

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 (England, Scotland and Wales) (sections 32, 43 and 93 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/productivity gains and levels of income, financial risks inherent in any new arrangements and capital developments and the availability of funds to deal with major contingencies and the

need for any provisions. 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 draft budget has been prepared in conjunction with the Heads of Service and individual business unit managers. The savings / additional income were proposed by / agreed with the relevant Head of Service / business unit manager and all relevant officers have been fully consulted in the estimates now presented to the Cabinet.
- 2.3 I have discussed the estimates with my Accountancy staff to the extent that I deem necessary. The processes followed are sound and well established and identical 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. 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 2020/2021. Subject to some important reservations listed in paragraph 2.4 below, a reasonable degree of assurance can be given about the robustness of the estimates and the adequacy of reserves.
- 2.4 The exceptions relate to the provision of estimates for items outside the direct control of the Council:
- Income from fees and charges.
 - 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 - Changes in interest rates have a major impact on the investment returns expected. The returns are controlled by market interest rates available. The Council has tried to maximise returns by careful consideration of the timing and duration of investments. Returns will continue to be monitored regularly and reviewed quarterly to identify any major shortfall, or excess, as soon as possible. A mid-year review of Treasury Management activities will be reported to the Council's Overview and Scrutiny Committee.
 - The impact of changes in Government funding.
 - The impact of local business rates retention – It is nearly seven years since the new scheme was introduced and monitoring its effect is still proving to be a challenge. The rates income is volatile and can fluctuate significantly in year as it is influenced by changes in the business rates base, business rates relief, losses on collection and losses due to appeals many of which go back a number of years.
 - The impact of the roll-out and transition to Universal Credit on both customers and staff resources.
 - Proposed changes to increase the locally retained share of business rate income to 75% in exchange for as yet unidentified new responsibilities.
 - The Government's "fair funding review" of authorities' funding needs coupled with a reset of the business rates baseline.

In view of these uncertainties, it will be important for the Cabinet and Overview and Scrutiny Committee to maintain a diligent budget monitoring regime during 2020/21.

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 to help cushion the impact of uneven cash flows and minimise unnecessary temporary borrowing, 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.

3.2 Taking into account the revenue draws that are shown in the budget forecast for 2019/20, 2020/21 and over the remainder of the medium term plan, there will be an estimated working balance at the end of 2022/23 of £2M. I consider that, given my comments in the previous section on the robustness of the estimates and the uncertainties surrounding the next three-year period, this 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 31/3/19 £000s | At 31/3/23 £000s |
|---|---------------------|---------------------|
| a) Developer commuted sums | 5,304 | 4,250 |
| b) Investment Equalisation Reserve | 250 | 250 |
| c) Budget Equalisation Reserve | 682 | 680 |
| d) Income Equalisation Reserve | 300 | 300 |
| e) Pension Equalisation Reserve | 100 | 500 |
| f) Collection Fund Equalisation Reserve | 3,616 | 3,460 |
| g) Capacity Building Reserve | 389 | 180 |
| h) Special Projects Reserve | 339 | 150 |
| i) Asset Management Plan | 2,954 | 1,220 |
| j) Local Development Framework | 524 | 0 |
| k) All risks self-insurance reserve | 96 | 100 |
| l) New Homes Bonus | 3,721 | 9,490 |
| m) Enterprise and Innovation Reserve | 330 | 0 |
| n) Benefit Reform Reserve | 78 | 0 |
| o) Other earmarked reserves | 912 | 100 |
| p) Valley Housing Ltd. Reserve | 250 | 0 |
| q) Housing Reserve | 362 | 0 |
| r) Chantry Centre Planned Maintenance Reserve | 1,349 | 0 |
| Total: | 21,556 | 20,680 |

- 3.5 The Council has faced severe financial challenges over the spending review period. Over the last five years, support from the Government has reduced as Revenue Support Grant has been phased out. In order to be in a position to set a balanced budget for 2020/21, it has had to find another £0.927M worth of savings and additional income. Looking forward over the next two years to 2023, the Government will be reviewing how local authorities are financed through its “Fair Funding Review”.
- 3.6 Initial proposals suggest that this will have a significantly adverse effect on the Council’s finances. Areas of particular concern are a flatter distribution of funding which takes into account and assumes maximum council tax increases to preserve spending power, a full baseline reset of business rates in April 2021 and the gradual removal of the New Homes Bonus.
- 3.7 Some of the earmarked reserves above have been specifically established to help with the transition period, and all of the “equalisation” reserves will be available to smooth the impact of spending reductions over the medium term.
- 3.8 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.
- 3.9 The New Homes Bonus will become increasingly important to the Council, not only as a source of financing for the Community Asset and Revenue Funds, but also as a reserve contingency against planned reductions to local government resources by Central Government and additional financing for the Capital Investment Programme.
- 3.10 I am satisfied that the earmarked revenue reserves are adequate for their particular purposes, but given the uncertainties highlighted in paragraph 2.4, 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 2020/21,
 - continuing with the systematic review of all services through the corporate challenge process,
 - seizing procurement and capital investment opportunities,
 - generating new income streams through Project Enterprise,
 - exploring different ways of working,
 - keeping financial forecasts up-to-date in order to plan and adapt to changing circumstances, and
 - maintaining firm budgetary control and effective monitoring processes.
- 3.11 The Government has said that it plans to consult on changes to Local Government Financing over the summer of 2020, and I would urge all Members to familiarise themselves with these proposals as they come forward and understand the impact that they might have on the Council’s financial stability and resilience from 2021 onwards.

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