

## **Statement on the Robustness of Estimates and Adequacy of Revenue Reserves**

### **1. Introduction**

- 1.1 There are a range of safeguards in place to help prevent local authorities over-committing themselves financially. These include:
- the balanced budget requirement of the Local Government Finance Act 1992
  - the chief finance officer's duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement (England and Wales)
  - legislative requirements for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer (CFO) / proper officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972)
  - the requirements of the Prudential Code
  - auditors' consideration of whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, in the context of auditors' statutory responsibility to satisfy themselves that the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).
- 1.2 These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the CFO in England and Wales to report to all the authority's councillors, in consultation with the Monitoring Officer, if (in broad terms) there is or is likely to be unlawful expenditure or an unbalanced budget.

#### ***Local Government Act 2003***

- 1.3 The 2003 Local Government Act places specific responsibilities on Chief Finance Officers in England and Wales. The Act requires the CFO to report on the robustness of the budget and the adequacy of proposed financial reserves. This statement meets this statutory requirement and the Council is required to have regard to this report when it sets the budget.

### **2. Robustness of Estimates**

- 2.1 In terms of the robustness of the estimates, all known factors have been considered and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates, estimates on the level and timing of capital receipts, the treatment of demand-led pressures, the treatment of planned efficiency savings and levels of income, financial risks inherent in any new arrangements and capital developments and the availability of funds to deal with unforeseen items of expenditure. In each of these areas the Council's financial standing, management and track record has been considered in order to prepare robust budget proposals.

- 2.2 The accountancy team, working with individual budget holders, have undertaken a detailed analysis of budget variances arising in prior years to ensure that budgets are set based on realistic forecasts of likely income and expenditure. This exercise identified several areas where additional income can be built in to the budget for the coming year.
- 2.3 The preparation of the detailed estimates has also identified savings / additional income proposals together with areas where essential cost growth is known to be needed. These items have been set out more fully in Annexes 2-4.
- 2.4 I have discussed the estimates with my Accountancy staff to the extent that I deem necessary. The processes followed are sound, well-established and very similar to those that have produced robust estimates in the past. The Council has also demonstrated that it has a sound system of internal control in place.
- 2.5 I am therefore satisfied that the draft budgets are sufficient to meet the expenditure commitments, of which I have been made aware, for next year and are adequate for the purpose of setting the council tax rate for 2023/24. Subject to some important reservations listed in the paragraph below, a reasonable degree of assurance can be given about the robustness of the estimates and the adequacy of reserves.
- 2.6 The exceptions relate to the provision of estimates for items outside the direct control of the Council:
- Income from grants provided by external funders.
  - Demand for an increased level of existing services.
  - External competition and changing markets, e.g. commercial rents.
  - Macro-economic factors – such as interest rates and inflation.

Budgets will continue to be regularly monitored throughout the year with variances reported to Members in line with the existing budgetary cycle.

### **3. Adequacy of Revenue Reserves**

- 3.1 Reserves are an integral part of the annual and medium term financial planning process and are held for two main purposes:
- A working balance (known as the General Fund balance) to help cushion the impact of uneven cash flows and minimise unnecessary temporary borrowing in any year, and
  - A means of building up funds to meet known or predicted liabilities. These are known as earmarked reserves.

In addition, the Council builds a small contingency into its budget each year to cushion the impact of unexpected events or emergencies. For 2023/24 an additional sum has been recommended to enable the Council to respond to increased pressures arising from the continuing high levels of inflation.

- 3.2 The General Fund reserve held a balance at the end of 2021/22 of £2.6M. The forecast for the next three-year period does not include any draws or addition to this balance. I consider that it represents a prudent minimum level of working balances.

- 3.3 I have also reviewed the Council's estimated earmarked reserves to assess their adequacy and appropriateness over the medium term. It is clear that if these reserves are to fulfil their purpose, i.e. to meet known or predicted liabilities, then the amount held in them must be sufficient to meet these liabilities.
- 3.4 The Council currently has a range of earmarked revenue reserves with balances and projected balances as follows:

<i>Earmarked Revenue Reserves:</i>	At 31/3/22 £000s	Forecast at 31/3/26 £000s
<u>Equalisation Reserves</u>		
Investment Equalisation Reserve	250	850
Budget Equalisation Reserve	1,182	339
Income Equalisation Reserve	300	300
Pension Fund Equalisation Reserve	500	1,235
Collection Fund Equalisation Reserve	4,698	5,829
<b>Total – Equalisation Reserves</b>	<b>6,930</b>	<b>8,553</b>
<u>Reserves Held For Future Growth</u>		
New Homes Bonus	10,476	12,246
Rejuvenation Projects Reserve	2,267	3,802
Capacity Building Reserve	375	260
Special Projects Reserve	295	0
Enterprise and Innovation Reserve	315	315
<b>Total – Reserves Held For Future Growth</b>	<b>13,728</b>	<b>16,623</b>
<u>Reserves Held For Specific Purposes</u>		
* Asset Management Plan	3,070	3,070
* Developer Commuted Sums	7,297	7,297
* Chantry Centre Planned Maintenance Reserve	1,481	1,481
* Local Development Framework	548	548
Environment Act delivery	300	0
All Risks Self-Insurance Reserve	93	85
Valley Housing Ltd Reserve	250	90
* Housing Reserve	811	811
COVID grants	673	0
Other Earmarked Reserves	667	715
<b>Total – Other Earmarked Revenue Reserves</b>	<b>15,190</b>	<b>14,097</b>
<b>Total:</b>	<b>35,848</b>	<b>39,273</b>

- \* The reserves marked with an asterisk are used to support ongoing activities with unpredictable levels of expenditure and compensating income. It is therefore impossible to accurately assess what the reserve levels will be in 2026. Therefore, the current balance has been included as a comparator. I have reviewed the forecast calls on these reserves over the medium term and am satisfied that the balances shown are adequate for their respective purposes over this period.

- 3.5 The greatest risk to the Medium Term Financial Strategy is the potential for the government to re-set business rates baselines, leading to a loss of retained income from that source. The re-set has again been deferred, until at least 2025/26, which provides certainty for two years; however, it also increases the cliff-edge faced later in the medium term period.
- 3.6 The forecast balance on the Collection Fund Equalisation Reserve at March 2026 is significant. However, in the context of retained growth of c£3M per annum which could be lost, it will be necessary to have a sizeable contingency to ameliorate the impact of potential losses, should they arise.
- 3.7 The medium term forecast allows for the re-inflation of the pension fund equalisation reserve and the investment equalisation reserve. Both of these reserves were previously utilised to mitigate years of sustained low investment income receipts and increased contributions to the pension fund. With interest rates having increased over the past year and a positive triennial valuation of the pension fund assets and liabilities in 2022, these reserves can be re-established over the medium term.
- 3.8 All of the “equalisation” reserves will be available to smooth the impact of volatility from key income streams.
- 3.9 Other earmarked reserves, such as the Asset Management Plan reserve and the Chantry Centre Planned Maintenance reserve also have an important role to play as they have been set up to ensure that the Council has adequate financing available for planned maintenance and renewal of assets.
- 3.10 The balance of the New Homes Bonus will continue to be important to the Council, not only as a source of financing for the Community Asset and Revenue Funds, but also for financing other appropriate community-based schemes in the Capital Programme.
- 3.11 I am satisfied that the earmarked revenue reserves are adequate for their particular purposes, but given the uncertainties highlighted in paragraph 2.6, there is little room for manoeuvre. With this in mind, I have to emphasise the importance of:
- achieving all of the savings options put forward for 2023/24
  - continuing with the systematic review of all budget areas ahead of the next Medium Term Financial Strategy update
  - seizing procurement and capital investment opportunities
  - exploring different ways of working, in particular taking advantage of the opportunities presented by more agile working and ways of enabling services to be delivered online.
  - keeping financial forecasts up-to-date in order to plan and adapt to changing circumstances, and
  - maintaining firm budgetary control and effective monitoring processes.