

## 2023/24 RESERVES STRATEGY AND ACTION PLAN

### Summary

The Council faces a continued financial challenge due to national economic conditions of high inflation and interest rates, which are increasing costs for delivering services, reducing commercial income, increasing the cost of investment plans and increasing the demand for public services. 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 £27.6m.

Hammersmith & Fulham will carry forward a budgeted general balance of £23.3m and estimated earmarked reserves (excluding Covid-19 funding) of £58.7m at the start of 2023/24. Based on the most recent comparative data (the start of 2020/21) the Council's reserves are slightly above average, as a percentage of net revenue expenditure, for a London Borough.

The Council is already committed to use reserves to fund several major initiatives and priorities. It also faces significant current and future financial pressures and risks and potential costs of future service improvements.

### Detailed analysis

1. Reserves play a crucial role in good public financial management. They enable investment in service transformation and provide resilience against unexpected events or emergent needs. As one-off resources they can only be spent once.
2. Hammersmith & Fulham holds reserves for two main purposes:
  - As a contingency to cushion the impact of unexpected events or emergencies – this forms part of general balances. The lack of an appropriate safety net has resulted in several councils, including Thurrock, Slough, Bexley, Croydon and Northamptonshire, running into financial difficulties.
  - To build up funds for known or predicted requirements; these specific reserves are known as earmarked reserves.
3. For 2022/23 Hammersmith and Fulham carried forward General Fund reserves and balances of £174.2m. The split, and trend since 2021/22 is set out in Table 1.

**Table 1 – The general balance and earmarked reserves 2021/22 to 2023/24**

	<b>Opening Balance 2021/22 £m</b>	<b>Opening Balance 2022/23 £m</b>	<b>Opening Balance 2023/24 £m</b>
General balance	19.3	20.4	23.3
Earmarked reserves	74.1	78.0	58.7
<b>Sub-total</b>	<b>93.4</b>	<b>98.4</b>	<b>82.0</b>
Covid-19 related	51.4	29.4	7.4
<b>Total</b>	<b>144.8</b>	<b>127.8</b>	<b>89.4</b>
Developer Contributions	46.0	46.4	46.4
<b>Grand total</b>	<b>190.8</b>	<b>174.2</b>	<b>135.8</b>

4. Covid-19 reserves are required to fund existing liabilities regarding the timing of collection fund impacts relating to business rates reliefs and business grants. The reserves include, in line with accounting practice, £46.4m relating to developer contributions. The use, and monitoring of such contributions, is subject to a separate approval and monitoring process which ensure the conditions within the relevant s106 legal agreements and Community Infrastructure Levy requirements are met.
5. A comparison between Hammersmith & Fulham and the London borough average, based on the most recent data (the start of 2020/21), is set out in Table 2. The final row of the table (General fund and non-schools earmarked general fund reserves as a percentage of service revenue expenditure (%)) is the more illuminating, as it takes into account the Council's smaller size compared to most other London boroughs.

<b>Measure</b>	<b>Hammersmith &amp; Fulham</b>	<b>Average for London Boroughs</b>	<b>Ranking relative to other London Boroughs (/32)</b>
Total general fund and non-schools earmarked general fund reserves	£79.9m	£107.7m	19
General fund and non-schools earmarked general fund reserves as a percentage of service revenue expenditure (%)	29%	25%	8

**Table 2 – Comparison to other London Boroughs as at 31 March 2020**

6. The Council 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. This has included contributions to reserves in the 2022/23 budget.

## **RESERVES STRATEGY**

7. The Council's reserves strategy is based on the following key principles:
  - General Balances are 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.
  - The level of reserves and forecast should 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 the Cabinet Member for Finance and Reform.
  - 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 reserves strategy is supported by an action plan, that is updated regularly, that aims to ensure the adequacy of reserves over the medium-term.

## **Planned use of reserves**

### **General balances**

8. Under Section 25 of the Local Government Act 2003, the Director of Finance is required to include, in budget reports, views on the adequacy of Council's balances and reserves.
9. General balances cover unforeseen financial risks and provide cover for unexpected or unavoidable additional costs. 2022/23 Budget Council agreed that the medium-

term recommended range for general balances is between £19m and £25m. For 2023/24 the budgeted general balance is £23.3m.

10. Whilst use of the general balance 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 from the general balance with no clear plan on how any future budget gap will be bridged. Should general balances be anticipated to fall below the recommended range then concerns may arise regarding the Council’s financial resilience and sustainability.

### **Earmarked reserves**

11. 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 programme
  - insurance reserves
  - service transformation
  - to meet one-off pressures
  - unspent revenue grants, held for specific purposes.
12. Some earmarked reserves have restrictions placed on their use. For example, reserves relating to unspent revenue grants may have conditions attached. The main restricted reserves for Hammersmith & Fulham are set out in Table 3. The need for restricted reserves is reviewed annually to ensure they are still required for their intended purpose

**Table 3 – Restricted and earmarked reserves**

	<b>Opening balance 2022/23 £m</b>
Covid-19 grant funding	29.4
Revenue grants	4.5
Insurance fund	5.9
<b>Restricted reserves excluding developer contributions</b>	
Developer contributions (Section 106 and Community Infrastructure Levy)	46.4
<b>Restricted reserves including developer contributions</b>	
Other earmarked reserves (unrestricted)	68.3
<b>Total earmarked reserves</b>	

### **Unrestricted earmarked reserves**

13. As set out in Table 3 the level of unrestricted earmarked reserves carried forward at the start of 2022/23 was £68.3m. In accordance with the reserves strategy the intended purpose, and level of such reserves has been reviewed. The proposed

balances carried forward are summarised in Table 4 with further detail provided in Appendix 1.

**Table 4 – Proposed earmarked reserves (unrestricted) as at 1 April 2023/24**

	<b>£m</b>
Corporate demands and pressures	30.1
Dedicated schools grant support	7.2
IT enabling fund	4.6
Efficiency projects reserve	1.4
Pre Development Costs	5.0
Planning	1.5
IBC development	1.3
<b>Total earmarked reserves</b>	<b>51.1</b>

14. An earmarked reserve of £7.2m is held regarding the cumulative Dedicated Schools Grant (DSG) high needs deficit. This is £4.6m lower than the previous year. The deficit is expected to reduce further in future years following the Council securing additional government funding and continuing to manage its DSG recovery plan. As the deficit reduces as grant is received, resources will be freed up for transfer to the corporate demands and pressures reserve.
15. Appendix K summarises the current forecast draw downs from, and planned contributions to, earmarked reserves. The major commitments include:
- £1.8m regarding Hammersmith Bridge (yet to be formally approved)
  - £2.5m of further investment to undertake an area-based prototypes for an **alternative waste collection schemes** and for contract procurement of a new waste, recycling and street cleansing contract. Prototype collection schemes relating to, for example, separate food waste collection and wheeled bin containers need to be carried out to inform the Council's requirements for the services going forward. In Hammersmith & Fulham a 1% shift from general waste to recycling equates to a saving of approximately £70,000 per year in waste disposal fees.
  - £0.8m regarding investment in the Contact and Assessment Service to support and protect vulnerable children and families.

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

16. A reserves cashflow forecast has been undertaken. This is detailed in Appendix K. The forecast is for financial modelling purposes and significant uncertainty remains regarding the timing of expenditure and income flows. The forecast excludes any movement in developer contributions. Allowance is made for the 2022/23 forecast budget overspend (reported in Corporate Revenue Monitor month 6) of £2.1m after mitigations.

**Table 5 – Cash flow (general balances, earmarked and restricted reserves)**

	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>
<b>Opening balance</b>	<b>127.8</b>	<b>89.4</b>	<b>74.8</b>	<b>73.6</b>
Forecast movement (largely due to timing of Covid payments)	(38.4)	(14.6)	(1.2)	2.5
<b>Closing balance</b>	<b>89.4</b>	<b>74.8</b>	<b>73.6</b>	<b>76.1</b>
Developer contributions	46.4			

17. The Council faces several potential risks whilst indicative plans for further service transformation highlight possible further calls on reserves. Such risks include:
- Covid-19 recovery and addressing pent-up demand
  - Discussion are on-going regarding the future of Hammersmith Bridge and the Council is incurring revenue and capital costs at risk until government funding is confirmed
  - An upturn in inflation post Brexit and Covid-19
  - Cuts to government funding and the impact on London of the 'levelling-up' agenda
  - The impact of, and tackling, climate change
  - Any write-off of pre-development costs should it not be possible to take forward planned capital schemes - the updated reserves strategy incorporates an earmarked reserve of £5m as mitigation against this risk.
18. **The future risks forecast highlights that action continues to be required to ensure that reserves remain adequate over the medium-term.** The current action plan is set out in Table 6.

**Table 6 – Reserves action plan**

<b>Ref</b>	<b>Action</b>	<b>Actions taken to date</b>	<b>Potential further opportunity</b>
1	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
2	Prepare and consider 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 2024/25 and £5.3m of receipts are forecast within the capital programme.	£3.6m	£5.3m
3	Review of future requests to use reserves, such as the Resident Experience and Access Programme, to identify potential capitalisation opportunities. £0.2m of column replacement costs were capitalised in 2019/20 to protect revenue reserves.	£0.2m	On-going
4	Ensure all Council budgets (such as the Housing Revenue Account/ Pension Fund) and partners pay a fair share of costs falling on reserves. The actions taken to date include an HRA contribution to the Civic Campus.	£1.2m	On-going
5	Peer challenge by the Chief Executive and Director of Finance of all existing commitments.		On-going
6	Review of existing commitments. For example, following the exit from the previous facilities management contract a provision of £2.5m was set aside which is no longer required.	£2.5m	On-going
7	Balance sheet review to establish if further reserves can be freed up (relating to Business Rates and the Collection Fund).	£3.4m	On-going
8	Release the dedicted schools grant (DSG) support reserve in line with the DSG recovery plan.	£3.1m	£7.2m
9	Review external funding opportunities and developer contributions.		On-going
10	Assess the IT funding requirement over the medium-term.		On-going



Ref	Action	Actions taken to date	Potential further opportunity
11	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
12	Consider additional contributions to reserves as part of annual revenue budget setting process. The 2022/23 budget included new contributions of £2.9m.	£4.9m	On-going
	<b>Total</b>	<b>£18.9m</b>	<b>£22.5m</b>