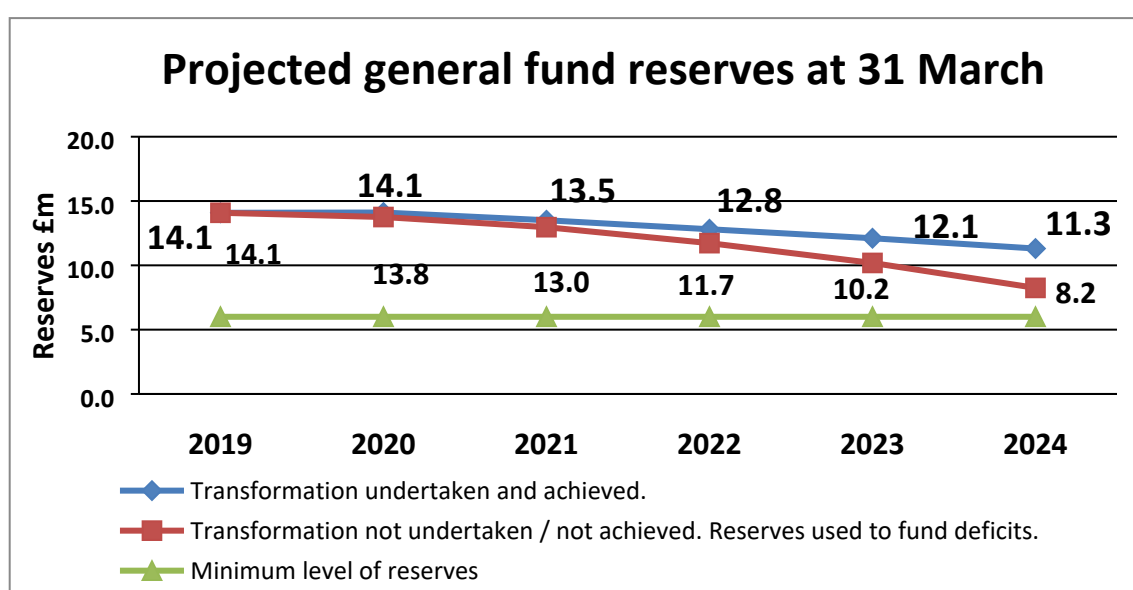


## Robustness of Estimates and Adequacy of Reserves

- 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 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 2019 were effectively £14.1m after transferring £144k of the 2018/19 revenue budget surplus into an earmarked transformation reserve to fund one-off up-front costs of business transformation in 2019/20. The position in 2020 reflects the proposed decision to transfer £0.57m of general reserve into an earmarked green reserve to help tackle the re-wilding of the district and a parish / community carbon fund.
- 1.5 Beyond 2020, the graph shows the predicted level of general reserves in future years under two 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 2023/24. The Council would end the period with circa £11.3m of reserves.



- 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. The Council would end the period at circa £8.2m of general reserves.
- 1.7 The lower (triangle green) line shows the level of general reserves.
- 1.8 In both cases, the general fund reserves remain above the £6m minimum level until 31 March 2024. 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 further transformation.
- 1.9 If the Council takes this action it is in a much stronger position 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 2019 are shown in table a) below.

#### **a) Earmarked reserves**

<b>Earmarked Reserves at 31 March 2019*</b>	<b>£'000</b>
Neighbourhood Planning Grant	278
S106 reserves	586
NNDR reserve	1,435
Council Tax localisation	293
Health and Wellbeing	210
Transformation fund*	500
BBH leisure centre (NHB)	314
Other	967
<b>Total</b>	<b>8,918</b>

\*Inclusive of £0.144m transformation from the general fund transferred from the 2018/19 surplus

### **New Homes Bonus (NHB)**

- 1.11 The NHB reserve was £4.3m at 31 March 2019 and is expected to total £5.5m at 31 March 2020. An estimate of the future levels of NHB reserves are set out separately in more detail at Appendix H. It sets out the probable ending of NHB as a result of the outcomes of the Fair Funding and localisation of business rates.