out in Table 2.

**Table 2 – Comparison to other London Boroughs**

Measure	Hammersmith & Fulham	Average for London Boroughs	Ranking relative to other London Boroughs (/32)
Total general fund and non-schools earmarked general fund reserves as at 31 March 2019 (£000s)	81,313	106,462	15
General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)	36%	42%	16

5. As part of the Audit Findings Report for the year ended 31 March 2020 the Council's external auditors (Grant Thornton) commented on the level of the Council's reserves:

*'the Council's reserve position is reasonable but allows no room for complacency or further diminution of those reserves. We would urge that members fully digest the lessons from recent Public Interest Reports and other commentary from sector financial experts as they approach the 2021/22 budget setting round'.*

6. The Council continues to take robust action to ensure reserves are maintained at sufficient levels. It has put in place a reserves strategy to ensure effective oversight regarding the level and use of reserves and has established an action plan to maintain reserves at an appropriate level.

### **General balance**

7. Under Section 25 of the Local Government Act 2003, the Director of Finance is required to include, in budget reports, her view of the adequacy of the balances and

reserves the budget provides for. The level of balances is examined each year, along with the level of reserves, considering the risks facing the authority in the medium term.

8. Given the ongoing scale of change in local government funding, and risks facing the Council, the then Strategic Director of Finance and Governance considered, as part of the 2020/21 budget report, that general balances need to be maintained within the range of £14m to £20m. The current general balance of £19m falls within this range. It represents 3.6% (equivalent to 13 days spend) of the council's gross budget of £528m.
9. The Covid-19 pandemic has emphasised the need for reserves to be maintained at an adequate level. The lack of an adequate safety net has resulted in several councils, including Croydon and Bexley in London, across the country running into difficulties. Given the heightened financial risks facing Hammersmith & Fulham it is proposed that, over the medium-term, the council seek to increase the optimal range for general balances to between £19m and £25m.

### **Earmarked reserves**

10. In accordance with CIPFA guidance, earmarked reserves are held for several purposes:
  - sums set aside for major schemes, such as the decant from the Town Hall as part of the Civic Campus scheme
  - insurance reserves
  - service transformation
  - to meet one-off pressures
  - unspent revenue grants, held for specific purposes.
11. Whilst use of accumulated reserves can be 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 reserves with no clear plan on how any budget gap will be bridged once reserves are no longer available or how reserves will be replenished.
12. Some earmarked reserves have restrictions placed on their use. For example, reserves relating to unspent revenue grants may have conditions on their use. The main restricted reserves for Hammersmith & Fulham are set out in Table 3.

**Table 3 – Restricted and earmarked reserves**

	<b>Opening balance 2020/21 £m</b>
Covid-19 grant funding (to be applied in 2020/21)	6.2
Revenue grants	3.2
Insurance fund	5.9
Other	0.5
<b>Restricted reserves excluding developer contributions</b>	<b>15.8</b>
Developer contributions (Section 106 and Community	16.6

Infrastructure Levy)	
<b>Restricted reserves including developer contributions</b>	<b>32.4</b>
Other earmarked reserves (unrestricted)	28.8
<b>Total earmarked reserves</b>	<b>61.2</b>

## RESERVES STRATEGY

- 13 The council's current reserves strategy is based on the following key principles:
- General Balances to be reviewed annually as part of the Council Tax and Budget report. They have remained within the current range of £14m to £20m for the last decade. Over the past year, national political and economic risk and uncertainty, including the impact of the Covid-19 pandemic, has increased significantly. After years of government funding reductions there is very limited capacity to manage unplanned costs within annual departmental revenue budgets and corporate contingencies. It is proposed that general balances are revised upwards, with a target of £25m over the medium-term, to mitigate against the heightened financial risks that the council faces.
  - Those reserves no longer required for their intended purpose are identified and made available for other defined priorities.
  - The level of reserves and forecast to be re-assessed every 6 months to ensure their adequacy.
  - The risk assumptions to be reviewed every 6 months.
  - A long-term view will be used when assessing the use of reserves to ensure that existing commitments and agreed priorities can be delivered.
  - Being 'ruthlessly financial efficient' will underpin any request for use of reserves. Internal bids for one-off funding will be peer challenged and clear business cases presented so that using reserves is agreed in exceptional cases. The 'one-off nature' and funding solution/ outcome will be rigorously assessed during the funding term and at the end of life. Use of reserves will only be progressed once agreed with the Director of Finance, the Chief Executive and cabinet members.
  - Reserves can only be used once and the required future service transformation is significant given the expected future financial challenges. In accordance with proper accounting practice, and subject to affordability, the draw down from reserves will be minimised through consideration of government provisions for the flexible use of capital receipts, securing an appropriate contribution from partners and non-General Fund services, revenue contributions and regular balance sheet review.
  - When the council is in receipt of one-off and non-recurrent resources it should aim to utilise them to replenish and top-up reserves. The 2020/21 budget included a contribution, from one-off items, to reserves of £7.167m. **A further contribution of one-off sums of £1.1m is planned as part of the 2021/22 budget.**
  - The reserves strategy will be supported by an action plan, that is updated regularly, that aims to ensure the adequacy of reserves over the medium-term.

### The planned use of reserves

## General balances

- 14 In accordance with the proposed 2021/22 budget strategy, general balances will be held within the range of £19m to £25m. This falls within the range of 3.5% to 4.7% of the council's gross budget of £528m. This sum is reviewed annually, after consideration of the financial risks facing Hammersmith & Fulham, as part of the Council Tax and Budget Report.
- 15 General balances cover unforeseen financial risks and provide cover for unexpected or unavoidable additional costs. Should general balances be anticipated to fall below the recommended range then concerns would arise regarding the council's financial resilience and sustainability.
- 16 General balances have remained within the range of £14m to £20m for a decade. The past year has seen an increase in national political and economic risk and uncertainty. Future finances and demand for services, both at a national and local level, will be affected should such risk result in an economic slowdown. In addition, after years of reductions in government funding there is very limited capacity to manage unplanned costs within annual departmental revenue budgets and corporate contingencies. Given the heightened financial risk the recommended optimal range has increased to between £19m and £25m.

## Unrestricted earmarked reserves

- 17 As set out in Table 3 the level of unrestricted earmarked reserves carried forward at the start of 2020/21 was £28.8m. In accordance with the reserves strategy the intended purpose, and level of such reserves has been reviewed. The proposed balances carried forward are set out in Table 4 with further detail provided in Appendix K.

**Table 4 – Proposed earmarked reserves (unrestricted) as at 1 April 2020**

	£m
Civic Campus (based on a 3.5 year relocation)	13.4
Dedicated Schools Grant (DSG) High Needs Block deficit reserve	3.6
Demand and pressures	9.0
Managed services	0.2
Temporary accommodation	0.4
Unallocated contingency	0.3
Invest to save	0.2
Technology and IT	1.2
Contribution to local elections	0.2
Controlled Parking/ Miscellaneous	0.3
<b>Total earmarked reserves</b>	<b>28.8</b>

18. Based on the approved commitments, and budgeted contributions, a cash flow forecast of earmarked reserves (unrestricted) has been undertaken to 2024/25 (Appendix L). The forecast identifies a balance of £44.0m that has yet to be committed.

**Table 5 – Unrestricted earmarked reserves forecast to 2024/25 based on existing commitments**

	£m
<b>Balance at 1 April 2020</b>	<b>28.8</b>
Less existing commitments (Appendix 1)	(26.9)
Add:	
One-off contributions approved as part of the 2020/21 budget	7.2
Annual recurrent revenue contributions	8.1
Business rates (timing adjustment)	4.5
Flexible use of capital receipts/ capitalisation	2.4
Civic Campus Joint Venture profit share estimate	11.1
Civic Campus section 106/ CIL contributions	5.9
Civic Campus relocation – contribution from Housing Revenue Account	2.9
<b>Uncommitted balance</b>	<b>44.0</b>

19. The forecast assumes a 3.5 year relocation regarding the Civic Campus. An option was also modelled on a 5 year relocation which would increase the call on reserves by £7.7m (of which the General Fund element would be £5.9m). Should there be any delays to the Civic Campus programme, mitigating action plans would be put in place to minimise ongoing lease costs to reflect the learning from the Covid-19 pandemic around the ability of officers to work from home to reduce any additional costs to a minimum.

#### **Reserves adequacy and future risk / priorities**

20. The Council faces several potential risks whilst indicative plans for further service transformation highlight possible further calls on reserves. These are summarised in Table 6. An action plan has been developed to mitigate against future risk with the expected benefit also summarised in Table 6.

**Table 6 – Future risks / potential call on reserves to 2024/25**

	£m
<b>Uncommitted balance of earmarked reserves</b>	<b>44.0</b>
<b>Funding assumptions:</b>	
Use of the Invest to Save Fund	(2.1)
Use of the IT and Technology Fund	(4.9)
<b>Future risks</b>	
Increase in the DSG High Needs cumulative deficit to 2024/25	(9.9)
Current year forecast overspend (before mitigating actions)	(5.7)
Further unfunded Covid-19 impacts	?
Any future in-year overspends	?
Workforce efficiency strategy (potential redundancy provision)	?
<b>Potential future drawdowns</b>	
Support for future regeneration initiatives	?
Support to major projects	?
<b>Balance</b>	<b>21.4</b>

21. The main assumptions that underpin Table 6 are set out below:
- The potential use of the Invest to Save Fund and Technology and IT reserves is in line with the budgeted revenue contributions to reserves, use of the existing capital receipts flexibility and commitments brought forward. In line with the proposed reserves strategy any use of these reserves will need to demonstrate that it is being ruthlessly financially efficient with peer challenge by the Chief Executive and Director of Finance.
  - The DSG High Needs Block deficit increased by £5.1m in 2019/20 to stand at £19.1m at the start of 2020/21. The reserves strategy provided for an increase in the deficit of £15m from 2019/20 to 2023/24. Accordingly, a further use of £9.9m is modelled for 2020/21 onwards of which £3.6m is forecast for 2020/21. There is an opportunity to reduce this risk if future years spend is contained within the grant funding. More detailed modelling is being undertaken to reflect the final allocation for 2021/22.
  - The latest forecast (month 6) is that there will forecast a overspend of £5.7m in 2020/21 before mitigating actions. This will be a charge against reserves unless further grant is awarded or mitigating actions are successful.
  - Several new initiatives are expected to come on stream in the forthcoming months which will added to the forecast when agreed.
22. **The future risks forecast highlights a risk regarding the adequacy of the councils reserves, over the medium term, unless action continues to be taken.** The current action plan is set out in Table 7. The actions delivered to date are estimated to have already benefited the reserves forecast by £17.6m. Further opportunities will continue to be taken forward.

**Table 7 – Reserves action plan**

Ref	Action	Actions taken to date	Potential further opportunity
1	Relocate back to the new Town Hall Civic Campus at the earliest opportunity and in line with the current programme timetable – this would enable the break clause to be exercised at three and a half years. Were a 5 year relocation to take place the extra call on general fund reserves would be £5.9m. In addition, new ways of working following the learning from the Covid-19 pandemic may enable additional relocation savings to be realised.	£5.9m	
2	New ways of working following the learning from the Covid-19 pandemic may enable additional Civic Campus decant and other accommodation savings to be made.		On-going

Ref	Action	Actions taken to date	Potential further opportunity
3	Address the current in-year forecast overspend of £5.7m through mitigating actions or additional grant support. Action in 2019/20 saw the forecast overspend at month 6 of £9.5m reduce to £6.6m at outturn. A £2.6m benefit.	£2.6m	£5.7m
4	Prepare and agree a programme of asset disposals to deliver capital receipts to fund invest to save and IT investment costs through the flexible use of capital receipts. The regulations require expenditure to be incurred by the end of 2021/22 and £2.4m of receipts are already carried forward to 2020/21 with a further £4.4m identified within the 2021/22 capital programme.	£2.4m	£4.4m
5	Capitalisation of relevant Civic Campus costs (such as decant accommodation fit-out costs and other programme costs) and funding of these through capital receipts. High level, indicative figures show that the assumed sum that can be capitalised could increase by c£4m. £1.5m of furniture, equipment and other costs were capitalised in 2019/20.	£1.5m	On-going
6	Capitalisation of relevant Civic Campus programme costs and professional fees where these are in respect of the Town Hall refurbishment and fit out (capital works).	-	On-going
7	Review of future requests to use reserves, such as the Resident Access programme, to identify potential capitalisation opportunities. £0.2m of column replacement costs capitalised in 2019/20 to protect revenue reserves.	£0.2m	On-going
8	Ensure all Council budgets (such as the Housing Revenue Account/ Pension Fund) and partners pay a fair share of costs falling on reserves. Updated figures, that are included in the HRA business plan, suggest the potential HRA contribution could reduce the call on reserves for the new Civic Campus by £4.2m for a 3.5 years relocation. A contribution of £1.2m has already been made.	£1.2m	£3.0m
9	Peer Challenge by the Chief Executive and Director of Finance of all existing commitments.		On-going



Ref	Action	Actions taken to date	Potential further opportunity
10	Review of commitments following the exit from the previous facilities management contract. A provision of £2.5m was set aside which is no longer required.	£2.5m	-
11	Balance sheet review to establish if further reserves can be freed up. As part of the 2020/21 budget process £3.4m of historic council tax adjustments were identified as available for release. A separate exercise has been undertaken that released £3m of historic business rates adjustments to the council's Collection Fund. By preventing a deficit arising on the Collection Fund a potential future call on reserves has been avoided.	£3.4m	On-going
12	Take action to bring the 2021/22 DSG High Needs Block deficit back in balance. Use all the £2.4m of additional funding (for the next 3 years) made available through the Spending Round 2019 to reduce the call on reserves. Deliver Phase 2 & 3 of the High Needs Block deficit recovery plan.		£6.3m
13	Review external funding opportunities and developer contributions.		On-going
14	Assess the IT funding requirement over the medium-term.		On-going
15	Review the purpose for which all reserves are held on a twice-yearly basis, including those that are restricted, to ensure they are required for their intended purpose. Actions taken included above.		On-going
16	Consider additional contributions to reserves as part of annual revenue budget setting process. The 2020/21 budget included new contributions of £3.8m from non-recurrent benefits on the collection fund and operation of the 2019/20 business rates pool. This is in addition to the £3.4m from the balance sheet review. The 2021/22 budget proposals include a further potential contribution of £1.1m from a short-term saving in the cost of the concessionary fares scheme.	£3.8m	£1.1m
	<b>Total</b>	<b>£23.5m</b>	<b>£20.5m</b>

23. The government have put in place regulations regarding the historic accounting treatment of the High Needs Block deficit so that these do not have to be matched against council general fund reserves from 2020/2021. However, it is expected that this will be time limited to three years, therefore the underlying issue will need to be

addressed during this period. Separately discussions are on-going between Hammersmith & Fulham and the Department for Education on potential financial support regarding this accumulated deficit. At the close of 2019/20, Hammersmith & Fulham has set aside, in line with audit expectations, £19.1m regarding the historic deficit and the forecast assumes the set aside of a further £9.9m to 2024/25. Should such sums no longer be required to be set aside, the current forecast would materially improve.

### Restricted reserves

24. Excluding section 106 and Community Infrastructure Levy (CIL) contributions the restricted reserves of £15.8m are forecast to reduce to £6.4m by 2024/25 as they are used for their intended purpose. This takes no account of further contributions that may be received. Such reserves will be reviewed annually to ensure they are still required for their intended purpose
25. The use of section 106 and CIL contributions is subject to a separate approval and monitoring process and is regularly reported to the Finance, Commercial Revenue and Contracts Policy and Accountability Committee.

### Overall cashflow

26. A reserves cashflow forecast has been undertaken. This is detailed in Appendix L with the assumptions. The forecast is for financial modelling purposes and significant uncertainty remains regarding the timing of expenditure and income flows. The forecast excludes the £16.6m of developer contributions which have restricted uses.

**Table 7 – Cash flow (general balances, earmarked and restricted reserves)**

<b>Three-and-a-half-year Civic Campus relocation</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>
<b>Opening balance</b>	<b>63.5</b>	<b>47.7</b>	<b>39.5</b>	<b>50.2</b>	<b>48.0</b>
Forecast movement	(6.6)	(6.1)	12.9	(0.1)	(0.1)
<b>Closing balance</b>	<b>56.9</b>	<b>41.6</b>	<b>52.3</b>	<b>50.1</b>	<b>47.9</b>
Risks and other potential uses (Table 6) – cash impact	(9.3)	(2.1)	(2.1)	(2.1)	0
<b>Revised balance</b>	<b>47.7</b>	<b>39.5</b>	<b>50.2</b>	<b>48.0</b>	<b>47.9</b>
Outside the forecast					
<b>Developer contributions</b>	<b>16.6</b>				

27. The cash-flow forecast emphasises the need for regular monitoring of the reserves forecast and implementation of the action plan. Reserves can only be spent once and the future forecast identifies a tightening in the Council's finances that will need careful management and review. Continued focus will be required on keeping spend within budget, avoiding the use of reserves to balance future budgets and on rebuilding reserves to support future investments.
28. The previous reserves forecast reported to budget council estimated that reserves (excluding developer contributions of £2.2m) would be £39.2m at the close of 2023/24. This is £8.7m less than the current 2023/24 forecast of £47.9m.

## Appendices

Appendix K – General Fund reserves forecast to 2024/25

Appendix L – Reserves cashflow forecast