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 2025/26, I have reviewed the following risks and the mitigations proposed:

Risks	Proposed mitigations
Failure to deliver a balanced budget	This will require the organisation to deliver the budgeted efficiencies. Committees have reviewed and scrutinised these efficiencies before approving their budgets. For future years, the Council will need to deliver additional efficiency savings (including services reviews) and begin this work early in the 2025/26 financial year, in preparation for the 2026/27 year. Across the MTFS to 2028/29, the budget assumes £1m of savings to be delivered. Even after these savings, the budget gap by 2028/29 is estimated to be £2m. The Council will need to focus on closing this gap by identifying additional savings.
Inflation is higher than budgeted for	The inflation assumptions included in the budget are based on forecasts from the Office of Budget Responsibility. In addition, there is a central contingency of £172k to mitigate any additional inflation during the year.
Increased demand for Council services	This is particularly a risk with regard to the number of households requiring housing/homelessness services. In 2024/25 the average number of households requiring nightly-paid temporary accommodation is around 90, higher than the current year's budget. For the 2025/26 year, and beyond, this remains the key focus area for the Council to seek to reduce this number by pursuing alternative accommodation initiatives and its Homelessness Reduction Action Plan. There is some additional income in 2025/26 from the Homelessness Prevention Grant.

	Across the Council, the budget-setting process has taken the current year's pressures into account; the draft Budget book included the 2024/25 forecast (as at Quarter Two). Finally, to assist with mitigating the risks associated with budget preparation there is a modest contingency within the budget to allow for unforeseen events. This contingency has been increased for the 2025/26 financial year to £200k. Holding a central contingency means that departmental sums are not required to balance the budget, if needed.
Government funding may reduce in future years	This is a risk that relates to future years, not the budget for the 2025/26 year, as funding for this budget is confirmed. For future years, government is proposing a new multi-year funding settlement for local government, starting in the 2026/27 year. As a result, a range of potential changes are being considered. These include: - Fair Funding review – potential for government to amend funding formulae to focus on areas with higher deprivation - Business rates reset – a review of the level at which Councils can retain business rates income, which may result in lower income The impact of this could reduce the Council's grant funding and business rates income in future years; an estimated impact is included in the MTFS. There may be transitional funding arrangements for councils to ensure that no councils lose funding but this has not yet been confirmed. This is a risk to monitor closely and to set budgets for the 2026/27 year based on a prudent estimate of future income. In addition, the Council has a Collection Fund Equalisation Reserve which can be 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 small period of time whilst compensating savings can be found. Income from the government's Extended Producer Responsibility (EPR) scheme was a new income stream in 2025/26. While the income will continue, the level will vary based on local waste disposal activity and performance. The 2026/27 budget assumes that this income reduces by 50%, which is a prudent assumption to be reviewed next year.
Building maintenance costs exceed budget	Mitigation: 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 2025/26 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.
Income from commercial property is lower than budget	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 2025/26. 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.
Interest income is lower than budget	For 2025/26 the Council's budget will be reliant on £1m 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, the Council will use the Interest Equalisation Reserve 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.
Income from other sources is lower than budget	Income-generation – the Council relies on a range of income across parking, planning and other services. A total of £11.7m. The fees and charges levied by the Council have been subject to a detailed review, but with the difficult economic climate, there is always the risk that income budgets are not met. 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.

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 12. 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).

In conclusion, the 2025/26 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. Across the MTFS to 2028/29, the budget assumes £1m of savings to be delivered. Even after these savings, the budget gap by 2028/29 is estimated to be £2m. The Council will need to focus on closing this gap, by identifying additional savings. Plans for generating additional income and reducing expenditure need to be developed during 2026/27 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 Financial Strategy & Advisory Group in July 2024.

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 Council is expected to meet these minimum reserves levels. As at 31 March 2025, the reserve levels are forecast to be:

- General Fund Working Balance Reserve - £2.8 million.
- Capital Receipts - £2.0 million. In addition, the budget includes a £0.5 million contribution to the capital programme from revenue and is included annually in the MTFS to achieve a sustainable capital programme not reliant on the use of diminishing capital receipts.
- Corporate Projects Reserve - £1.7 million

The Council has other reserves earmarked for specific purposes and these are detailed in Appendix 9.

Having undertaken a 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 should be noted that plans for generating significant additional income and reducing expenditure need to be developed in the coming year to help to mitigate risks (notably around commercial property income and potential reductions in government grants and business rates income) and tackle increasing service costs (notably the cost of nightly-paid temporary accommodation) to balance budgets over the course of the Medium-Term Financial Strategy.

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