COUNCIL
10 FEBRUARY 2026

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.

To ensure that the Council's budget is sound and reliable, a range of checks and assurances were taken into account,

Risks	**Proposed mitigations**
Failure to deliver a balanced budget	In 2026/27 the budget assumes £230,000 of savings to be delivered and more savings in years thereafter which will need to be addressed by the next administration. Even after these savings, the budget gap by 2028/29 is estimated to be £0.569 Million.
Inflation is higher than budgeted for	The inflation assumptions included in the budget are based on forecasts from various bodies and indices. There is a central contingency budget higher than previous years 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 we had an overspend which will be the case in 2025/26 of more than £1 million. At least £750,000 has been invested in 2026/27 to relieve the pressure off housing services. There are further contingency budget to counter further rises in this area.
Government funding may reduce in future years	The Government has released a new multi-year funding settlement for local Government, starting in the 2026/27 period which has changed Government funding. This has been favourable for EEBC but still not sufficient to address the rising costs in other areas of the council including temporary accommodation and general difficulties of relying on fees and charges. The council has prudent levels of Collection Fund Equalisation Reserve which can be used to smooth out fluctuations in funding from business rates income and Government funding. 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 introduced as new income stream in 2025/26. While the income will continue, and the 2026/27 confirmed budget is promising the council need to be plan for scenarios in the event this funding is reduced in the future.
Building maintenance costs exceed budget	The maintenance of Council buildings remains an increasing pressure, with some works deferred while the Council continues to progress asset reviews. The council has ceased contributions from revenue budget but has made funding provisions from reserves. Even though it is prudent levels, this is one off and only sufficient while EEBC still exists but the new administration will need to look at this funding levels of this budget in line with its asset strategy.
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. 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 and review its reliance on dividend to balance the budget. 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 council is currently is making arrangements to sell the property on east street as its currently surplus to its requirements and help reduce maintenance cost.
Interest income is lower than budget	For 2026/27, the Council's budget will be reliant on £875,000 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, there is prudent level of Interest Equalisation Reserve funded by surplus interest generated in prior years, to provide a mechanism to smooth interest returns over the MTFS 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. 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. In fact we have had challenges meeting target and have been reported pressures in this area. Hence 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 11. 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).

Overall, the budget estimates for 2026/27 are considered robust, based on the following:

a. Strong budget monitoring arrangements are in place, ensuring that any variances are identified early and addressed promptly.

b. Total net expenditure is managed within the approved budgets, supporting effective financial control.

c. The Council's financial position has improved across the Medium-Term Financial Strategy (MTFS) period. Since July 2025, the projected budget gap has reduced from £5.063 million to £0.569 million. A further £0.230 million of savings is required in 2026/27, with additional savings needed in the following years.

d. To support the new administration, it will be essential to continue developing plans that increase income and reduce costs, with the aim of reducing and ultimately removing reliance on reserves to fund day-to-day services. Maintaining this focus will be vital to ensuring the Council's financial resilience in 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.

In July 2025, Full Council decided to keep the minimum General Fund working balance at £1.5 million, reversing an earlier decision from May 2025 that would have reduced it from £2.5m to £1m.It is recommended that the Council continues to hold a minimum General Fund reserve of £1.5 million (approx.. 12.5% of the 2026/27 net revenue budget) to cover emergencies.

After using £242,000 to support the 2024/25 deficit and moving £1.2 million to set up a Strategic Priorities Reserve, the General Fund balance is now £1.555 million. In November 2025, the Strategy & Resources Committee reviewed reserves and approved the following transfers:

- £500,000 from the Interest Equalisation Reserve to the Planned Maintenance Reserve.
- £1 million each from the Property Income Equalisation Reserve and the Collection Fund Reserve to the Corporate Projects Reserve.

Other revenue reserves are expected to total £11.4 million by 31 March 2026. Most of this is set aside to manage key risks, such as potential losses in commercial property income and future changes in business rates.

In the past, Government has increased local authority exposure to financial risk and financial return 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 and now that Fair Funding Review has been concluded with favourable outcome for the council, the conclusion is that minimum levels should remain as currently specified within the Medium-Term Financial Strategy; namely

- General Fund Working Balance Reserve - £1.5 million.
- Capital Receipts - £1 million
- Corporate Projects Reserve - £0

The Council is expected to meet these minimum reserves levels. As at 31 March 2026, the reserve levels are forecast to be:

- General Fund Working Balance Reserve - £1.555 million.
- Capital Receipts - £2.0 million. (In addition, the budget includes a £0.5 million contribution to the capital programme from revenue. The Council is planning to increase the level of funding from revenue to reach £0.55m by 2026/27 to achieve a sustainable capital programme not reliant on the use of diminishing capital receipt)
- Corporate Projects Reserve - £2.110 million

The Council has other reserves earmarked for specific purposes and these are detailed in Appendix 8.

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 reducing expenditure need to be developed in the coming year to help to mitigate risks 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.

Cagdas Canbolat
Section 151 Officer