

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 in 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 2023/24, the following observations are made:

The preparation of the 2023/24 budget has been produced in the context of prevailing economic uncertainty, particularly in relation to interest rates, inflation (including volatile utility costs) and the impact of a potential recession next year and beyond. The uncertain economic outlook and potential recession has resulted in increased uncertainty within the Council's finances and demonstrates the ongoing importance of holding sufficient reserves to enable the Council to manage the risks it faces.

The Council has acted prudently to include a central contingency of £892,000 within the 2023/24 budget to mitigate the anticipated impact of heightened inflation on Council services. The economic outlook is expected to cause some changes to the local economy and to demand for use of our services, potentially resulting in increased costs and/or reduced income streams for the Council. To address this, it is anticipated that during 2023/24 the Council will need to review its services and income opportunities to inform decisions that may be necessary to reduce underlying net expenditure, with the aim of removing reliance on reserves to fund the day-to-day revenue budget.

Income generating opportunities or revenue savings agreed as part of the Medium Term Financial Strategy for 2023/24 are included within next year's budget after assessing whether they are achievable, deliverable and acceptable. The Policy Committees in January 2023 considered savings or income generating items included within the Efficiency Plan that are

scheduled to be delivered in 2023/24. The 2023/24 budget incorporates £1.25m of savings and additional income identified from the Efficiency Plan.

In determining the expenditure budgets for 2023/24, contractual price rises and utility price increases have been incorporated but other non-pay budgets have generally been cash limited. The 2023/24 pay award of 3.0% reflects the Council's agreed four year Pay Policy and a pay award provision of £446,000 has been incorporated within the estimates for 2023/24.

The Council lost its debt free status in 2016/17 when it agreed to acquire commercial properties within the Borough, funded by PWLB loans. In 2017 the Council also agreed to set up Epsom & Ewell Property Investment Company Ltd (EPPIC) to enable the acquisition of investment properties outside the Borough. Between 2016 and 2020, the Council acquired four properties within the Borough, and EPPIC acquired two properties outside the Borough.

In January 2023, Strategy & Resources Committee agreed how the Council should manage recent lease events at two of these commercial properties. These lease events will result in reduced rental income until new leases can be agreed with new tenants. The availability of funds within the property income equalisation reserve enables this temporary reduction of income on the Council's General Fund to be compensated by a contribution from this reserve. In the longer term the property income equalisation reserve will need to be replenished to ensure sufficient funds are held to mitigate the risk associated with funding services from commercial properties.

The maintenance of Council buildings remains an increasing pressure, with some works again deferred while the Council continues to progress property reviews. Increased provision for capital works has been made within the 2023/24 revenue budget and earmarked reserves are being utilised. However, with uncommitted capital receipts nearing the minimum required level and pressure remaining 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 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 financial impact of elevated energy costs 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 monthly 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 higher and lower risk income streams to manage. This remains the case, especially at this time with high levels of unpredictability.

The 2023/24 budget continues to be affected by changes to how non-domestic rates (business rates) are calculated and distributed, which the government introduced in 2013. The system seeks to provide a greater reward for those authorities that manage to 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 should not come into effect until at least from 2025/26. To assist with the potential volatility of this income stream the Council has a Collection Fund 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 2023/24's budget, the reserve will be used to fund the Council's share of prior year deficits on the collection fund.

Another element of uncertainty relates to income. Income 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 majority of the £1.25m savings in the Efficiency Plan require additional income to be achieved; this represents a challenging target that carries deliverability risk. 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 2023/24 in the face of the cost-of-living crisis, 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.

Even with additional budgeted income, the Council's underlying budget gap for 2023/24 remains at £166,000, which will be funded by a contribution from the corporate projects reserve to the General Fund.

The Council continues to experience elevated numbers of households requiring housing/homelessness services compared to pre-pandemic levels. This increased demand continues to have a major impact on the Council's finances. To help manage the cost and for the benefit of service users, the Council is using government's Homelessness Prevention Grant and has a target to reduce the average number of households accommodated in expensive nightly-paid temporary accommodation from 70 to 58, by pursuing alternative accommodation initiatives.

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 economic environment.

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 2023/24 budget 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 2024/25. 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 Audit & Scrutiny Committee in November 2022, when the financial statements for 2021/22 were reported. A review of the reserves was carried out by Financial Policy Panel in January 2023.

In the past, 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 collection fund 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 Fund Working Balance Reserve - £2.5 million
- Capital Receipts - £1 million

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- Corporate Projects Reserve - £1 million

The General Fund balance is anticipated to be £3.1 million at 31 March 2023. The budget assumes no withdrawal from the General Fund balance in 2023/24.

The unallocated capital receipts are anticipated to be £3.3 million at 31 March 2023. The 2023/24 budget includes a £500,000 contribution to the capital programme from revenue and £350,000 of capital reserves. The Council is planning to increase the level funding from revenue to eventually reach £750,000 by 2026/27 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 2023/24, it is believed that the Council is operating at an acceptable level of reserves.

Lee Duffy
Chief Finance Officer