

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 2021/22, the following observations are made:

The preparation of the 2021/22 budget has been unlike any other year in recent memory. The outbreak of Covid-19 has resulted in increased uncertainty within the Council's finances and has demonstrated more than ever the requirement for reserves to assist in managing the Council's response to the pandemic.

The Council has been prudent in including a central contingency of £950,000 within the 2021/22 budget to mitigate the expected long-term impact of the pandemic on Council services. It is anticipated that Covid-19 will cause permanent reductions to some of the Council's existing income streams due to changes in the local economy and changes in demand for use of our services.

Income generating opportunities or revenue savings agreed as part of the Medium Term Financial Strategy for 2021/22 are included within next year's budget after assessing whether they are achievable, deliverable and acceptable. The Policy Committees in January 2021 considered savings or income generating items included within the Efficiency Plan that are scheduled to be delivered in 2021/22. The 2021/22 budget incorporates £317,000 of savings and additional income identified from the Efficiency Plan.

In determining the budgets for 2021/22, these have been cash limited, with the majority of service budgets being set at pre-pandemic levels, as demand for services post-pandemic remain unclear. Contractual price rises and utility price increases have been incorporated but

all non-pay budgets have been cash limited. The 2021/22 pay award of 0.5%, reflects September's CPI, in accordance with the Council's agreed four year Pay Policy and a pay award provision of £240,000 has been incorporated within the estimates for 2021/22.

The Council lost its debt free status in 2016/17 when it was agreed to acquire commercial properties funded by 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.

In December 2020, the Council agreed to a re-negotiated lease on one of these properties, which was necessary due to the economic impact of Covid-19 on the tenant. The new lease resulted in a temporary reduction in dividend income from EEPIC, reducing from £1.33 m to £600,000. The availability of funds within the Property Income Equalisation Reserve enabled this temporary reduction of income on the Council's General Fund to be compensated by a contribution from this reserve.

Dividend income from EEPIC is expected to return to 2020/21 levels in 2023/24 and in the longer term the Property Income Equalisation Reserve will need to be replenished.

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

Maintenance of our buildings is remains under increasing pressure which needs to be addressed and whilst increased provision has been made within the 2021/22 General Fund Revenue Budget, 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, especially in the current environment, 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 Appendix 6. 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 identifying the long-term financial impact of Covid-19 on Council services, 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 detailing the 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, especially at this time with high levels of unpredictability.

The 2021/22 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 has delayed its review of the method for redistribution of Non Domestic Rates, originally due in 2020, which will eventually impact on the level of resources that this Council retains. The delay means these changes to Council funding will not come into effect until at least from 2022/23. To assist with the potential volatility of this income stream the Council has a Business Rates Equalisation Reserve, which is used to smooth out fluctuations in funding from this source of income. 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. For 2021/22 Budget, £308,000 of the Business Rates Equalisation Reserve will be used to fund the Council's share of prior year deficits on the collection funds.

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, but with the increased uncertainty of demand for services in 2021/22 as a result of the pandemic, income budgets pose a higher risk than in previous years. 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 2021/22 budget contains a central contingency of £950,000 aimed at mitigating the increased risk to income budgets. The Corporate Projects Reserve has contributed £306,000 to the General Fund to part fund the contingency for 2021/22.

The Council in the last twelve months continues to experience significant increases in the number homeless families it has been required to accommodate. The increased demand for this service is continuing to have 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 having experienced 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, especially with organisations under increased financial pressure due to the pandemic.

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 2021/22 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 need to be developed as part of the budget process for 2022/23. 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 September 2020, when the financial statements for 2019/20 were reported. A review of the reserves was carried out by the Financial Policy Panel in September 2020. 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 2021. The budget assumes no withdrawal from the General Fund Balance in 2021/22.

The unallocated capital receipts are anticipated to be £2.6 million at 31 March 2022. The 2021/22 budget funds £255,000 of the capital programme from revenue and no use of capital reserves. In previous years the annual capital programme on average used up around £0.7 million of capital receipts per annum, and 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 earmarked for specific purposes and these are detailed in Appendix 7.

Having undertaken the review of reserves and given the economic and financial environment the Council is working within during 2021/22 it is believed that the Council is operating at an acceptable level of reserves.

Lee Duffy
Chief Finance Officer