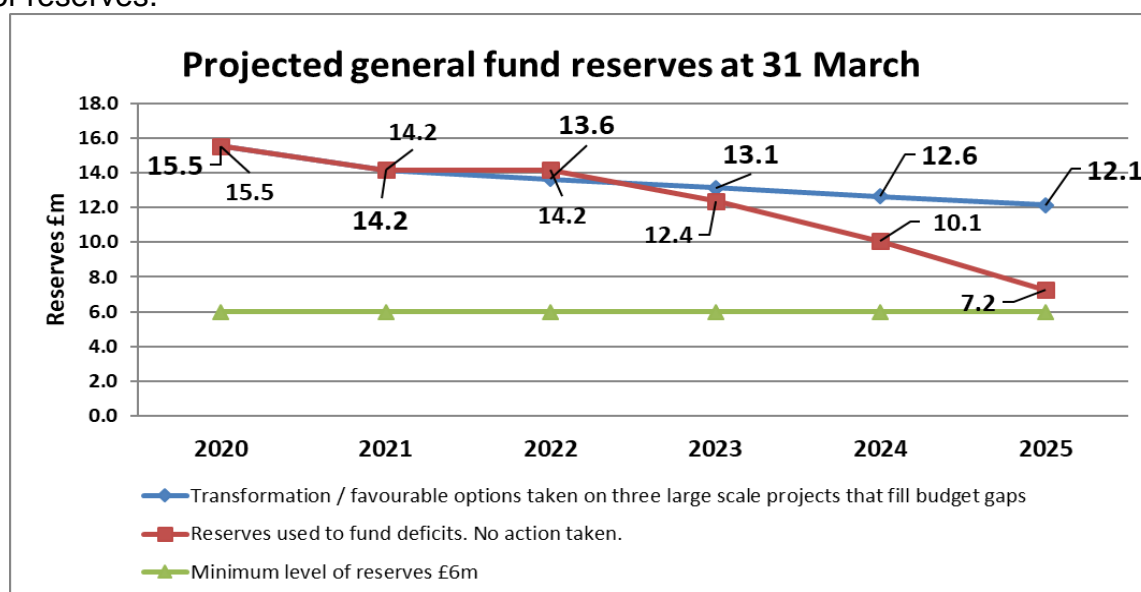
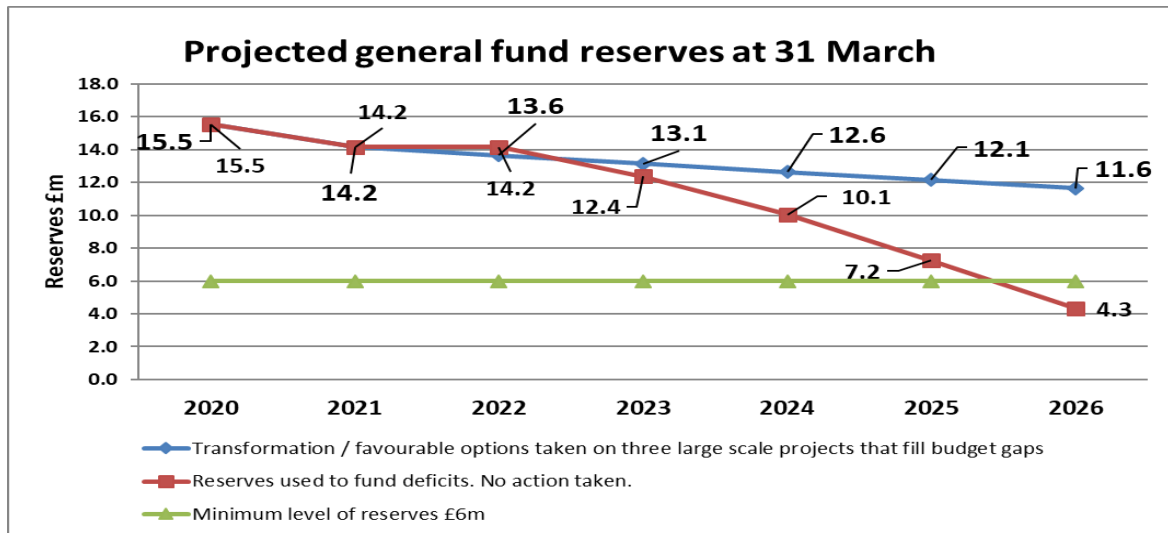


Robustness of Estimates and Adequacy of Reserves

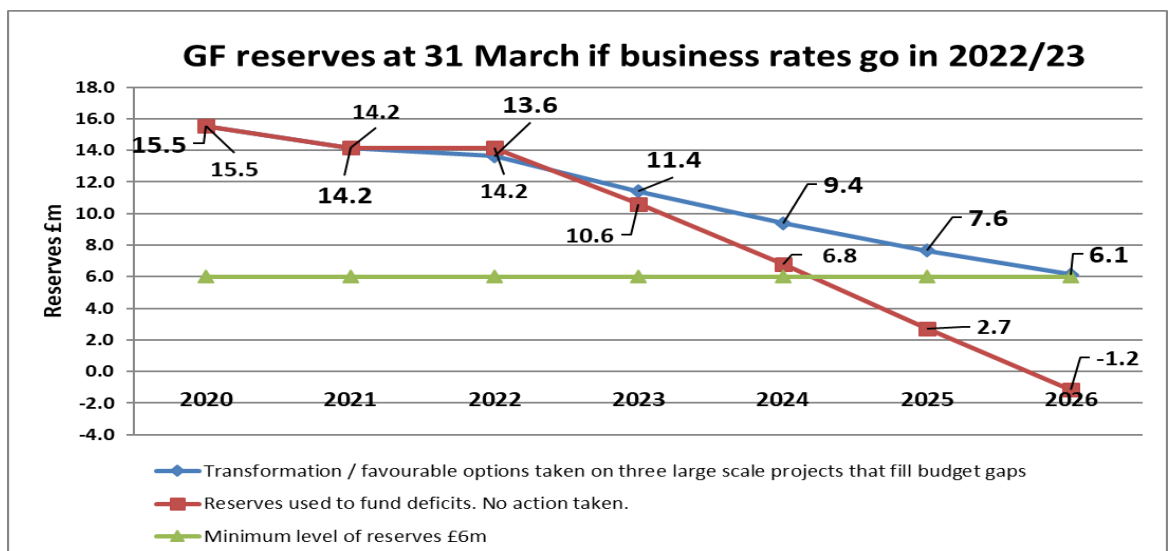
- 1.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers (CFO) to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their precepts, and authorities are required to take the CFO's report into account when setting the 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 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, reduced business rate income or a global pandemic.
- 1.3 A level of general reserves at £6m equates to 17% of the Council's £35m annual expenditure (excluding £28m of housing benefit payments funded by Government). Under normal circumstances, 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 2020 were £15.5m. At 31 March 2021, general reserves are forecast to be £14.2m. This reflects the decision to transfer £0.57m of general reserve into an earmarked green reserve to help tackle the re-wilding of the district and set up a parish / community carbon fund, the forecast £0.3m deficit in 2020/21 and use of £0.5m for the transformation fund.
- 1.5 Beyond 2021, 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 2024/25 and also going ahead with the three large income-generating capital projects outlined in the report. The Council would end the period with circa £12.1m of reserves.



- 1.6 The middle (square red) line shows no transformation undertaken, no capital projects 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 medium term period, the approach is not sustainable and I advise against this approach. The Council would end the period at circa £7.2m of general reserves and would be likely to see reserves fall below the minimum level of reserves in 2025/26 as shown below at £4.3m.



- 1.7 The lower (triangle green) line shows the Council's agreed minimum level of general reserves.
- 1.8 If the Council takes 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.
- 1.9 Should Government decide to withdraw all business rate funding from us from April 2022 in one go, to redistribute funding towards authorities with social care, both scenarios are worse, and under no action taken, we would run out of GF reserves.



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 2020 are shown in table a) below.

a) Earmarked reserves

Earmarked Reserves at 31 March 2020*	£'000
Neighbourhood Planning Grant	278
S106 reserves	802
NNDR reserve	1,435
Council Tax localisation	293
Health and Wellbeing	308
Transformation fund*	500
Revenues and Benefits	318
Other	923
Total	4,857

*Inclusive of £0.123m transformation from the general fund transferred from the 2019/20 surplus

New Homes Bonus (NHB)

- 1.11 The NHB reserve was £4.7m at 31 March 2020 and is expected to total £6.5m at 31 March 2021. An estimate of the future levels of NHB reserves are set out separately in more detail at Appendix G. It sets out the ending of NHB as a result of the outcomes of the Fair Funding and localisation of business rates.

Opinion of the Chief Finance Officer

- 1.12 Based on current assumptions, the Council's reserves are adequate for the period of the current Medium Term Financial Strategy. That said, in the light of the Government's delay to the Fair Funding Review and the Review of Business Rates, the assumptions within the Medium Term estimates are less reliable than usual and the Council's financial position could deteriorate more quickly than shown. Even if these assumptions are correct, if the Council does not act now its financial position will not be sustainable for more than a year or two beyond the current Medium Term period. Given efficiency savings already included in this plan, Councillors either need to carry out the three development projects highlighted in the budget report or plan to make substantial cuts to customer facing services by the middle of the decade. These cuts are likely to include closing valued non-statutory services such as the Capitol theatre, Horsham Museum, community support services or nature reserves, or dramatically reducing the quality of Horsham District Council's excellent statutory services such as Development Management and Environmental Health.