

## **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 The financial implications of all known variables have been assessed during the preparation of the detailed estimates. Where appropriate, this has included a sensitivity analysis in respect of estimates that are prone to material change or factors beyond the Council's control (e.g. interest rate levels).
- 2.2 Various budget assumptions have been made including allowances for inflation, 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, 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.

- 2.3 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 has been built into the budget for the coming year.
- 2.4 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 and 3.
- 2.5 The budgeting 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.
- 2.6 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 2024/25.
- 2.7 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 three main purposes:
  - To help cushion the impact of uneven cash flows and unexpected, unbudgeted costs that may arise in year or that may arise in the medium term. These reserves are sometimes known as equalisation reserves.
  - A means of building up funds to meet known or predicted future liabilities. These can be considered as being equivalent to a savings account preparing for a future expenditure.
  - A method of carrying forward funds held for a specific purpose from one year to the next.
- 3.2 The General Fund reserve held a balance at the end of 2022/23 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 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. The largest risks to the Council's medium term forecast are the potential for investment income levels to drop as interest rates decrease and in the event of a national re-set of retained income from business rates.

- 3.4 Having sufficient capacity in reserves to ameliorate the impact of those variables is essential to be maintained the financial stability of the Council.
- 3.5 The Council currently has a range of earmarked revenue reserves with balances and projected balances as follows:

<i>Earmarked Revenue Reserves:</i>	At 31/3/23 £000s	Forecast at 31/3/27 £000s
<u>Equalisation Reserves</u>		
Budget Equalisation Reserve	1,345	821
Investment Equalisation Reserve	350	650
Income Equalisation Reserve	300	300
Pension Fund Equalisation Reserve	500	745
Collection Fund Equalisation Reserve	2,799	6,000
<b>Total – Equalisation Reserves</b>	<b>5,294</b>	<b>8,516</b>
<u>Reserves Held For Future Growth</u>		
New Homes Bonus	12,057	9,392
Rejuvenation Projects Reserve	2,629	1,110
Capacity Building Reserve	345	243
Special Projects Reserve	177	127
Enterprise and Innovation Reserve	315	315
<b>Total – Reserves Held For Future Growth</b>	<b>15,523</b>	<b>11,187</b>
<u>Reserves Held For Specific Purposes</u>		
Asset Management Plan	2,728	500
* Developer Commuted Sums	6,722	6,722
* Chantry Centre Planned Maintenance Reserve	1,916	1,916
* Local Development Framework	592	592
Environment Act delivery	300	0
Housing Reserve	1,042	1,126
Community Support Reserve	1,463	1,150
Other Earmarked Reserves	1,487	683
<b>Total – Other Earmarked Revenue Reserves</b>	<b>16,250</b>	<b>12,689</b>
<b>Total:</b>	<b>37,067</b>	<b>32,392</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 2027. Therefore, the current balance has been included as a comparator. The forecast calls on these reserves over the medium term have been reviewed and I am satisfied that the balances shown are adequate for their respective purposes over this period.

- 3.6 The forecast balance on the Collection Fund Equalisation Reserve at March 2027 is significant. However, in the context of retained growth of c£4M per annum which could be lost, it will be necessary to have a sizeable contingency to offset the impact of potential losses, should they arise. The forecast level on this reserve will be

continually monitored and updated when more information on a potential re-set is known.

- 3.7 The medium term financial strategy has identified that the balances held in the remaining equalisation reserves is adequate to meet anticipated need. After approved transfers into the reserves in 2023/24 have been made, no further transfers will be necessary.
- 3.8 All of the “equalisation” reserves will be available to smooth the impact of volatility from key income streams and will be reviewed ahead of the next medium term financial strategy update in autumn 2024.
- 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. Its future is far from certain and therefore no future receipts have been built into the forecast for this reserve beyond 2024/25.
- 3.11 I am satisfied that the earmarked revenue reserves are adequate for their particular purposes. However, to ensure they remain suitable in the context of a balanced budget, the importance of the following points is emphasised:
  - achieving all of the savings options put forward for 2024/25
  - continuing with the systematic review of all budget areas as part of the annual estimates process
  - 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.

Carl Whatley FCCA  
Head of Finance & Revenues  
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