

APPENDIX H – 2024/25 RESERVES STRATEGY AND FORECAST

Summary

The Council continues to operate in an environment of considerable uncertainty and financial challenge. Firstly, there is the cumulative impact of 13 years of budget reductions, since the onset of the austerity era in 2010. Secondly the ongoing uncertainty of the future of the over-arching Local Government funding regime, and what in recent years has been the persistence of one-year funding settlements, limiting the sector's ability to plan with certainty beyond a one-year window. Finally, national economic conditions continue to be oppressive, with high inflation and interest rates increasing costs for delivering services, reducing commercial income, increasing the cost of investment plans and increasing the demand for public services. As a result, 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 £21.3m and estimated earmarked reserves of £72.0m at the start of 2024/25. Based on the most recent comparative data (the start of 2022/23) the Council's reserves are slightly above average, as a percentage of net revenue expenditure, for a London Borough. After considering future commitments, ear marked reserves are expected to reduce by 22% over the next four years.

The Council is already committed to use reserves to fund several major initiatives and priorities. These include Civic Campus, homelessness prevention, regeneration schemes, Adult Social Care and the Dedicated Schools Grant "Safety Valve" agreement. It also faces significant current and future financial pressures and risks and potential costs of future service improvements. The Council receives a good level of contributions from s106 and CIL agreements. These are subject to a separate monitoring process.

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 2023/24 Hammersmith and Fulham carried forward General Fund reserves and balances of £119.6m. Forecast balances to 2027/28 is set out below in Table 1.

Table 1 – The general balance and earmarked reserves 2023/24 to 2027/28 forecast

	April	April	April	April	April
	2023	2024	2025	2026	2027
	£m	£m	£m	£m	£m
General balances (recommended range £19m - £23m)	21.3	21.3	21.3	21.3	21.3
Earmarked reserves	98.3	72.0	62.0	68.7	70.2
Sub Total	119.6	93.3	83.4	90.0	91.6
Developer contributions (Subject to separate monitoring and approval)	48.9				

4. The level of reserves increased significantly in 2020/21. In part this related to the carry forward of £51.4m regarding the financial impact of Covid-19. The majority of this was not new money for the council to spend, it was required to fund existing liabilities regarding business rates reliefs (£41m) and business grants (£3.9m). These reserves have now been utilised.
5. The reserves include, in line with accounting practice, £48.9m 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.
6. A comparison between Hammersmith & Fulham and the London borough average, based on the most recent data (the start of 2022/23), 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.

Measure	Hammersmith & Fulham	Average for London Boroughs	Ranking relative to another London Boroughs (/32)
Total general fund and non-schools earmarked general fund reserves	£127.8m	£142.5m	18
General fund and non-schools earmarked general fund reserves as a percentage of gross service revenue expenditure (%)	21.33%	59%	14

Table 2 – Comparison to other London Boroughs as of 31 March 2022

7. 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.

RESERVES STRATEGY

8. 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 detailed analysis of risk assumptions is attached in **Appendix 1**.
 - 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 Strategic 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. 2023/24 Budget Council agreed that the medium-term recommended range for general balances is between £19m and £23m. For 2024/25 the budgeted general balance is £21.3m.
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. A detailed list of the Council's earmarked reserves and their purpose is attached in **Appendix 2**. As set out in **Table 3**, the level of General Fund earmarked reserves carried forward at the start of 2023/24 was **£98.3m**. In accordance with the reserves strategy the intended purpose, and level of such reserves has been reviewed. The proposed balances carried forward after in year contributions and commitments is £71m.

13.

Table 3 - Earmarked Reserves Opening Balance 2023-24 and Proposed Closing Balance After Commitments and Contributions (as at CRM6 2023/24)

	Opening Balance 1st April 2023	Forecast Movement	Forecast Closing Balance 31st March 2024
Ear Marked Reserves	£m	£m	£m
Corporate Demands and Pressures	(37.4)	8.2	(29.1)
Insurance Fund	(4.5)	0.0	(4.5)
Inflation Risk	(4.8)	0.0	(4.8)
Civic Campus	(1.4)	1.4	0.0
Digital	(5.9)	3.9	(2.0)
Invest to save	(2.7)	2.6	(0.1)
Parking	(2.8)	2.8	(0.0)
DSG	(15.1)	0.0	(15.1)
Unallocated Contingency	(1.5)	0.7	(0.9)
Pre-Development Costs	(5.0)	0.0	(5.0)
Planning Reserve	(1.7)	0.7	(1.0)
Other Service Reserves	(8.9)	4.0	(4.9)
Other Corporate Reserves	(6.7)	2.1	(4.6)
Sub Total General Fund Ear-Marked Reserves	(98.3)	26.4	(72.0)

13. An earmarked reserve of **£15.1m** is held regarding the cumulative Dedicated Schools Grant (DSG) high needs deficit. 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.
14. **Appendix 3** summarises the current forecast drawdowns from, and planned contributions to, earmarked reserves. The major commitments include:
- £0.8m regarding investment in the Contact and Assessment Service to support and protect vulnerable children and families.
 - £0.5m provision for Children's High Needs block
 - £0.2m provision for Early Years Inclusion Team
 - Further investment to undertake an area-based prototypes for an **alternative waste collection scheme** 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.

- £3.3m Parking Reserve – The current capital programme assumes the reserve will be fully released in 2023/24 for the Clean Air Neighbourhoods Programme. The scheme has been delayed so this expenditure may slip to 2024/25. An update will be provided at Q3.

Reserves adequacy and future risk / priorities

15. A detailed analysis of the budget assumptions and management assessment of the impact on the financial position is set out in **Appendix 1**. The reserves cashflow forecast detailed in **Appendix 3** 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 2023/24 forecast budget overspend (reported in Corporate Revenue Monitor month 6) of £4.0m after mitigations.

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

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Opening balance	(119.7)	(93.3)	(83.5)	(90.2)
Forecast movement	26.4	9.8	(6.6)	(1.6)
Closing balance	(93.3)	(83.5)	(90.2)	(91.7)
Developer contributions	48.9			

16. The Council faces several potential risks whilst indicative plans for further service transformation highlight possible further calls on reserves. Such risks include:
- Discussions 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 and the cost-of-living crisis.
 - 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.
17. **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

Ref	Action
1	Relocate back to the new Civic Campus at the earliest opportunity and capitalisation of appropriate programme costs (£1.5m to date).
2	New ways of working following the learning from the Covid-19 pandemic may enable other accommodation savings to be made.
3	Manage in-year council spend within budget to enable additional contributions to reserves.
4	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 £4.3m of receipts are earmarked within the capital programme mainly for REAP, see point 5 below.
5	Review of future requests to use reserves, such as the Resident Experience and Access Programme, to identify potential use of capital receipts.
6	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.
7	Peer challenge by the Chief Executive and Strategic Director of Finance of all existing commitments.
8	Balance sheet review to establish if further reserves can be freed up (relating to Business Rates and the Collection Fund).
9	Release the Dedicated Schools Grant (DSG) support reserve in line with the DSG recovery plan
10	Review external funding opportunities and developer contributions.
11	Assess the IT funding requirement over the medium-term.
12	Review existing commitments and 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.
13	Consider additional contributions to reserves as part of annual revenue budget setting process.

Appendices

Appendix 1 - Budget Assumptions and Risk

Appendix 2 - Earmarked Reserves Description

Appendix 3 - General Fund reserves forecast to 31st March 2027

Appendix 1 - Budget assumptions and Risk

The Codes of Audit Practice in England, Wales, Scotland and Northern Ireland make it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks should be assessed in the context of the authority's overall approach to risk management.

Budget Assumptions and Management Assessment of Impact on Financial Position

Budget Assumption	Value of Risk	Adequacy of Reserve
The treatment of inflation and interest rates	£1.7m	<p><i>The overall financial position of the authority (level of borrowing, debt outstanding, Council Tax collection rates etc).</i></p> <p><i>Rises in the prices of some commodities, Eg fuel and energy, highlight the relevance of using several inflation rates in the budget and financial strategy, and considering whether general reserves are adequate to deal with unexpected increases.</i></p> <p><i>Volatility in the financial markets also points to the need to consider investment and borrowing risks and their impact on income.</i></p> <p>The value of risk is the impact of a 1% increase in inflation on the forecast for contract inflation.</p> <p>The inflation reserve balance of £4.8m is adequate to meet this pressure in the short term.</p>
Estimates of the level and timing of capital receipts		<p><i>The authority's track record in budget and financial management including the robustness of the medium-term plans.</i></p> <p><i>Authorities will also need to consider changes in the property market and adjust estimates and assumptions for reserves accordingly.</i></p> <p><i>Dispensation for flexible use of capital receipts for REAP expenditure expires FY 2024/25.</i></p> <p>There is currently a nil future forecast for</p>

	£0.400m	<p>General Fund receipts.</p> <p>HRA - £16m restricted receipts (affordable housing) – the Council is liable for interest on repayments. £1.2m estimated for 23/24.</p> <p>This is adequately provided for within Capital receipts reserve. This could be funded from capital receipts or borrowing (which would incur a revenue cost of borrowing of 5.2%)</p>
The treatment of demand led pressures		<p><i>The authority's capacity to manage in-year budget pressures, and its strategy for managing both demand and service delivery in the longer term.</i></p> <p>The Council holds an earmarked Corporate Demands and Pressures reserve, current balance of £37.4m to mitigate for fluctuations in demand.</p>
The treatment of planned efficiency/savings/productivity gains	£1.450m	<p><i>The strength of the financial information and reporting arrangements.</i></p> <p><i>The authority should also be able to activate contingency plans should the reporting arrangements identify that planned savings or gains will either not be achieved or be delayed.</i></p> <p>In year savings plans of £2.9m were assumed in the 2023/24 budget.</p> <p>If 50% of the target became unachievable, the shortfall could be met by the Corporate Demands and Pressure reserve in the short term.</p>
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments		<p><i>The authority's virement and end of year procedures in relation to budget under/overspends at authority and department/directorate level.</i></p> <p><i>Risk management measures in relation to partnerships, including consideration of risk allocation.</i></p> <p><i>Contract provisions designed to safeguard the authority's position in the event of problems arising from outsourcing arrangements.</i></p>

	<p>£0.950m</p> <p>£0.630m</p>	<p><i>Reserves may also need to be established to manage commercial risks where authorities have invested in commercial properties.</i></p> <p>Civic Campus – risks around profit share. The profit share assumed on completion is currently £9.5m. If this forecast decreased by 10%, this would reduce the forecast level of reserves.</p> <p>Education City - risks attached to loan arrangement. If interest rates go up by 1%, the impact would be £0.630m additional cost of borrowing. This could be met by reserves in the short term.</p> <p>£5m is set aside in the Pre-Development reserve to mitigate against risks within capital strategy and initiatives.</p>
<p>The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions</p>		<p><i>The adequacy of the authority's insurance arrangements to cover major unforeseen risks.</i></p> <p><i>When considering insurance cover, the structure of the cover as well as the overall level of risk should be considered. Risk assessments should be used when balancing the levels of insurance premiums and reserves.</i></p> <p>The Council currently holds an earmarked Insurance reserve of £4.5m. Claims reviews are carried out every month and as well as periodical actuarial reviews. The most recent actuarial review gave assurance that reserves levels were adequate.</p>
<p>The general financial climate to which the authority is subject to.</p>		<p><i>External factors, such as future funding levels expected to be included in Spending Reviews and expected referenda principles and limits, will influence an authority's ability to replenish reserves once they have been used.</i></p> <p><i>Any plans for using reserves will need to consider the need and ability of the authority to replenish the reserves, and the risks to</i></p>

	<p>£1.500m</p>	<p><i>which the authority will be exposed whilst replenishing the reserves.</i></p> <p>This is the balance available in the unallocated contingency reserve to mitigate against short term pressures.</p> <p>The Council's general balance for 2023/24 is £21.3m. This equates to 4.1% (15 days spend) of the council's gross budget of £565.1m.</p> <p>This is within the medium-term optimal range of £19m to £23m.</p> <p>General balances are forecast to remain within the optimum range in 2024/25.</p>
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	c) DSG High Needs Block	<p>2020 which amends the 2003 Regulations by establishing new accounting practices in relation to the treatment of local authorities' schools budget deficits which must now be recorded in a separate account established solely for the purpose of recording deficits relating to school's budget and account for the cumulative Dedicated Schools Grant deficit in unusable reserves. As the statutory requirement is time limited, it continues to set aside reserves to match the High Needs Block deficit until such time as the cumulative deficit is eliminated.</p> <p>c) DSG (Schools & Early years Block) Reserve This reserve records the cumulative balance on the Schools and Early years block. Grant deficit to unusable reserves.</p>
9	Unallocated Contingency	A reserve held to mitigate against unforeseen costs to the Council
10	Pre-Development	This reserve is to provide for the risk associated with the council's general fund capital strategy and initiatives.
11	Planning Reserve	This reserve is to support funding of CIL related projects.
12	Other Service Reserves	This comprises several smaller reserves, which are held to fund various projects and potential future commitments that are managed by service areas.
13	Other Corporate Reserves	Comprises several smaller reserve balances, which are held to fund projects that are being managed by corporately
14	HRA Reserves	This reserve provides a working balance for the Housing Revenue Account, for which transactions are ring-fenced under the provisions of the Local Government and Housing Act 1989.
15	Schools Balances	Reserves held to fund projects related to Schools

16	Collection Fund	Billing authorities have a statutory obligation to maintain a separate Collection Fund in relation to collections from Council tax and NNDR and the distribution of these funds to Local Authorities and the Government.
17	S106 / CIL (Community Infrastructure Levy)	These reserves exist to fund various projects and potential future commitments in line with the requirements of the agreements

Appendix 3 - General Fund reserves forecast to 31st March 2027

Appendix 3 - General Fund reserves forecast to 31 st March 2027	31st March 2023	31st March 2024	31st March 2025	31st March 2026	31st March 2027
Earmarked Reserves	£m	£m	£m	£m	£m
Corporate Demands and Pressures	(37.4)	(29.1)	(22.9)	(21.5)	(21.5)
Insurance Fund	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)
Inflation Risk	(4.8)	(4.8)	(4.8)	(4.8)	(4.8)
Civic Campus	(1.4)	0.0	0.0	(9.5)	(9.5)
Digital	(5.9)	(2.0)	(2.4)	(1.6)	(2.4)
Invest to save	(2.7)	(0.1)	(0.9)	(1.6)	(2.4)
Parking	(2.8)	(0.0)	(0.0)	(0.0)	(0.0)
DSG	(15.1)	(15.1)	(14.8)	(14.8)	(14.8)
Unallocated Contingency	(1.5)	(0.9)	(1.3)	(1.3)	(1.3)
Pre-Development Costs	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Planning Reserve	(1.7)	(1.0)	(1.0)	(1.0)	(1.0)
Other Service Reserves	(8.9)	(4.9)	(1.5)	(0.4)	(0.4)
Other Corporate Reserves	(6.7)	(4.6)	(3.1)	(2.9)	(2.9)
Sub Total General Fund EM Reserves	(98.3)	(72.0)	(62.2)	(68.8)	(70.4)
General Balances	(21.3)	(21.3)	(21.3)	(21.3)	(21.3)
Total General Fund Reserves	(119.6)	(93.3)	(83.5)	(90.2)	(91.7)
HRA Reserves and Balances	(21.3)	(16.3)	(16.3)	(16.3)	(16.3)
Schools Balances	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)
Collection Fund Reserve	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
s106 / CIL	(2.2)	0.0	0.0	0.0	0.0
Total	(146.8)	(113.6)	(103.8)	(110.4)	(112.0)