

Reserves Strategy - Budget 2026/27**1 Background**

- 1.1 Reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council to consider in developing the Medium-Term Financial Strategy (MTFS) and setting the annual budget.
- 1.2 In setting the budget, the Council decides what it will spend and how much income it needs from fees, charges and council tax to supplement government funding. The Council may choose to fund some of its spending from its reserves or set aside some of its income to increase reserves for future spending.
- 1.3 Having the right level of reserves is important. If reserves are too low, there may be little resilience to financial shocks and sustained financial challenges.
- 1.4 Councils are free to determine the reserves they hold. Members are responsible for ensuring that the Council's reserves are part of the MTFS and need to be appropriate for circumstances. The Chief Finance Officer has a duty to provide members with advice on the level of reserves.
- 1.5 Councils face significant financial challenges, especially given the consistently high inflation which has increased costs dramatically and the additional cost of borrowing. The unprecedented reduction in government funding, when adjusted for inflation, since 2010/11 despite increases in recent year, a decline in other income, rising costs and growing demand for many services are all testing the Council's financial management and resilience. Many of these challenges are likely to continue through to the end of the decade and potentially beyond.
- 1.6 Following the completion of the Fair Funding review and the Business Rates Reset, the provisional settlement included the new local funding allocations as part of a three-year period, 2026/27 to 2028/29. Each of the latter two years will still be subject to an annual settlement process.
- 1.7 Current and future financial challenges pose significant, and increasing, pressures and risks for the Council. The Council may consider using reserves to balance competing pressures for example:
 - Using reserves to offset funding reductions and protect services – although this can only be a short-term strategy as reserves are a one-off resource.
 - Invest in making operational changes or transformation initiatives with the objective of reducing future costs of providing services.
 - Increasing reserves to strengthen resilience against future, uncertain cost pressures.
- 1.1. A key aspect of the 2026/27 budget strategy and for future MTFS years 2027/28 and 2028/29 is the application for Exceptional Financial Support for the MTFS period and the decision to utilise the option of flexible capital receipts to fund transformation expenditure. The application for EFS will provide sufficient funding to manage the net funding pressures and retain an available level of reserves (including the general fund working balance). This will allow

the Council sufficient time to deliver the planned savings and further transformation change to ensure that a finance sustainability is achieved. It is anticipated that the flexible use of capital receipts of £22 million will fund investment resources that will deliver the required savings and the transformation programmes.

2 The approach to setting the Reserves Strategy

2.1 The reserves strategy is integral to the MTFS and the annual budget setting process. Therefore, the MTFS includes:

- Information showing the current level of reserves and how reserves have changed over time.
- Consideration of the forward strategy for reserves needed to support the Council's MTFS.
- A summary of the financial risks facing the Council, how it will mitigate these risks, and the minimum and maximum level of residual risk for which the council may need to hold funds in its reserves.
- An explanation of the purpose and level of any earmarked reserves.
- Details of the plans for reserves within the published budget.

2.2 Reserves will be monitored throughout the year, as part of the routine financial monitoring and the level of reserves reported as part of the year-end accounting processes.

3 Why the Council holds reserves

3.1 We use different terms to refer to the reserves depending on why they are held. Terms we use in this report have the following meanings:

- Available earmarked reserves – funds we choose to set aside to meet known or predicted future spending or ring-fenced by previous Council decisions.
- Working balances (unallocated reserves) to manage cash flows, funds to protect annual budgets against multiple, less predictable, costs and uncommitted accumulated surpluses.
- Other or unusable reserves - the Council holds but are not available to fund general spending: schools' reserves held by the Council; some reserves with statutory restrictions on how they can be spent, such as capital receipts or Housing Revenue Account reserves; and non-cash-backed reserves that councils hold to comply with accounting practice, such as pension reserves.
- Total usable reserves – the sum of earmarked reserves and working balances.

3.2 Available earmarked reserves include funds for contingent spending that is hard to predict (risk-based reserves) – for example reserves to cover any potential issues with the Housing Benefit subsidy claims.

- 3.3 Reserves are distinct from contingency funds and provisions. Contingency funds are held within the annual revenue budget and are set aside mainly to meet ongoing costs such as pay and price pressures and provide a degree of flexibility around spending. Provisions are funds set aside for one-off probable future liabilities where the timing and amounts are uncertain.

Ring-fenced income

- 3.4 The Council must spend some of its income on specific purposes, for example, ring-fenced grants, or property developers' contributions for local environmental improvements. Spending ring-fenced income before the end of a financial year is not always possible or desirable. The Council will carry forward unspent ring-fenced income from one financial year to the next in its reserves.

Delivering a balanced budget

- 3.5 The Council, in common with other organisations, needs financial reserves to help manage unforeseen circumstances and to smooth the impact of known spending requirements overtime. The Council will use reserves for such purposes to enable it to manage variations between its planned and actual budgets that result from unpredictable spending and income. Reserves will also be used by the Council to plan its finances strategically to support activities over the medium and long term.
- 3.6 The budget takes a prudent approach by retaining an equalisation reserve to mitigate future year increases in the NLWA Levy that are anticipated as the authority (along with its North London partner authorities) progresses towards its replacement of facilities at Edmonton. This effectively reduces budgetary shocks from large annual increases and allows the Council to plan more effectively.
- 3.7 The Local Government Finance Act 1992 requires the Council to calculate its expected outgoings and income for the year – including any additions to or use of reserves. The difference between expected outgoings and expected income is the authority's council tax requirement for that year.
- 3.8 If unplanned costs are incurred during the year that are not funded externally (for example, by a grant from government or an insurance policy) or the Council experiences a shortfall in expected income, there will be few options, if it is to deliver to budget. Raising extra income or making in-year savings may have an unacceptable impact on service users. Therefore, the Council may want to consider using reserves to balance spending and income.
- 3.9 The current MTFS is forecasting a funding gap in 2027/28 and 2028/29 and is also anticipating that there will still be a need to fund underlying structural deficits. As outlined in paragraph 1.8, it is likely that EFS will also be required in the MTFS period but will be reviewed on an on-going basis to ensure that adequate level of reserves is maintained.

4 Reserves and the management of risks

- 4.1 With regard to the Council's financial stability, reserves are used to manage risks. There are certain earmarked reserves that have been set aside for specific risks,

for example: the Tax Base Fluctuation and the Budget Strategy Reserve (BSR). These reserves and the potential pressures that need to be managed are reviewed as part of the budget setting process.

- 4.2 The Council also manages unforeseen financial shocks by maintaining a Working Balance in its General Fund. The Council's agreed policy is to maintain working balances at between £10 million and £15 million. Some councils set a minimum desired percentage and although the Council has not done this, the policy would maintain general balances at c4% of the net budget. This level of working balance is kept under review and the Chief Finance Officer has expressed a view that the level is reasonable as part of the budget setting process.

Increasing Financial Risks

- 4.3 The risk environment for local government funding has significantly increased. This strategy identifies the following issues that have increased risk during MTFS period to the end of the decade:

- Growth in demand for Council services, in particular social care, temporary accommodation and SEND.
- Increases in interest rates and the subsequent high inflation, meaning all costs are increasing at unprecedented levels
- The impact of late notification of the settlement reduced timescales to plan and manage risk from reduced resources. This was particularly evident for 2026/27 budget, as the detailed impact of the Fair Funding review was issued very late, as part of the provisional settlement.
- The reset of the business rates could present risks to the collection fund, due to potential level of appears and the impact of any economic downturn. This should become clearer of the next 12 months.
- Economic stability both nationally and worldwide.
- The government could decide to transfer further services/responsibilities to local authorities, and these may not be adequately funded.
- Growth in the resident population numbers brings pressures to a range of services and requires more investment in schools, housing and social infrastructure.
- The level of deficit to the High Needs Block and potential lack of mitigations by the service. There is also the uncertainty with the backstop date, which is currently 31 March 2028 and how this issue will be resolved long term.
- The number of schools in financial difficulty due to budget pressures arising from inflationary pressures and / or loss of income from falling rolls within the primary sector. The costs of redundancy for both support staff and teachers will have to be funded from the general fund plus any residual deficit, if a school were to close or academise.

On-going risks in the current strategy.

- 4.4 In addition, there are still risks that are normally managed within the MTFS:

- The implementation of budget savings and benefits realisation from transformation programmes.
 - On-going service budgetary control.
 - Support for Asylum Seekers and No Recourse to Public Funds cases.
 - Homelessness – increasing numbers coming into the area due to rising rents and lack of affordable housing in the private rental sector (PRS).
 - Service spending pressures, e.g. unavoidable demand in social care services and lack of mitigations to resolve current overspends.
 - Exceptional inflation beyond that provided for within the annual budget.
 - Council Tax base may not grow at the assumed rate due to market rates and/or difficult economic conditions such as high inflation on construction costs and a depressed housing market.
- 4.5 The prospect of grant reductions means that it is prudent to retain sufficient reserves so that any future spending reductions may be implemented in a planned and efficient fashion. Whilst the current level of reserves is considered to be robust, consideration should be given to increasing reserves should the opportunity arise, in order to facilitate budget strategy management.

Budgeted Reserves

- 5.1 The forecast Earmarked Reserves assumed as part of the budget strategy are included at Appendix 8.
- 5.2 The forecast value of General Fund Reserves as at 31 March 2026 is £26.4 million, a decrease of £31.3 million compared to the balance as at 31 March 2025 and a decrease of £3.3 million projected in 2026/27, leaving a balance of £23 million as at 31 March 2027. The decrease in 2026/27 is due to the need to fund the underlying service pressure reported as part of the monitor and the need to invest in service improvements and future savings. The significant movements have been in the Budget Strategy Reserve, Revenues & Benefits, Priorities Impact Fund, Levies Equalisation Reserve and the Tax Base Fluctuation reserve to fund the service overspend.
- 5.3 These reserves are earmarked for specific purposes and do not include the £14.9 million Working Balance that is held to protect the Council's budget from unexpected risks.
- 5.4 The table below summarises the General Fund Reserves for March 2026 and 2027:

Reserves	31 March 2025	31 March 2026	31 March 2027
	actual £'000	est. £'000	est. £'000
Capital programme related	125	0	0
Contingencies for known risks / Committed revenue	12,167	5,272	4,491
To Support the Budget Strategy	13,965	0	0
Technical Reserves	18,865	12,197	11,989
Operational Reserves	1,827	1,448	845
Statutory Accounts	581	455	352
External Income Related	8	0	0
Earmarked Reserves	47,537	19,372	17,678

APPENDIX 7

Grant Related Reserves	10,168	6,986	5,334
Total General Fund	57,705	26,358	23,012
Housing Revenue Account	1,178	1,178	1,178
Schools Revenue Reserves	11,339	5,007	0
Total Reserves	70,222	32,543	24,190

- 5.6 **Contingencies for Known Risks / Committed revenue** provide funds to meet potential expenditure not provided for within the base budget. The largest item is a reserve set aside to meet any loss of Housing Benefit Admin Grant Forecast at £2.3 million for 31 March 2026. The level will be reviewed as the benefits service changes in response to the welfare reforms and will also be used to manage the reduction of grant when it occurs. Committed revenue relate to plans agreed in the past where the expenditure will be required at some time in the future and based on business cases. They mainly relate to PFI projects.
- 5.7 A **budget strategy** balance of £14 million is forecast to be fully utilised in 2025/26 to mitigate the service overspend position and fund the resources required for the transformation programme.
- 5.8 The **Technical Reserve** are earmarked funds to manage the risk within the Council collection fund and major levies which the authority has little or no control over. The main reserve within this grouping is the Tax Base Fluctuation Reserve (£10.4 million at the end of March 2025), which is being held to manage the risks from major fluctuations in the collection fund and the delay in the new local government funding regime changes. The other reserves include Levies equalisation reserve to manage the North London Waste Authority levies.
- 5.9 The **Operational Reserves** are earmarked funds for service activities. In many cases they will have been committed to spending plans and in others they are funds that have been carried over from previous service underspends
- 5.10 The reserves held in respect of **statutory accounts** result from surpluses that can only be used for statutory purposes or over time should be balanced.
- 5.12 The table and paragraphs above only cover the General Fund earmarked reserves. There are other revenue balances held by the Council for specific purposes including (projected 31 March 2026): HRA Reserves £1.2 million, Schools Balances, Grant Related £7 million (earmarked for the purpose that the grant was received) and Working Fund balances of £14.9 million for the General Fund and £11.1 million for the HRA.