Appendix I

Robustness of Estimates and Adequacy of Reserves

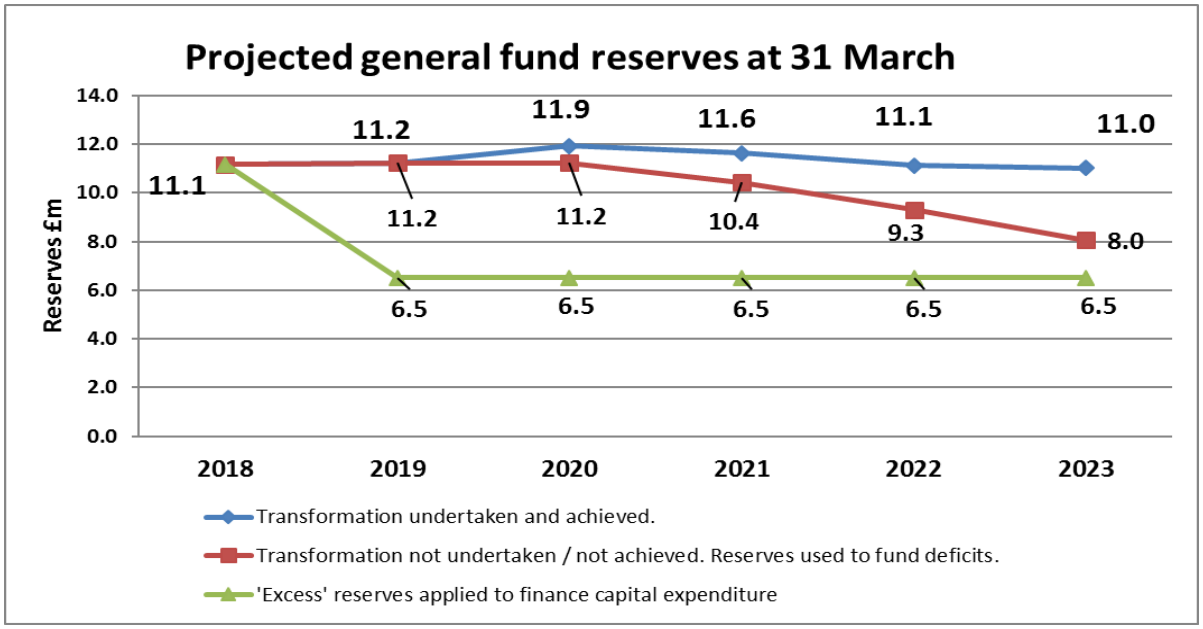
1.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers (CFO) to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their precepts, and authorities are required to take the CFO's report into account when setting the Council Tax.

1.2 The desired minimum level of general reserves was established in the 2012/13 budget report at £6m. Sufficient general reserves are required to ensure that the Council is able to meet its expenses if it finds it needs to fund unplanned costs during the year or its projected income fall short of the budgeted amount. These changes could result from a number of sources such as increased homelessness or an increase in voids in the commercial property estate, or reduced business rate income.

1.3 A level of general reserves at £6m equates to 9% of the Council's £66m of annual expenditure, although this percentage increases to 17% compared to the £35m of annual expenditure excluding £31m of housing benefit payments funded by Government. This is well above the level considered to be 'at risk' from resilience where general reserves are less than 5% of expenditure.

1.4 General reserves at 31 March 2018 were effectively £11.1m once the 2017/18 revenue budget surplus is transferred into an earmarked transformation reserve to fund one-off up-front costs of business transformation in 2018/19.

1.5 The graph shows the predicted level of general reserves in future years under three different scenarios. The upper (diamond blue) line is the level of general reserves that would be available, assuming the MTFS budgets are delivered as projected, using £0.5m of transformation funding each year until the end of 2022. The Council would end the period with roughly the same level of reserves as it started with.



1.6 The middle (square red) line shows no transformation undertaken, and the use of reserves to fund any deficit that arises each year. Whilst this does not result in the Council dipping below the £6m minimum threshold within the period, the approach is not sustainable and therefore not advisable.

1.7 The lower (triangle green) line shows the decision to apply excess reserves to help finance the capital programme, which has the effect of lowering the available level of general reserves to just above the minimum level, but the benefit of lowering the annual Minimum Revenue Provision (MRP) charge.

1.8 In all three cases, the result is that general fund reserves remain above the £6m minimum level until 31 March 2023. However, it is highly advisable that the Council funds and then delivers transformational change, resulting in the top line, which maximises the level of general reserves, which in turn can be used to finance a higher level of capital expenditure in the third scenario.

1.9 If the Council takes this action it is in a much stronger positon to be able to prepare a balanced budget in the latter years of the Medium Term Financial Strategy period and maintain its general reserves at its agreed minimum level or above and will be better placed to deal with any additional demands or changes that are not yet known but may be implemented in the future.

Earmarked reserves

1.10 The Council also holds earmarked reserves which are funds, often grants, received for a specific purpose. Details of the earmarked reserves held by the Council at 31 March 2018 are shown in table a) below.

a) Earmarked reserves

Earmarked Reserves at 31 March 2018*	£'000
Neighbourhood Planning Grant	278
S106 reserves	752
NNDR reserve	1,435
Council Tax localisation	293
Health and Wellbeing	197
Transformation fund*	594
BBH leisure centre (NHB)	1,382
Other	786
Total	**5,717**

*Inclusive of £0.5m transformation from the general fund transferred from the 2017/18 surplus

New Homes Bonus (NHB)

1.11 The NHB reserve is expected to total £4.2m at 31 March 2019 and an estimate of the future levels of NHB reserves are set out separately in more detail at Appendix H. It is likely though that the current projected NHB levels will change as a result of the outcomes of the further sharpening of the incentive as part of the Fair Funding and localisation of business rates. To this effect, a reduction in payments from four years to three years as well as an increase in the baseline below which there is no payment is modelled at 0.7% from 2020/21. A scenario where there are no new payments of NHB in 2020/21 is also modelled.

1.12 Should the NHB scheme significantly change, the extent of the application of NHB to finance the existing capital programme can be revisited in line with any changes.