

Slough Borough Council - General Fund Reserves Strategy 2026/27

Introduction

This Reserves Strategy sets out the framework for how the Authority will increase General Fund reserves to a financially resilient and sustainable level and manage those reserves. Reserves should be held at an appropriate level to:

- Provide financial resilience against unexpected events
- Support medium-term financial planning
- Enable investment in priority areas
- Ensure compliance with statutory responsibilities and codes of practice

The strategy supports prudent financial management and underpins the Council's Medium-Term Financial Strategy (MTFS), with measures to achieve a level of GF reserves considered appropriate to manage the financial risks the Council is exposed to.

Section 25 of the Local Government Act (Part II) 2003 requires the Chief Financial Officer (CFO) to report formally on the adequacy of the Council's financial reserves when setting the medium-term financial strategy and the budget requirement as part of the annual budget report. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting. Furthermore, S114 of the Local Government Act 1988 requires the CFO to report if there is likely to be unlawful expenditure or an unbalanced budget. *(In 2021 the then CFO issued a S114 notice, as the Council had insufficient reserves to offset its net expenditure.)*

It is also a requirement of the Council's Exceptional Financial Support to the Council that by the end of the 2025/26 financial year, the Council produces "a reserves policy, detailing the forward strategy for the adequacy of reserves to support the council's medium to long term spending and transformation plans, known liabilities and risks and provides resilience to future shocks."

HRA reserves projections are set out in the HRA Business Plan.

The Council holds unusable reserves. These are reserves arising from legislative and accounting requirements, and are generally not "cash" reserves, but adjustments to the value of assets and liabilities, and consequently – at least in the short to medium term - do not impact on the solvency of the Council.

An exception to this is the Dedicated Schools Grant (DSG) reserve, which is temporarily held in unusable reserves during a "statutory override" period. Under Statutory Instrument No. 1212 (2020), DSG deficits can be carried over in a

dedicated account and therefore not at a charge to the Council's revenue account whilst the override is in place. As is the case in many local authorities the DSG for Slough is in significant deficit, primarily as a consequence of the increased and growing cost of SEND statutory responsibilities. The statutory override is time limited to 2027/28, and this represents a significant risk to the Council.

As at 31st March 2025 the Council held £406.6m of unusable reserves.

The CIPFA Financial Management (FM) Code states that

- Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.
- A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed.
- These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources.
- The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

Current Position

Since 2021 when the S114 notice was issued, ongoing financial sustainability has been reliant on Exceptional Financial Support (EFS), through Capitalisation Directions. Total EFS to the 31st March 2025 has totalled £336.5m and is currently assumed to be £417.5m to 2027/28. Despite additional EFS each year General Fund Earmarked and General reserves have fallen from £69.2m to £43.4m between the years 2023 and 2025, with a further reduction of £18.3m forecast for 2025/26.

The Council has continued to face shortfalls in available funding compared to the cost of providing services, including the EFS for each financial year, and has applied for further EFS over the next 2 years to balance resources against spend to stabilise the budget until the full benefits of the "Fair Funding" Review changes are released.

In the context of the above, the Council is concerned to ensure the adequacy of reserves given the Council's ongoing financial challenges, and the requirement for an agreed strategy.

Except where approved under agreed Exceptional Financial Support (EFS) the Council cannot borrow to finance day-to-day spending, and so failure to contain expenditure within the approved revenue budget requires the Council to draw down reserves.

Reserves can only be drawn down once. Furthermore, by holding reserves, the Council mitigates the cost of external borrowing on its capital expenditure, thus reducing capital financing costs.

The Council's opening reserves position for 2025/26 reflects an overall level of useable (cash) reserves of £154.590m, offset by the DSG deficit, as presented in unusable reserves, of £25.430, and made up as follows. Only £43.388m of this represents non-ringfenced General Fund Reserves.

Reserves Statement as at 01/04/2025		£m
Non-Ringfenced		
General Fund Reserve		23.465
Earmarked General Fund Reserves		19.923
	Subtotal	43.388
Ringfenced / Capital		
Schools Reserves (incl DSG Safety Valve)		24.854
Housing Revenue Account (General)		18.596
HRA Major Repairs Reserve		11.302
Capital Receipts Reserve		36.769
Capital Grants Unapplied		19.681
	Subtotal	111.202
	Total Reserves	154.590
Unusable: DSG Deficit Reserve		-25.430
	Overall Total	129.160

The Net DSG deficit at 1st April 2025 is £10.5m, consisting of the £25.4m above, offset by £14.9m held in usable reserves.

The existing strategy assumes a budgeted annual increase to the General Reserve of £1.0m per annum.

Many of the reserves are subject to restrictions on their use, including:

- The HRA Major Repairs Reserve (£11.302m) must be utilised to deliver capital investment in the Council’s existing housing assets. The HRA (General) Reserve of £18.596m is also restricted to the HRA.
- Schools Reserves are restricted to use by schools
- Capital Grants Unapplied must be held pending expenditure incurred on eligible capital schemes in accordance with the grant terms and conditions
- General Fund Earmarked Reserves include a number of restricted use, including Better Care Fund, Public Health and trusts/endowments
- The Capital Receipts reserve comprised £30.911m HRA receipts, for utilisation with the HRA, and £5.858m excess receipts transferred to the General Fund under the “no detriment” principle and earmarked under the Council’s agreed Flexible Use of Capital Receipts policy to support one-off investment in transformation. General Fund capital receipts must be applied either against prior years’ Capitalisation Directions or to finance capital expenditure on short-life assets

The Authority maintains two main categories of usable reserves:

1) - General Fund Balance - a non-earmarked reserve used to:

- Cushion the impact of unexpected events
- Provide working capital
- Manage short-term financial risks

2) - Earmarked Reserves - Reserves set aside for specific purposes, such as:

- Transformation and service redesign
- Insurance and risk management
- Specific service pressures (e.g., social care demand)

The table below shows a summary of GF earmarked reserves and the General Reserve held by the Council as at 1st April 2025, and the forecast balance as at 31st March 2026.

General Fund Reserves	April 2025 Reserves Position £m	Budgeted or Forecast Transfers to/(from) Reserves 2025/26 £m	Forecast Reserve Position as at 31/03/26 £m
<i>Earmarked Reserves</i>			
Transformation Reserve	3.657	(0.998)	2.659
Directorate Carry Forwards	0.186	(0.123)	0.063
Budget Smoothing Reserve	5.102	(1.373)	3.729
Redundancy Reserve	5.173	(0.226)	4.947
Risk Reserve	1.218	0.000	1.218
Public Health Reserve*	1.818	(1.174)	0.644
Better Care Fund*	1.278	0.000	1.278
Other Reserves*	1.491	0.000	1.491
<i>Total GF Earmarked Reserves</i>	19.921	(3.894)	16.027
General Reserve	23.465	(14.493)	8.972
<i>Total Earmarked and General Reserves</i>	43.386	(18.387)	24.999

By the end of the 2025/26 financial year, the General Reserve is forecast to reduce to £8.972m, following an estimated GF overspend of £15.493m (as at end December 2025). This reflects the fact that the authority does not have the level of resources to manage the impact of the scale of growth in demand-led services, primarily homelessness, adult social care, children's social care and SEND.

The Council has applied for further EFS for 2026/27 partly to mitigate the impact of the required depletion of General Reserve. Core funding assumptions for 2026/27 and 2027/28 include Capitalisation Directions of £42.899m and £22.433m respectively.

Subject to approval of the EFS, the table below shows expected movements on the General Reserve over the period 2025/26 to 2028/29, with the reserve amounting to approximately 10% of net spend once the 2025/26 overspend has been addressed.

General Reserve	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Opening Balance	23.465	8.972	19.972	22.972
Contribution in base budget of £1m per year, with a further £10m in 2026/27 and £2m in 2027/28 as part of the Council's EFS request	1.000	11.000	3.000	1.000
Assumed impact of 2025/26 GF overspend	(15.493)			
Closing Balance	8.972	19.972	22.972	23.972
Net Revenue Budget	175.527	236.619	226.515	219.828
Percentage of net revenue budget	5.11%	8.44%	10.14%	10.90%

The Council's budget includes a £1m annual contribution to reserves which, in the table above is supplemented by £10m in 2026/27 and £2m in 2027/28 to restore reserves following the 2025/26 forecast overspend. The annual contribution of £1m will be reviewed for successive years as the MTFS develops and according to an assessment of risk when the budget and MTFS is set each year.

Determining the Adequacy of Reserves

The level of reserves is a matter of judgement, taking into account an assessment of both the financial impact and likelihood of both current and future risks and potential sensitivities, as identified through the Council's risk management process, and including the following.

- Financial risks and uncertainties (including economic uncertainties)
- Volatility in income streams (e.g. council tax, business rates, fees and charges)
- Demand-led pressures
- Inflation and pay award risks
- Delivery risk of savings plans
- Capital programme risks
- Subsidiary Company risks
- Other Corporate risks, including historic legacy liabilities and health and safety
- National policy changes

Reserves should be held at a level that reflects the risk profile, with a formal reserves adequacy assessment accompanying the annual budget report.

An assessment of current budget risks and sensitivities is set in the table below. It reflects the assessment of financial risks for the year 2028/29, with the assessment of likelihood and reserve provision assessed to be recovered. This is compared to the estimated level of General and non-restricted earmarked reserves.

It should be noted that the Council's financial position includes provisions, where there is some certainty that the liability will arise and budget contingencies.

Risk Category	Red £m	Amber £m	Yellow £m	Green £m	Total £m
Funding			2.032		2.032
Inflation		0.500	1.401		1.901
Demand	25.390				25.390
Savings		6.622			6.622
Companies	5.000				5.000
Corporate		2.000			2.000
Financing Costs			0.379	1.000	1.379
Total	30.390	9.122	3.812	1.000	44.324
Reserve Coverage	100%	50%	50%	25%	
Weighted Risk	30.390	4.561	1.906	0.250	37.107

Assumed Level of General and Non-Restricted Reserves by 2028/29	£m
General Reserve	23.972
Budget Smoothing Reserve	3.729
Directorate C/Fwds	0.063
Plus Provisions	5.800
Total	33.564

The review highlights a requirement to increase the level of reserves by some £3.54m, requiring a net increase in reserves to £1.2m per annum over the 3-year 2029/20 to 2030/31, increasing the General Reserve to £27.5m by 31st March 2031.

If additional reserves were required in the meantime, there is potential to repurpose an element of the Redundancy Reserve of £5m. The balance on this reserve will be reviewed throughout the MTFs by cross-referencing the expected impact of transformation and savings proposals.

Governance and Decision-Making

Full Council must approve the overall level of reserves as part of the annual budget and medium-term financial planning report, following consideration of the report of the CFO on the adequacy of reserves, as required under S25 of the Local Government Act 2003, (to be agreed by 11th March of the preceding year). Under S27 of the Local Government Act 2003, there is also a duty on the CFO to report on previous years' financial reserves if it appears that the level of controlled reserves is or is likely to be inadequate, including recommendations for appropriate actions to rectify.

Any approval of funds from reserves in excess of £0.5m in any one case or in aggregate in any year must be considered and approved by Cabinet. The CFO has delegated authority to make technical adjustments below this limit.

All reserve movements will be reported through regular budget monitoring reports to Cabinet, annual outturn reports and the medium-term financial plan. Should the Council's financial resilience be at risk, the CFO may redesignate earmarked reserves to support the overall position of the budget, with subsequent reporting to Cabinet.

This strategy will be reviewed annually, as part of the Medium-Term Financial Planning process and updated to reflect:

- Changes in financial strategy
- External audit recommendations
- Government or CIPFA guidance
- Local financial circumstances

Monitoring and Reporting

The Council will:

- Review reserves adequacy quarterly as part of financial monitoring reported to Cabinet
- Report any material changes to Cabinet
- Review reserves annually as part of the budget and medium term financial planning process
- Publish reserve levels annually in the Statement of Accounts
- Maintain transparency through clear categorisation and explanation of each reserve

Particular attention will be paid in the annual reviews to those reserves whose balances have not moved over the preceding 12 months, to be considered for transfer to other earmarked or the General Reserve.

Risk Management

The Council will maintain a Financial Risk Register that informs reserve levels, taking into account the key risks identified above. Emerging risks will be evaluated in accordance with the agreed Risk Management Strategy and Framework.

This Reserves Strategy provides a mechanism for a planned approach for reserves to be aligned to mitigate those risks where appropriate.