

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 (Director of Finance and Resources) 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 2016/17, the following observations are made:

The budget planning process commenced with Members and Senior Officers during Spring 2015. In line with normal business practice, either income generating opportunities or revenue savings and growth were identified for the next four years. Savings proposals were generated from Senior Officers and subjected to a "reality check" by the Chief Executive, Head of Finance and the Chief Finance Officer prior to consideration by Members. The Policy Committees considered these proposals in October 2015 and "in principle" agreed a four year savings plan totalling £2.3m for inclusion within the Medium Term Financial Strategy. Policy Committees also considered their proposed budgets for 2015/16 during January 2015/16.

The process for determining the 2016/17 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 2016/17 pay

award proposed by the Joint Staff Consultative Committee was agreed by Strategy and Resources Committee in January 2016 and a 1.5% pay award has been incorporated within the estimates for 2016/17.

The Council itself has entered into a series of arrangements which are helping the organisation drive savings through its day to day activities. These include the joint internal audit contract with three Surrey Districts, a shared ICT manager with Elmbridge Borough Council and an insurance arrangement with the London Borough of Sutton.

Homelessness continues to be the main cost pressure facing the Council and this is likely to continue during 2016/17. The Housing Allocation Policy agreed by Social Committee during 2014 is currently being implemented and Strategy and Resources Committee at its meeting in January 2016 agreed three initiatives which should help alleviate some of the pressure by creating additional capacity within the Borough.

Maintenance of our buildings is also an increasing pressure which needs to be addressed and whilst increased provision has been made within the 2016/17 General Fund Revenue Budget the ten year maintenance programme currently being developed needs to be finalised and incorporated into future projections. With earmarked reserves having been utilised, uncommitted capital receipts at the minimum level and pressure on revenue funding, the opportunity to fund on-going maintenance is limited. A similar replacement programme for the Council's plant, vehicles and equipment also needs to be developed over the next twelve months and appropriate funding allocated.

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 Appendix 6. Throughout the budget setting process advice has been provided at various times concerning the estimates made and their underlying assumptions and risks. For example, the advice of the Council's treasury management advisers has been used in determining the interest received and payable on investment. Estimates have also taken account of the financial implications of the Council's Capital Programme and the level of financing required to meet the expenditure demanded. The Capital Programme for 2016/17 is fully funded as presented to Members and does not rely upon the realisation of further capital receipts. Following the capital receipt from the sale of Downs House no further disposals have been assumed within the next four years. It is important to note that the Council has now fully allocated its capital resources and requires the realisation of new capital receipts or (if appropriate) undertake borrowing if it wishes to support new capital investment.

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. Ongoing training is being provided together with specific training events.

As with any budget there are uncertainties to plan for and manage and this remains the case even at this stage. This uncertainty can take three main forms.

The first form of uncertainty arises as a result of government legislation. The 2016/17 budget continues to be affected by changes to how Non Domestic Rates are calculated and distributed which the government introduced in 2013. The new 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. In considering the implications of this, the Council has sought to ensure a prudent approach to assessing the likely impact and also in anticipating the ongoing effect of the macroeconomic picture. To assist with the potential volatility of this income stream, a Business Rates Equalisation Reserve has been created. There are arrangements in place to monitor the ongoing effect and any changes which may affect this funding stream.

The final settlement suggests that the previous "safety net" protection for business rates may no longer apply with the introduction in 2019/20 of a new tariff payment. When the scheme was originally established the government stated that funding would not fall below 92.5% (ie the baseline figure). Guidance has been received that suggests the tariffs now payable for authorities with no Revenue Support Grant will be applied in 2019/20 after taking into account the safety net.

The second main legislative change also introduced in 2013/14 relates to the administration of the council tax benefit. The government devolved funding (less a 10% reduction) for the administration of this scheme which is developed locally in accordance with national guidance. This sum is cash limited and therefore any changes will result in a cost or benefit to the Council. This provides a higher degree of risk for the local authority as any increases in those requiring support in their council tax bills may result in increased burden to the authorities. As a consequence of the lack of funding by central government, the Council has had to amend the

scheme to request that all working age claimants contribute 20% towards their council tax bill. The support offered to those who are unable to meet their council tax bill has also been increased. The impact of the changes to the Council Tax Support Scheme will be closely monitored during 2016/17.

The second 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. For 2016/17 the Council has taken the opportunity to adjust budgets where income received continually failed to meet the agreed budget. In addition where the Council is required to set fees and charges to ensure the full costs of the service are recovered it is important that the fees are regularly reviewed and prompt action is taken where either a deficit or surplus is projected. The On Street Parking account requires careful monitoring during 2016/17 to ensure that the projected deficit in 2015/16 is not repeated.

The third main form of uncertainty is around central government funding. As in previous years central government set a "referendum level" for council tax increases. Should the Council's proposed increase exceed this level then the Council will be required to hold a referendum. For 2016/17 the referendum limit has been set at 2% or £5 whichever is the highest. As part of the financial settlement for 2016/17 the government has offered Councils the opportunity to take up a four year funding settlement covering the period 2016/17 to 2019/20 providing an efficiency plan is produced. The Government has given Councils until 14 October 2016 to respond ensuring that Councils have sufficient time to work through the detail issued as part of the final settlement on the 9 February. A further report will be brought back to Full Council prior to the 14 October to enable Members to make an informed decision as to whether they wish to accept the four year settlement offer outlined within this report.

With all Council's seeing a reduction in government funding, 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. The Council is currently in discussions with Surrey County Council and the London Borough of Sutton Council regarding possible funding reductions.

There is also uncertainty around the continuation of New Homes Bonus with the government currently consulting on a range of proposals. The Council is currently

using £0.634 m to support the General Fund Revenue Budget and the projections for 2017/18 assume a continued level of £0.5m per annum.

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 regard to future years, the initial projections which will be refined over the coming months are as follows:

Financial Year	Annual Saving Required £'000	Cumulative Savings Required £'000
2017/2018	383	383
2018//2019	102	485
2019/2020	410	895

The above figures assume a 2.8% increase in Council Tax in 2016/17 and an annual increase of £5 (band d equivalent) thereafter, it also anticipates the achievement of the Cost Reduction Plan which totals £2.3m over the four year period.

It is recommended that Senior Officers review the Cost Reduction Plan and identify any actions which can be brought forward to reduce the additional call upon New Homes Bonus. It is proposed that a report outlining possible actions will be considered by Strategy and Resources in July 2016.

In conclusion, the 2016/17 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. The Cost Reduction Plan is reviewed and actions where possible are brought forward to reduce the additional call upon New Homes Bonus in 2016/17.
- d. Early consideration is undertaken to set out the strategy for addressing the additional £0.9m shortfall arising out the provisional financial settlement for 2016/17 onwards.
- e. Plans for generating additional income which were identified during the MTFS preparation need to be developed for consideration during 2016/17. It is important that these schemes are considered together and those with the highest returns on investment prioritised.

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 June 2015, when the financial statements for 2014/15 were reported, and in September 2015, when the budget targets were agreed for 2016/17. A detailed review of the reserves was carried out by the Financial Policy Panel in September 2015. The minimum working balance in the Medium Term Financial Strategy stands at £2.5m to recognise the risk of using part of New Homes Bonus to finance General Fund services.

In the last few years, the government has increased local authority exposure to financial risk with the introduction of the Local Council Tax Support Scheme and localisation of business rates. The risk in part has been offset by reducing the collection rate for council tax, 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 (New Homes Bonus)

The General Fund balance is anticipated to be £2.9 million at 31 March 2017. The projections assume no further withdrawals from the General Fund Balance.

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The unallocated capital receipts **are** anticipated to be just under £1.3 million at 31 March 2019. The Council will need to give consideration to how future capital expenditure can be resourced either through borrowing or generating additional receipts.

The Council has other reserves ear-marked 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 2016/17 it is believed that the Council is operating at an acceptable level of reserves.

Kathryn Beldon
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