STATEMENT ON THE ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

1. Introduction

The Council has a legal duty to produce a balanced budget and must take all reasonable factors into account when doing so. Under the Local Government Act 2003 section 25(1) (b), the Section 151 Officer (Chief Finance Officer) has a personal duty to advise the Council about the **robustness of the budget** and **the adequacy of the Council's reserves** when it considers its budget and council tax. The Act requires Members to have regard to this report in making their decisions.

To assist Chief Finance Officers in compiling these statements, CIPFA wrote to all Chief Finance Officers on 21 December 2011 providing further details of their responsibilities in respect of the budget setting process and in particular the statement on the robustness of the estimates and adequacy of reserves. This statement addresses the requirements as set out in the letter and Members should consider the content of this report carefully.

2. Robustness of the estimates

Robustness of the estimates is concerned with scrutinising detailed elements of the budget, weighing up all factors and taking a balanced view of the risks. Depending upon the level of assessed risk within the proposed budget, the Chief Finance Officer is expected to give consideration to the Council's contingency plans should savings not materialise. This report attempts to set out the risks associated with their achievement and the implications and contingency plans if the savings are not delivered as planned.

In terms of the robustness of the estimates presented for 2020/21, the following observations are made:

Preparation of the 2020/21 budget began last year along with the development of the new Four Year Medium Term Financial Strategy and Efficiency Plan. Income generating opportunities or revenue savings agreed as part of the MTFS for 2020/21 are included within next year's budget after assessing whether they are achievable, deliverable and acceptable. The Policy Committees in Autumn 2019 considered savings or income generating items included within the Efficiency Plan and scheduled to be delivered in 2020/21. The 2020/21 budget incorporates £600,000 of savings and additional income identified from the Efficiency Plan.

The process for determining the 2020/21 budget has again required the majority of budgets to be cash limited. Contractual price rises and utility price increases have been incorporated but all non-pay budgets have been cash limited. The 2020/21 pay award proposed by the Joint Staff Consultative Committee was agreed by Strategy and Resources Committee in November 2019 and a pay award provision of £400,000 has been incorporated within the estimates for 2020/21.

The Council lost its debt free status in 2016/17 when it was agreed to acquire commercial properties funded by 50 year PWLB loans. In 2017 the Council agreed to set up a Local Authority Property Investment Trading Company to enable the acquisition of investment properties outside the Borough, the Company has acquired two properties that are budgeted to benefit General Fund Services by £905,000 of net income in 2020/21. With any investment there are risks, the benefit from acquiring these properties remain as long as they are tenanted, paying full rent and being properly maintained.

The Council is transferring a proportion of the rental income from these newly acquired properties into a reserve to mitigate potential risks relating to losses income and or liabilities for any maintenance costs.

Maintenance of our buildings remains under increasing pressure which needs to be addressed and whilst increased provision has been made within the 2020/21 General Fund Revenue Budget the asset management plan currently being developed will assist in developing a long term future maintenance programme which can be incorporated into future financial projections. With earmarked reserves being utilised, uncommitted capital receipts nearing the minimum required level and pressure on revenue funding, the opportunity to fund on-going maintenance is limited.

No budget is without risk as even the most carefully set plans are subject to ever changing demands and unforeseen circumstances. A full risk assessment for the General Fund Revenue Budget is contained in Annexe 7. Throughout the budget setting process advice has been provided at various times concerning the estimates made and their underlying assumptions and risks.

Stringent budget monitoring will continue to be undertaken, with particular emphasis being placed on the achievement of income estimates, salary estimates and high-risk expenditure items. Prompt response to in-year projected deficits will continue to be expected from Members and Senior Officers.

Both the understanding of the Council's financial position and the commitment to ensure delivery of budgets continue to develop across all service areas enabling the Council to be more effective in its financial planning. Members receive quarterly monitoring reports and the Chairmen of the Policy Committees receive a monthly update on financial issues facing the Council. All budget managers receive monitoring reports for their particular area. The financial monitoring system covers both revenue and capital expenditure.

As with any budget there are uncertainties to plan for and manage and this remains the case even at this stage.

The 2020/21 budget continues to be affected by changes to how Non Domestic Rates are calculated and distributed which the government introduced in 2013. The system seeks to provide a greater reward for those authorities which encourage business growth but also means the local authority shares to a much greater extent the risks associated with any loss of businesses. Government is undertaking a review of the method for redistribution of Non Domestic Rates in 2020 which will impact on the level of resources that this Council retains and these changes to Council funding will come into effect from 2021/22. To assist with the potential volatility of this income stream the Council has a Business Rates Equalisation Reserve, this reserve can also be potentially used to mitigate against reductions in allocated funding for a period of time whilst compensating savings can be found.

Another element of uncertainty relates to income. In terms of other income, these estimates are made looking at past levels of income achieved as well as trends throughout a year. Variances can increase income as well and often these positive variances cancel out the negative variances. However, there is still a real risk where significant levels of income are forecast. The fees and charges levied by the Council have been subject to a detailed review. Significant income budgets are subject to the same degree of rigorous monitoring as other budgets and any variations are reported through the monitoring processes in place.

The Council in the last twelve months has experienced a significant increase in the number homeless families it has been required to accommodate. The increased demand for this service has had a major impact on the Council's finances, but to fund the additional cost the Council is using some of its Flexible Housing Support Grant from its earmarked reserves whilst initiatives can be put in place to reduce the number of homeless families.

With Councils experiencing reductions in government funding in recent years and also seeing increasing cost pressures on service delivery, there is a risk that other organisations will look to reduce the funding given to Epsom and Ewell Council to provide services on their behalf or jointly.

To assist with mitigating the risks associated with budget preparation there is a contingency within the budget to allow for unforeseen events. Holding a central contingency pot means departmental sums are not required.

In conclusion, the 2020/21 General Fund estimates are considered to be robust on the basis that:

a. Stringent budget monitoring, together with prompt responses to variances is actioned.
b. Total net expenditure is maintained within approved budgets.
c. Plans for generating additional income and reducing expenditure identified in the new Medium Term Financial Plan need to be developed as part of the budget process for 2021/22. It is important that this is considered a high priority for this Council to ensure financial stability for future years.

3. Adequacy of Reserves

The requirement for financial reserves is acknowledged in statute (Local Government Finance Act 1992). There are also safeguards in place to prevent local authorities over-committing themselves financially. These include:

- The balanced budget requirement
- Chief Finance Officer's S114 powers
- The external auditor's responsibility to review and report on financial standing
- The prudential code for capital finance

The minimum prudent level of reserves that the Council should maintain is a matter of judgement. It is the Council's safety net – a contingency to cushion the impact of unexpected events or emergencies and a working balance to help cushion the impact of uneven cash flows. Reserves can also be a means of building up funds, often referred to as earmarked reserves to meet known or predicted liabilities.

The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem, or a series of events, the Council could be forced to cut spending during the year in a damaging and arbitrary way.

The level of reserves was reported to the Strategy and Resources Committee in July 2019, when the financial statements for 2018/19 were reported. A detailed review of the reserves was carried out by the Financial Policy Panel in September 2019. The minimum working balance in the Medium Term Financial Strategy stands at £2.5m.

In the past, the government has increased local authority exposure to financial risk with the changes to funding from business rates. The risk in part has been offset by increasing the provision for bad debt, and by creating the business rate equalisation reserve. Having considered these risks, the conclusion is that minimum levels should remain as currently specified with the Medium Term Financial Strategy; namely

- General Reserve - £2.5 million
- Capital Receipts - £1 million
- Corporate Projects Reserve £1 million

The General Fund balance is anticipated to be £3.4 million at 31 March 2020. The budget assumes no withdrawal from the General Fund Balance in 2020/21.

The unallocated capital receipts are anticipated to be £2.1 million at 31 March 2021. The 2020/21 budget funds £200,000 of the capital programme from revenue and £651,000 from capital reserves. With the annual capital programme on average using up around £0.7 million of capital receipts per annum the Council is planning to increase the level funding from revenue by £100,000 per annum to achieve a sustainable capital programme not reliant on the use of diminishing capital receipts.

The Council has other reserves ear-marked for specific purposes and these are detailed in Annexe 8.

With the Council acquiring commercial property, consideration has been given as to whether it would be appropriate to increase the minimum level of the General Fund Balance to recognise the Council's increased exposure to risk should the current tenants withdraw. Given that the Council is transferring a proportion of the rental income into a reserve to mitigate the potential risk relating to lost income and or liabilities for any maintenance costs, it has not been deemed necessary.

Having undertaken the review of reserves and given the economic and financial environment the Council is working within during 2020/21 it is believed that the Council is operating at an acceptable level of reserves.

Lee Duffy
Chief Finance Officer