

## **2026.27 Reserves Strategy and Forecast**

### **Executive Summary**

#### **Purpose**

1. The Council's reserves strategy underpins financial resilience and enables investment in key priorities while providing protection against unforeseen risks. It is fully aligned with CIPFA's Financial Management Codes and statutory obligations set out in the Local Government Act 1992.

#### **Current Position**

2. Forecasts indicate reserves will remain within recommended levels through to 2028/29 but continued vigilance and proactive management are essential to maintain financial resilience and fund strategic priorities.
  - General Balances: £22.1m (within the recommended range of £19m–£23m).
  - Earmarked Reserves: forecast balances of £65.8m at the start of 2026/27, split between
    - Uncommitted (financial resilience / risk): £39.0m
    - Committed (planned usage) £26.9m.

#### **Strategic Principles**

3. Reserves strategy reviewed annually and commitments reassessed every six months. The following principles are applied;
  - Use of reserves only permitted for exceptional, specific, one-off purposes with clear business cases.
  - Long term view is to maintain adequacy and delivery agreed priorities.
  - Minimise use of revenue reserves by exploring use of capital receipts, partner contributions and external funding.

#### **Key Commitments**

4. The following key commitments are considered within forecast balances;
  - Civic campus redevelopment (£8.9m)
  - Digital Transformation (£3.3m)
  - Hammersmith Bridge (£1.8m)
  - Transformation Projects (£0.5m)
  - Waste collection prototypes and Clean Air Neighbourhoods Programme

#### **Risks and Challenges**

5. Key factors include;
  - Inflation and cost of living pressures
  - Uncertainty over Local Government Finance Settlement and Fair Funding Review

- Climate change impacts
- Potential write off of pre-development costs (mitigated by £5m reserve).

### Action Plan Highlights

6. Key areas for consideration:
  - Control in-year spending to enable contributions to reserves.
  - Accelerate Civic Campus relocation and capitalisation of costs.
  - Review asset disposals for capital receipts (£4.3m earmarked).
  - Twice-yearly review of all reserves and commitments.

## Introduction

### What Are Reserves?

7. CIPFA states in its Financial Management Code that “the aim of the authority’s financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges”.
8. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Act 1992 require precepting authorities and billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

### What is a Reserves Strategy?

9. The reserves strategy defines the level and purposes for which the Council hold reserves. 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. It consists of three elements, which together set out the Council’s ambitions for its reserves and assurance of how this ambition will be achieved:
  - I. Strategy:** what the Council is seeking to achieve through holding reserves. The reserves strategy acknowledges the challenges facing the Council and the need to ensure financial resilience is built into its medium term financial planning.
  - II. Financial Planning:** linking the level of reserves with plans for their use over the period of the Medium Term Financial Strategy (MTFS). It is supported by an action plan that proposes measures which improve the medium-term outlook.
  - III. Operational Framework:** how the Council determines the level of reserves, manages them and plans for their use in line with best practice and statutory requirements.

## RESERVES STRATEGY

10. The Council plans its finances over the short term, medium and long term so that it has adequate resources to deliver services for the residents of the borough. As a large, complex organisation, variations between actual spending and plans are inevitable. These arise from variations in demand, demographic change, changes in costs and the funding decisions of third parties, as well as the need to deliver projects and investments spanning more than one financial year.
11. To ensure financial risks are managed, whilst being able to maintain services, requires that the Authority holds funds in reserve to meet these costs as and when they arise and to deal with any unexpected emergency that may occur. A reserves strategy enables the Council to do this in a planned way.
12. Based on the most recent comparative data (the start of 2024/25) the Council's reserves are slightly above average, as a percentage of net revenue expenditure compared to other London Boroughs.
13. The Council is committed to use reserves to fund several major initiatives and priorities. These include the Civic Campus, homelessness and rough sleeping prevention, regeneration schemes, and the Dedicated Schools Grant "Safety Valve" agreement. It also faces significant financial pressures, 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.
14. The Local Government finance policy statement was published on the 20<sup>th</sup> November and sets out the framework for the first multi-year Local Government Finance Settlement in a decade, covering 2026/27 to 2028/29. The Government confirmed its commitment to funding reform through Fair Funding Review 2.0, introducing a simpler, Need-based system that allocates resources based on relative needs formulas, area cost adjustments for regional variations and resources assessment reflecting each local authorities ability to raise revenue locally.

## FINANCIAL PLANNING

15. The reserves strategy forms part of the Council's Medium Term Financial Plan. 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 so usage needs to be planned carefully.
16. Hammersmith & Fulham holds reserves for two main purposes:
  1. 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.
  2. To build up funds for known or predicted requirements; these specific reserves are known as earmarked reserves.

17. Forecast balances to 2028/29 are set out below in Table 1. The Council is forecast to carry forward budgeted general balances of £22.1m and ear-marked reserves of £65.9m as at April 2026.

**Table 1: General balance and earmarked reserves 2025/26 to 2028/29 forecast**

	Apr-25	Apr-26	Apr-27	Apr-28
<b>General balances</b>	22.1	22.1	22.1	22.1
<b>Ear marked reserves – Uncommitted / budget risk and financial resilience</b>	43.8	39.0	38.6	38.6
Subtotal	<b>65.9</b>	<b>61.0</b>	<b>60.7</b>	<b>60.7</b>
<b>Ear marked reserves - Committed / Planned usage</b>	41.0	26.9	20.9	18.6
Total	<b>106.9</b>	<b>87.9</b>	<b>81.6</b>	<b>79.3</b>

18. A detailed list of the Council's earmarked reserves and their purpose is attached in **Appendix 2**.
19. **Appendix 3** summarises the balances after forecast drawdowns from, and planned contributions to, earmarked reserves. The major commitments included for 2025/26 are:
- **£3.3m** digitalisation and system improvements (offset by budget contributions to the reserve)
  - **£1.0m** provision for corporate property expenditure, including dilapidation costs, fostering extensions and development feasibility studies.
  - **£1.7m** provision for costs related to Hammersmith Bridge
  - **£0.8m** investment in Resident Experience and Access Programme
  - 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, such as 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.
  - **£1.1m** Parking Reserve – The current capital programme assumes the reserve will be fully released by 2026/27 for the Clean Air Neighbourhoods Programme.
20. A comparison between Hammersmith & Fulham and the London borough average, based on the most recent data (the start of 2025/26), 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.

**Table 2 – Comparison to other London Boroughs as of 31 March 2025<sup>1</sup>**

<b>Measure</b>	<b>Hammersmith &amp; Fulham</b>	<b>Average for London Boroughs</b>	<b>Ranking relative to another London Boroughs (/32)</b>
<b>Total general fund and non-schools earmarked general fund reserves</b>	£121.4m	£131.4m	10
<b>General fund and non-schools earmarked general fund reserves as a percentage of gross service revenue expenditure (%)</b>	28.6%	15.2%	15

**Future risk / Priorities**

21. 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.

21. 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>Action</b>
Relocate back to the new Civic Campus at the earliest opportunity and capitalisation of appropriate programme costs.
Manage in-year council spend within budget to enable additional contributions to reserves.
Review of future requests to use reserves, such as the Resident Experience and Access Programme, to identify potential use of capital receipts.
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.

<sup>1</sup> Source: Ministry of Housing, Community and Local Government data

Action
Release the Dedicated Schools Grant (DSG) support reserve in line with the DSG recovery plan
Review external funding opportunities and developer contributions.
Assess the IT funding requirement over the medium-term.
Review of the balance sheet and existing commitments against all reserves that 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.
Consider additional contributions to reserves as part of annual revenue budget setting process.

## OPERATIONAL FRAMEWORK

### Key Principles

22. 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 Executive Director of Finance and Corporate Services, 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.

## General balances

23. General balances are held to mitigate for the impact of uneven cash flows and avoid unnecessary temporary borrowing. Under Section 25 of the Local Government Act 2003, the Executive Director of Finance and Corporate Services is required to include, in budget reports, views on the adequacy of Council's balances and reserves.
24. General balances cover unforeseen financial risks and provide cover for unexpected or unavoidable additional costs. 2025/26 Budget Council agreed that the medium-term recommended range for general balances is between £19m and £23m. For 2026/27 the budgeted general balance is £22.1m.
25. 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

26. Earmarked reserves can be either committed or uncommitted. Committed earmarked reserves are funds which have a planned use and have been built up to meet known or predicted requirements, such as planned investment in change programmes. These include sums set aside for;
  - major schemes, such as the decant from the Town Hall as part of the Civic Campus programme.
  - insurance costs
  - service transformation
  - one-off pressures
27. Uncommitted ear marked reserves are held to maintain the Council's financial resilience and to cushion the impact of unexpected events or emergencies. These include;
  - inflation risk reserve
  - corporate demands and pressures reserve.
28. It is important to note that some reserves are ringfenced or statutory. As these arise from circumstances largely prescribed by statute, there is no requirement for the Council to provide local policies on their level or use. Examples include;
  - specific grant funding held where expenditure is yet to be incurred
  - HRA balances
  - Schools Balances (see Appendix 3).
29. An earmarked reserve of **£14.55m** is held as at April 2025 regarding the cumulative Dedicated Schools Grant (DSG) high needs deficit. The deficit is expected to reduce 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.

### **Monitoring**

30. The level of all reserves is kept under continuous review by the Executive Director of Finance and Corporate Services. This is achieved through regular consideration of the Medium Term Financial Strategy and the budget monitoring reports. Periodic updates will be provided to the Cabinet and the Audit and Standards Advisory Committee. The planned level of reserves will be reported to Budget Council annually via the Council Tax and Revenue Budget Setting Report and will include a statement from the Executive Director of Finance and Corporate Services, under Section 25 of the Local Government Act 2003, regarding the adequacy of reserves and robustness of estimates.

### **Maintenance and Use of Reserves**

31. The maintenance and use of reserves play a key role in long-term financial sustainability. Just as the creation and maintenance of reserves arises in a structured way through the Council's financial planning process, so the release of reserves needs to be subject to a similarly planned and controlled process. As set out in the Council's Financial Regulations (s3.15 – 3.16);
  - It is the responsibility of the Executive Director of Finance and Corporate Services to advise the Cabinet and Full Council on prudent levels of reserves.
  - Any call on reserves will need to first be authorised by the Executive Director of Finance and Corporate Services, in consultation with the Chief Executive and Cabinet Member for Finance and Commercial Services and will be clearly identified in the Finance Impact section of the decision making report.
32. Reserves should not be used to fund overspends unless there is an agreed, realistic plan to eliminate the overspend before the reserve is exhausted (this applies to all reserves, both earmarked and non-earmarked). The Executive Director for Finance and Corporate Services must review planned uses of reserves to ensure that these are not being used to hide or obscure systemic overspends and must report to Full Council report any areas with inadequate plans to address overspends.

### **Appendices**

**Appendix 1** - Budget Assumptions and Risk

**Appendix 2** - Earmarked Reserves Description

**Appendix 3** – Forecast of General Fund Reserves to 1st April 2028



## 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	Adequacy of Reserve
The treatment of inflation and interest rates	<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>There is currently a nil future forecast for General Fund receipts.</p> <p>Dispensation for flexible use of capital</p>

	<p>receipts has been extended to FY 2029/30 which gives greater flexibility for medium term planning</p> <p>Any use of short term borrowing would incur a revenue cost of borrowing (Minimum Revenue Provision) plus interest payments. An estimate is factored into the MTFS.</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 £29.2m to mitigate for fluctuations in demand.</p>
The treatment of planned efficiency/savings/productivity gains	<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 £5.1m are assumed in the 2025/26 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><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. If this forecast decreased by 10%, this would reduce the forecast level of reserves.</p>

	£5m is set aside in the Pre-Development reserve to mitigate against risks within capital strategy and initiatives.
The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	<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>
The general financial climate to which the authority is subject to.	<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 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 2025/26 is £21.6m. 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 2025/26.</p>

## Appendix 2 – Earmarked Reserves Description

Earmarked Reserves are amounts set aside for specific purposes. The main purpose of each earmarked reserve is explained below.

	<b>Reserve Name</b>	<b>Description</b>
<b>1</b>	Corporate Demands and Pressures	To meet unbudgeted demands and pressures.
<b>2</b>	Insurance Fund	Underwrites a proportion of the Council's insurable risks.
<b>3</b>	Inflation	To provide for risks associated with inflationary pressures
<b>4</b>	Civic Campus	Can only be used to fund the costs of implementing the Civic Campus redevelopment
<b>5</b>	Digital	Can be used to provide for costs of the Council's digital works programme.
<b>6</b>	Invest to Save (Efficiency Projects)	To fund future revenue expenditure and capital investment that will provide future revenue savings.
<b>7</b>	Controlled Parking Fund	The surplus from the running of the Controlled Parking operations within the Borough is accumulated in this Fund. In the past, this reserve had to be used to meeting expenditure on transport and highways related activities.
<b>8</b>	Dedicated Schools Grant Reserves – a) DSG Support Reserve  b) DSG Early Years Block	a) DSG Support Reserve –This reserve offsets the DSG Unusable Reserve Deficit to ensure that the expenditure incurred to date can be fully funded in light of continuing pressures and in the event that the deficit recovery plan is unable to recover the current cumulative position. Overall, the DSG reserve (deficit and deficit set-aside) is nil as the cumulative deficit is matched by the reserve set aside.  b) DSG High Needs Block Deficit Reserve Parliament has approved the Local Authorities (Capital

	c) DSG High Needs Block	<p>Finance and Accounting) (England) (Amendment) Regulations 2020 in November 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 &amp; Early years Block) Reserve This reserve records the cumulative balance on the Schools and Early years block. Grant deficit to unusable reserves.</p>
<b>9</b>	Unallocated Contingency	A reserve held to mitigate against unforeseen costs to the Council
<b>10</b>	Pre-Development	This reserve is to provide for the risk associated with the council's general fund capital strategy and initiatives.
<b>11</b>	Planning Reserve	This reserve is to support funding of CIL related projects.
<b>12</b>	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.
<b>13</b>	Other Corporate Reserves	Comprises several smaller reserve balances, which are held to fund projects that are being managed by corporately
<b>14</b>	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.
<b>15</b>	Schools Balances	Reserves held to fund projects related to Schools
<b>16</b>	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.

### Appendix 3 - General Fund Reserves Forecast to 1st April 2028

Summary (£m)	1st April 2025	1st April 2026	1st April 2027	1st April 2028
General Balances	(22.1)	(22.1)	(22.1)	(22.1)
Financial Resilience	(34.0)	(29.1)	(28.8)	(28.8)
Collection Fund	(9.8)	(9.8)	(9.8)	(9.8)
<b>Budget risk and financial resilience</b>	<b>(43.8)</b>	<b>(39.0)</b>	<b>(38.6)</b>	<b>(38.6)</b>
<b>Available reserves and balances</b>	<b>(65.9)</b>	<b>(61.0)</b>	<b>(60.7)</b>	<b>(60.7)</b>
<b>Planned usage</b>				
Digital	(6.7)	(4.1)	(2.9)	(2.3)
Property, Planning & Regeneration	(19.1)	(9.8)	(6.0)	(6.0)
Insurance	(4.5)	(4.5)	(4.5)	(4.5)
Parking Reserve	(1.1)	0.0	0.0	0.0
Transformation	(4.5)	(3.9)	(3.4)	(2.9)
Other Committed Reserves	(5.2)	(4.5)	(4.1)	(2.9)
<b>Committed Reserves / Planned usage</b>	<b>(41.0)</b>	<b>(26.9)</b>	<b>(20.9)</b>	<b>(18.6)</b>
<b>Subtotal excluding General balances</b>	<b>(84.8)</b>	<b>(65.8)</b>	<b>(59.5)</b>	<b>(57.2)</b>
<b>Total</b>	<b>(106.9)</b>	<b>(87.9)</b>	<b>(81.6)</b>	<b>(84.3)</b>
Dedicated Schools Grant	(14.5)	(19.5)	(19.5)	(19.5)
HRA Reserves and balances	(16.6)	(16.6)	(16.6)	(16.6)