

## 1. Robustness of Estimates and Adequacy of Reserves

- 1.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers 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 Chief Financial Officer'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 The following table shows the predicted level of general reserves for future years. The level of general reserves shown below assumes that we are unable to fully resolve our deficit position and need to fund our shortfall from reserves.

Table 1 - Reserves

<b>Reserves – January 2016</b>	<b>2015-16 £000</b>	<b>2016-17 £000</b>	<b>2017-18 £000</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>
General Reserves	8,515	5,687	2,212	(1,231)	(5,108)
NHB Reserve	3,694	4,926	6,524	8,824	11,324
Total reserves	12,209	10,613	8,736	7,593	6,216

- 1.4 The NHB reserve assumption in 2016/17 includes £2m used to fund capital expenditure on the Broadbridge Heath leisure centre project as agreed at the Council meeting on 9 December 2015. It also assumes that payments of NHB reduce in 2018/19 and 2019/20 in line with figures provided by the DCLG in its draft settlement announcement.
- 1.5 It also makes the assumption that there is a 1.2% increase in Council Tax in 2016/17 and a 1.75% increase in Council Tax in 2017/18 and 2018/19. The table above shows that if we fail to take appropriate action and resolve our deficit through constraining expenditure and raising income, our reserve levels will reduce significantly over the period to a point during 2018/19 there are not any general reserves left.
- 1.6 If the budget gaps are filled however, the Council will have sufficient revenue reserves for the period covered by the Medium Term Financial Strategy. Section 9 the report details policy options that could be considered by councillors in futures years and outlines potential savings that could be released through the implementation of the savings plans.

- 1.7 By holding general reserves, if the Council finds itself in a difficult position and the projected deficits in future years increase as a result of unforeseen government policy or events, the Council should still be able to maintain a minimum level of reserves while it identifies increased savings or additional income.
- 1.8 As stated earlier in the report, the future of the New Homes Bonus policy is currently out to consultation and the output from that consultation is expected in the summer. It is likely that our current projected New Homes Bonus levels will change as a result of this consultation.
- 1.9 The amount of New Homes Bonus that we are due to receive in 2016/17 (£4.4m) exceeds the amount that we anticipated because changes to the current scheme will be implemented in 2017/18 at the earliest, rather than in 2016/17. Therefore, as mentioned in paragraph 3.10 of the report, we are proposing to allocate a further £2m of our New Homes Bonus to fund Broadbridge Heath Leisure Centre. To this effect, a recommendation to allocate a further £2m towards the Broadbridge Heath leisure centre is raised as part of this report and this allocation is included in Table 1 above within the 2017/18 year, as shown in more detail within Appendix G (New Homes Bonus).
- 1.10 Once the government clarifies the future of NHB we will return to Council with a policy. We are already aware that any form of devolution across Sussex and Surrey is likely to come with a need to improve infrastructure, and therefore it is likely that this would be a component of the new policy (assuming that we are able to resolve the deficit and do not need these funds to replace our general reserves).