COUNCIL
13 FEBRUARY 2024

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 (CFO) in compiling these statements, CIPFA (Chartered Institute of Public Finance & Accountancy) provides guidance on the CFO's 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 guidance 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 2024/25, the following observations are made:

As has become customary in recent years, the budget has been prepared in the context of prevailing economic uncertainty, particularly in relation to interest rates, inflation and the impact of a potential recession next year and beyond. Furthermore, 2024/25 will bring heightened political uncertainty with a general election due, which will inevitably impact UK public sector spending plans and the financing of local government. As stated by the Office for Budget Responsibility in November 2023, *"Since 2010-11, local authority spending has fallen from 7.4 to 5.0 per cent of GDP, and it falls further in our forecast to 4.6 per cent of GDP in 2028-29. Given local authorities' statutory duty to provide a range of services where demand is likely to continue to grow, for example adult and child social care, pressure on local authority finances and services will continue".*

The uncertain economic and political outlook translates into greater uncertainty for the Council's finances, underscoring the 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 £500,000 within the 2024/25 budget to mitigate the ongoing 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 2024/25 the Council will again 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 2024/25 are included within next year's budget after assessing whether they are achievable, deliverable and acceptable. The Policy Committees in January 2024 considered savings or income generating items included within the Efficiency Plan that are scheduled to be delivered in 2024/25. The 2024/25 budget incorporates £0.4m of annual savings and income identified from the Efficiency Plan, with a further £1.5m of annual savings/additional income needing to be delivered in the period 2025/26 to 2027/28 to achieve a balanced budget by 2027/28 that does not require the use of funding from reserves.

In determining the expenditure budgets for 2024/25, contractual price rises and utility price increases have been incorporated but other non-pay budgets have generally been cash limited. To implement 2024/25's pay award of 6.0% agreed at Full Council in December 2023, a pay award provision of £982,000 has been incorporated within the estimates for 2024/25.

For 2024/25, the Council's budget will be reliant on £1.25m of interest generated through investing its cash balances (i.e. reserves and working capital) to fund its day-to-day services in the Borough. Relying on significant interest income as a source of funding for services exposes the Council to the risk that if interest rates fall faster or further than anticipated, or if cash balances fall by more than anticipated, a funding shortfall may arise within services. To mitigate these risks, it is expected that an Interest Equalisation Reserve will be established at the end of 2023/24, funded by surplus interest generated in 2023/24, to provide a mechanism to smooth interest returns over the four-year period. Furthermore, any future proposals to expend significant sums from reserves will need to consider the impact on funding of the Council's revenue budget. Investment risks are managed through adherence to the Council's agreed Treasury Management Strategy.

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

While income from the investment property portfolio provides a valuable contribution towards the funding of Council services, there are inherent risks associated with funding services from commercial properties. For example, if/when a tenant departs there would likely be a significant period of lost rental income plus additional running costs (eg utilities and business rates) for the Council as landlord, and the properties may require significant capital investment in future. This risk is currently considered to be elevated at the Arlington Square (Bracknell) commercial property, as previously agreed rent concessions for the tenant are due to expire in March 2025. To help mitigate these risks, the Council proactively manages tenant relationships and holds a Property Income Equalisation Reserve, which enables temporary reductions of income on the Council's General Fund to be compensated in the short term by a contribution from this reserve. The Council will need to ensure that the Property Income

Equalisation reserve continues to hold sufficient funds to mitigate the risks associated with funding services from commercial properties.

One commercial property at 70 East Street is currently vacant, presenting the Council with the opportunity to relocate its civic offices from the existing Town Hall site, to a smaller, right-sized property, and freeing up the existing Town Hall site for alternative possible uses. These two major projects at 70 East Street and the existing Town Hall site will bring both opportunities and risks (operational and financial) for the Council to manage in 2024/25. Appropriate project management measures will need to be put in place to ensure risks are mitigated and opportunities are secured wherever possible to improve the Council's future operational and financial sustainability.

The 2024/25 budget relies on £225,000 of New Homes Bonus grant to fund services, however, this government funding source is not guaranteed in subsequent years. As such, forecasts from 2025/26 to 2027/28 do not rely on New Homes Bonus as a source of funding for services.

The maintenance of Council buildings remains an increasing pressure, with some works again deferred while the Council continues to progress property reviews. Provision for capital works has been made within the 2024/25 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 7. Throughout the budget setting process advice has been provided at various times concerning the estimates made and their underlying assumptions and risks. Policy Committee Chairs, Directors, Heads of Service and Budget Managers were all consulted and involved at an early stage of the budget setting process.

Stringent budget monitoring will continue to be undertaken, with particular emphasis being placed on identifying the financial impact of inflation and demand changes 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. The Council complies with CIPFA's Financial Management Code and applies all relevant accounting standards. Full governance arrangements are set-out in the Annual Governance Statement, which is available on the Council's website (https://epsom-ewell.gov.uk/council/about-council/governance).

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 2024/25 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 2026/27. 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 2024/25'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. A significant proportion of the £1.4m 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 2024/25 in the face of the cost-of-living crisis, income budgets continue to pose a higher risk compared to pre-pandemic 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 2024/25 remains at £624,000, 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 to 70, by pursuing alternative accommodation initiatives and its Homelessness Reduction Action Plan.

With Councils having experienced reductions in government funding since 2010 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 modest contingency within the budget to allow for unforeseen events. Holding a central contingency pot means departmental sums are not required.

In conclusion, the 2024/25 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 during 2024/25 to reduce and remove reliance on the use of reserves as a source of funding for day-to-day services over the course of the Medium-Term Financial Strategy. It is vital that this continues to be a key 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 Strategy & Resources Committee in July 2023, when the financial outturn for 2022/23 was reported. A high-level overview of the reserves is included in the Medium-Term Financial Strategy 2024-28 presented to Financial Strategy Advisory Group in January 2024 and to this meeting of Full Council.

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
- Corporate Projects Reserve - £1 million

The General Fund balance is anticipated to be £3.0 million at 31 March 2024. The budget assumes no withdrawal from the General Fund balance in 2024/25.

The unallocated capital receipts are anticipated to be £2.9 million at 31 March 2024. The 2024/25 budget includes a £500,000 contribution to the capital programme from revenue and £666,000 of capital reserves. The Council is planning to increase the level funding from revenue to reach £550,000 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 8.

Having undertaken the review of reserves and given the economic and financial environment the Council is working within, it is believed that the Council continues to operate with an acceptable level of reserves in the near-term. However, it is re-iterated that plans for generating significant additional income and reducing expenditure need to be developed in the coming year to reduce and remove reliance on the use of reserves as a source of funding for day-to-day services, over the course of the Medium-Term Financial Strategy.

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