Appendix H

Robustness of Estimates and Adequacy of Reserves

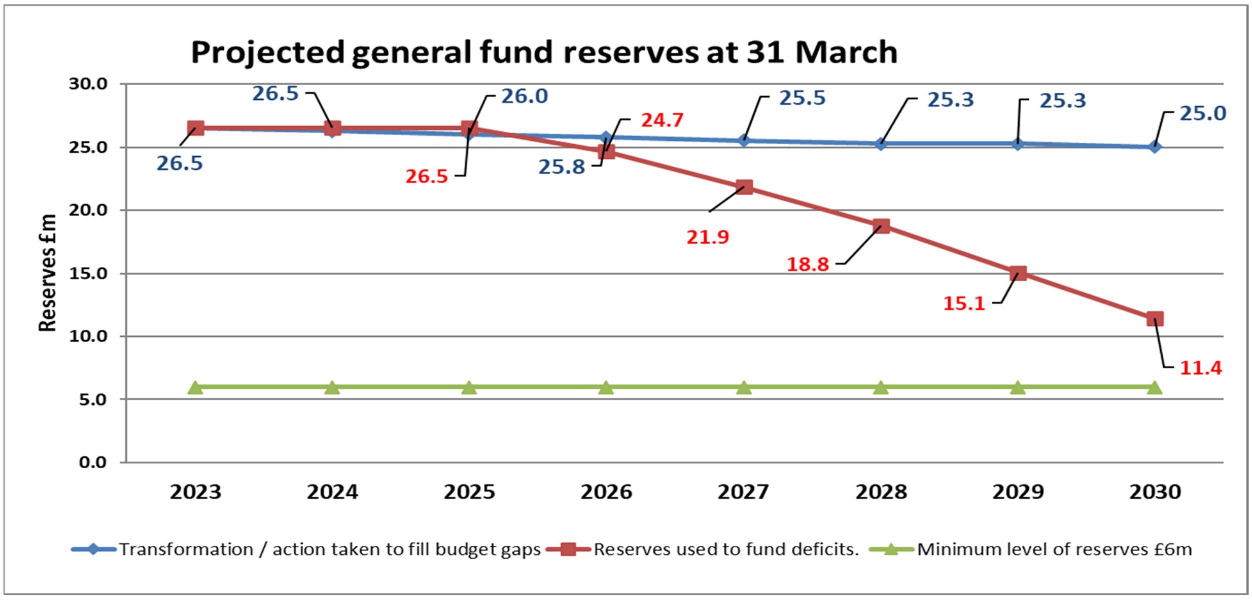
1.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers (CFO) to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their precepts, and authorities are required to take the CFO's report into account when setting the Council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

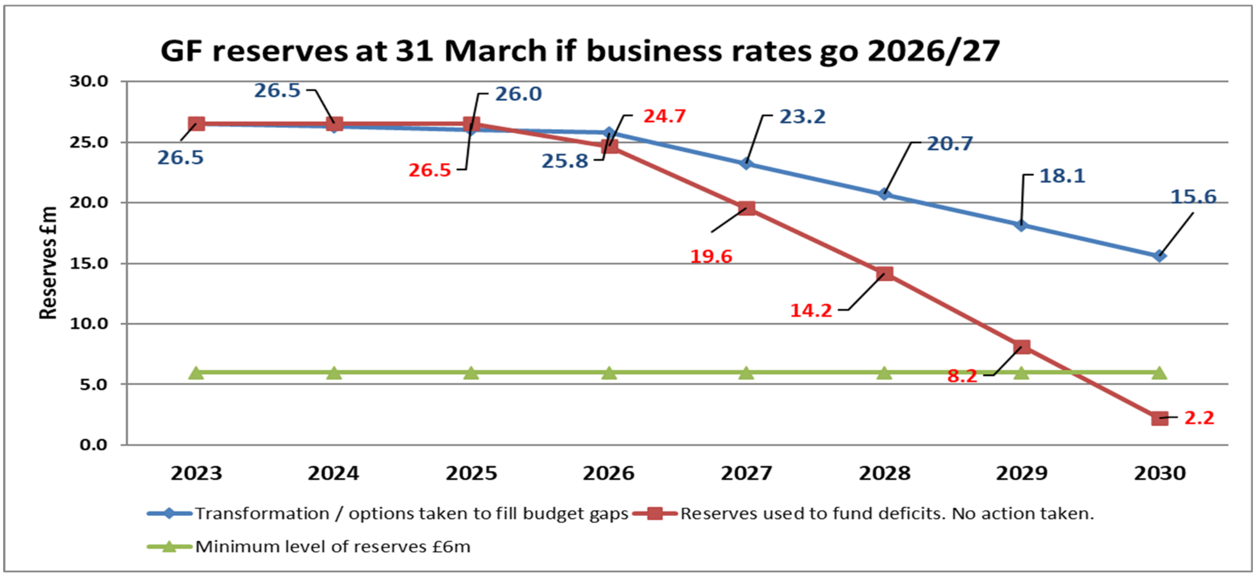
1.3 A level of general reserves at £6m equates to 13% of the Council's £47m annual expenditure (excluding £21m of housing benefit payments funded by Government) or 39% of the net £14.5m expenditure. Under normal circumstances, this is well above the level considered to be 'at risk' from resilience where general reserves are less than 5% of expenditure.

1.4 General reserves at 31 March 2023 were £26.5m and forecast to be of a similar level at 31 March 2024.

1.5 The graphs shows the predicted level of general reserves in future years in two scenarios. The lower (triangle green) line shows the Council's agreed minimum level of general reserves. The upper (diamond blue) line is the level of general reserves that would be available, assuming the MTFS budget gaps are closed, using £0.25m of transformation funding each year and filling the gaps by a combination of generating more income, raising fees and reshaping and reducing existing expenditure and resources. The Council would end the period with circa £25m of reserves.



1.6 The middle (square red) line shows no transformation undertaken, no additional income or reshaping of existing resources 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 £11.4m of general reserves in this scenario and the Council would still have an annual budget deficit of around £3.7m to find. However, should one of the significant risks arise, the level of reserves could very quickly fall to a point at, or even below, the minimum level of reserves in 2028/29 under this strategy. This is illustrated below under the scenario of business rates funding being withdrawn completely as well in 2026/27 to redistribute funding towards authorities with social care.



1.7 Therefore, if the Council takes action during 2024, 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

1.8 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 2023 are shown in table a) below.

a) Earmarked reserves

Earmarked Reserves at 31 March 2023	£’000
Neighbourhood Planning Grant	268
S106 reserves	925
NNDR reserve	1,256
Council Tax localisation	293
Health and Wellbeing	335
Inflation reserve	1,000

Transformation fund*	500
Revenues and Benefits	920
Green reserve (SWT and funding seed pot)	443
Journey to work	225
Covid Outbreak Management Fund	277
Other (all individually less than £200k)	1,527
Total	**7,969**

* Inclusive of £0.222m transformation from the general fund transferred from the 2022/23 surplus

Environment and Infrastructure Earmarked reserve

1.9 The Environment and Infrastructure earmarked reserve was £14.7m at 31 March 2023 and is expected to total £15.5m at 31 March 2024. Note that spending £10.7m on the Capitol Theatre from this reserve will leave very little towards the potential remaining cost of decarbonisation and replacement infrastructure by the end of the decade which is currently estimated at £34m.

Opinion of the Chief Finance Officer

1.10 Based on current assumptions, the Council's reserves are currently seemingly adequate for the period of the current Medium Term Financial Strategy. The assumptions within the Medium-Term estimates are uncertain due to Government delays on a review of funding and Business Rates, and wider economic pressures of inflation or recession. But as illustrated above, the Council's financial position could easily deteriorate more quickly than shown. The current assumptions include the impact of spending £10.7m on the Capitol Theatre, but do not include the impact of further significant expenditure on replacing infrastructure and de-carbonisation from the middle to the latter part of the decade. The level of reserves would decrease at an even faster rate as capital expenditure is spent, exacerbating revenue pressures as the Council is currently taking the interest generated from treasury management directly into revenue to support services.

1.11 The Council has time during 2024 to take action to find ways of generating more income and reducing expenditure, in order to bring 2025/26 close to balancing and protecting the level of reserves. This is an action set out in the Council Plan 2024/25 annual plan.

1.12 The Chief Finance Officer's view is that the Council needs to maintain financial discipline, both now and in the future, and not spend more than is affordable. Additional spending now without financial return or extra income and / or savings to compensate will only sharpen the need for deeper cuts or much higher fees and charges increases later. It may also limit the scope in the future for capital projects that produce social rather than financial returns. The CFO therefore advises that existing resources are reshaped, rather than added to. This is especially relevant when considering the significant longer-term infrastructure expenditure and de-carbonisation 2030 net zero commitments, and the preservation of an adequate level of reserves.