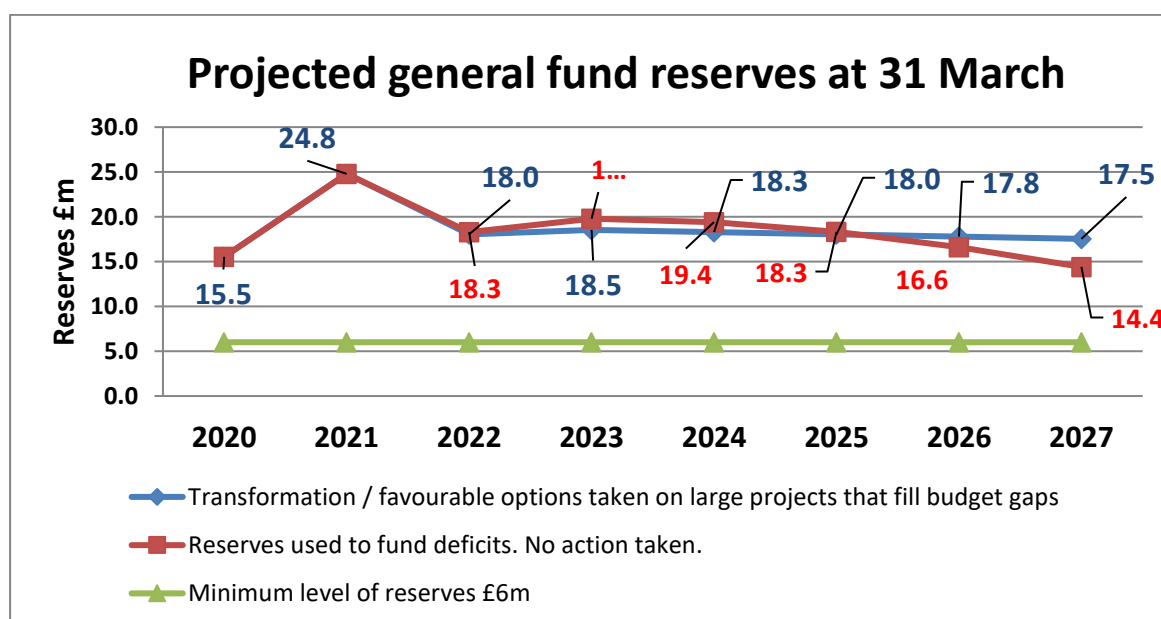


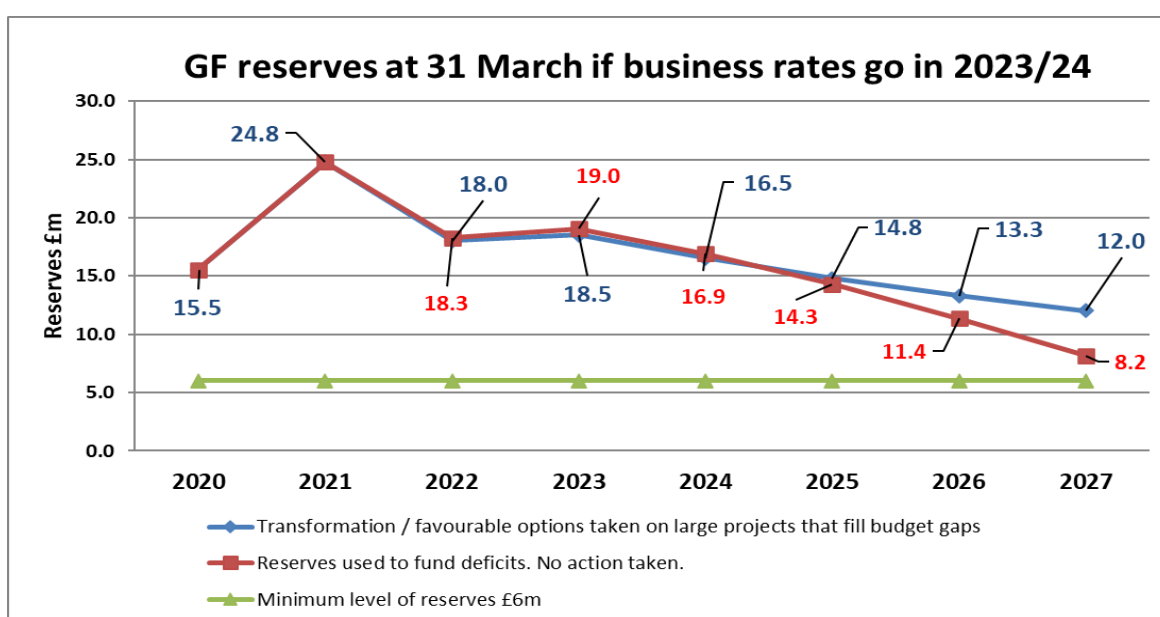
## Appendix H

**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 16% of the Council's £38m annual expenditure (excluding £24m 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 2021 were £24.8m, albeit temporarily inflated by £8m of Section 31 grant as government granted business rate relief to retail, hospitality and leisure services during 2020/21. This has been put into the Collection Fund during 2021/22. At 31 March 2022, general reserves are forecast to be around £18m. This reflects the forecast £1.5m surplus in 2021/22 and anticipated use of £0.2m to top up the transformation fund.
- 1.5 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 £0.2m of transformation funding each and filling the gaps from large projects that return on investment such as those outlined in the report. The Council would end the period with circa £17.5m 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 £14m of general reserves in this scenario and the Council would still have an annual budget deficit of over £2m to find. However, should one of the significant risks arise, the level of reserves could fall to a point at or even below the minimum level of reserves in 2026/27 under this strategy. This is illustrated below under the scenario of business rates funding being withdrawn completely in 2023/24 to redistribute funding towards authorities with social care.
- 1.7 The lower (triangle green) line shows the Council's agreed minimum level of general reserves.



- 1.8 Therefore, 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.

### Earmarked reserves

- 1.9 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 2021 are shown in table a) below.

#### a) Earmarked reserves

Earmarked Reserves at 31 March 2021*	£'000
Neighbourhood Planning Grant	278
S106 reserves	776
NNDR reserve	1,435
Council Tax localisation	293
Health and Wellbeing	308
Covid-19 discretionary fund	2,815

Transformation fund*	500
Revenues and Benefits	618
Green reserve (SWT and funding seed pot)	695
Journey to work	289
Leisure reserve	212
Other (all individually less than £200k)	986
<b>Total</b>	<b>9,205</b>

\*Inclusive of £0.111m transformation from the general fund transferred from the 2020/21 surplus

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

1.10 The NHB reserve was £9.5m at 31 March 2021 and is expected to total £9.5m at 31 March 2022. An estimate of the future levels of NHB reserves are set out separately in more detail at Appendix G. It sets out the end of NHB as a result of the outcomes from Government's review of Fair Funding and business rates.

### **Opinion of the Chief Finance Officer**

1.11 Based on current assumptions, the Council's reserves are adequate for the period of the current Medium Term Financial Strategy. But in the light of the Government's delay to the Fair Funding Review and the review of Business Rates and lack of clarity in the Levelling Up agenda, the assumptions within the Medium-Term estimates are less reliable than usual. As illustrated above, the Council's financial position could deteriorate more quickly than shown. At the moment, the current assumptions do not include the impact of any significant expenditure on replacing infrastructure and de-carbonisation from the middle to the latter part of the decade. It is unnecessary for the Council to take action on these risks during 2022. However, if the Fair Funding Review, the review of business rates or other Levelling up measures eat significantly into the Council's retained business rates, or the Government comes up with new ways of removing money from the District or, indeed the cost of decarbonisation dramatically impacts our reserves, the Council may still face the need to make cuts or increase income towards the end of the Medium-Term period.