

APPENDIX 13

ROBUSTNESS OF ESTIMATES

1. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of budget estimates and the adequacy of the proposed financial reserves. Appendix 7 outlines the position of the balances and reserves, while this appendix confirms the robustness of the budgetary estimates which are the basis of the budget.
2. Budget estimates are based on assumptions of future expenditure and income and contain an element of assumption risk. The impact of this risk can be mitigated through contingency plans, contingency budgets and financial reserves.
3. The robustness of budget estimates is not simply a question of whether they are correctly calculated. In practice, many budgets are based on estimates or forecasts, and there will be an element of risk as to whether plans will be delivered and targets achieved. Different risks to the budget are considered below:
4. **Inflation Risk** – This is the risk that actual inflation could turn out to be significantly different to the assumption made in the budget. For 2019/20, inflation has been allowed based on the latest information about pay awards and prices, but there is a risk that inflation will rise again during 2019/20, and uncertainty over the probable rise (apart from salary and pensions inflation which has already been agreed). A rise in inflation may add to the Council's costs, but that could be funded through the use of reserves, if necessary.
5. **Interest Rate Risk** - Interest rates may affect the budget through the interest earned - i.e. an interest rate rise would increase income. In accordance with the Council's Treasury Management Strategy, the budget is not reliant on high investment returns. Interest rates continue at a historical low and are not likely to begin increasing until at least 2020/21. Therefore, the interest rate risk is considered low and this is a compensating risk for inflation risk because if one increases the other is likely to increase also.
6. **Specific Grants Risk** - There are risks attached to the large number of specific grants from Welsh Government, Europe or other bodies which support a proportion of Council expenditure. Some of these could be reduced, or be cut altogether, and we don't have a complete picture as the financial year begins. When the grant ceases, so must the associated expenditure, but contract terms may mean that expenditure cannot be cut as quickly as the grant, or severance costs may need to be funded. Further, the activity funded may be so important to the delivery of the Council's own Priorities that the Council decides to continue with the expenditure. We will mitigate this risk by ensuring that we have the best information available on each grant, but the funding bodies (Government, etc) control this position.
7. **Income Risks** – The budget is based on securing a specific increase in fees which is equal in value to the increase in the relevant service costs. If demand for Council Services falls, and income targets are not achieved, that may cause overspending on service budgets. The actual budget position will require careful monitoring during the year and, if necessary, spending may need to be cut back to match reduced income. This will not be possible with some large corporate budgets, where estimated income must be set at a prudent level.

8. **Savings Risks** – One significant risk in current circumstances is that the Council is over-optimistic regarding the savings that will be achieved. If these projects should run into difficulties and fail to achieve the savings taken out of the budget, significant overspendings could occur. We will mitigate this risk by ensuring that savings schemes are owned by departments and Cabinet members, and by monitoring relevant progress regularly.
9. **Staff Redundancy Costs** – Some services restructure their staff in order to achieve savings, with staff being released through redundancy. Where appropriate, the cost of redundancies is funded from a central contingency reserve, and an appropriate sum has been earmarked for this purpose, which mitigates the risk.
10. **Council Tax Premium** – When deciding on the Tax Base, a prudent assessment was made of the number of second homes and empty properties to include in the calculation. There is a risk that the number of properties subject to the premium have been over estimated and that the income collected is lower than the amount estimated (due to properties transferring to the business rates list). We are managing this risk by employing inspectors who check the facts, and by not committing all of the tax yield from the Premium until the position becomes clearer.
11. **The Statutory Finance Officer's Opinion** – Having considered all the risks noted above and the mitigating actions, the Head of Finance (Section 151 Officer) is of the opinion that the budgets are robust, sufficient and achievable.