COUNCIL
14 FEBRUARY 2017

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 2017/18, the following observations are made:

Preparation of the 2017/18 budget began last year with the development and approval of the new Four Year Medium Term Financial Strategy and Efficiency Plan. Income generating opportunities or revenue savings agreed as part of the MTFS for 2017/18 are included within next year's budget after assessing whether they are achievable, deliverable and acceptable. The Policy Committees in October 2016 considered savings or income generating items included within the Efficiency Plan, scheduled to be delivered in 2017/18. The 2017/18 budget incorporates £642,000 of savings identified from the Efficiency Plan.

The process for determining the 2017/18 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 2017/18 pay award proposed by the Joint Staff Consultative Committee was agreed by Strategy and Resources Committee in January 2017 and a 1.5% pay award has been incorporated within the estimates for 2017/18.

The Council lost its debt free status this year when it was agreed to acquire commercial properties funded by 50 year PWLB loans. The benefits to this Council of these investment decisions has resulted in General Fund Services benefitting by £172,000 of net income. With any investment there are risks, the benefit from acquiring these properties remain as long as they are tenanted, paying full rent and being properly maintained.

When acquiring new properties careful consideration must be given to the impact on Council finances if the rental income from these properties cease. Each potential property acquisition needs to be assessed to its viability with clear alternative options for the property if the current tenants withdraw. The Council is transferring a proportion of the rental income from these newly acquired properties into a reserve to mitigate potential risks relating to losses income and or liabilities for any maintenance costs.

Maintenance of our buildings is also an increasing pressure which needs to be addressed and whilst increased provision has been made within the 2017/18 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 2017/18 is fully funded as presented to Members and does not rely upon the realisation of further capital receipts.

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.

The 2017/18 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.

Another 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 2017/18 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.

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.

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
2018/2019	37	37
2019//2020	399	436

The above figures assumes an increase in Council Tax in 2017/18 of £4.95 (band d equivalent) and the same level of increase for 2018/19 and 2019/20, it also anticipates the achievement of the savings identified in Efficiency Plan which totals £1.8m over the next three years.

In conclusion, the 2017/18 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. Plans for generating additional income and reducing expenditure identified in the updated Financial Plan need to be developed for consideration during 2017/18. 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 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 £3.2 million at 31 March 2018. The projections assume no further withdrawals from the General Fund Balance.

The unallocated capital receipts are anticipated to be just under £1.3 million at 31 March 2020. 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.

With the Council acquiring commercial property to generate income to protect front line services, consideration has been given as to whether it would be appropriate to increase the minimum level of the General Fund Balance to recognise the Council's increased exposure to risk should the current tenants withdraw. Given that the Council is transferring a proportion of the rental income into a reserve to mitigate the potential risk relating to lost income and or liabilities for any maintenance costs, it has not been deemed necessary. However this should be reviewed as the portfolio increases.

Having undertaken the review of reserves and given the economic and financial environment the Council is working within during 2017/18 it is believed that the Council is operating at an acceptable level of reserves.

Kathryn Beldon
Director of Finance & Resources