

APPENDIX 10

ROBUSTNESS OF ESTIMATES

1. In accordance with Section 25 of the Local Government Act 2003, the Chief Finance Officer is required to report on the robustness of the budget estimates and the adequacy of the proposed reserves. Appendix 7 outlines the position of the balances and reserves, while this appendix confirms the robustness of the budgetary estimates underpinning the budget.
2. The budget estimates are based on assumptions about future expenditure and income and inevitably include an element of risk from assumptions. The impact of this risk can be mitigated through contingency plans, contingency budgets and financial reserves.
3. The robustness of the budgetary estimates is not a simple question if they have been calculated correctly. In practice, many budgets are based on estimation or forecasts, and there will be an element of risk about the delivery of plans and the achievement of targets. Various risks to the budget are considered below:

4. **Inflationary Risk** - There is a risk that inflation can turn out to be significantly different from the assumption made in the budget. For 2022/23, following a recent period of inflationary increases, inflation was allowed on the basis of the latest pay and price information. However, it was expected that the relatively high level of inflation at the time would fall during 2022/23, but it was acknowledged that there was a risk that inflation would rise again. When setting the 2022/23 budget, it was noted that there was more uncertainty than usual about the likely level and that an increase in inflation could add to the Council's costs, but this could be alleviated by using a contingency budget as necessary.

In fact, overall inflation rose to levels not seen in decades. The independent forecasts received show that inflation rates are expected to fall during 2023/24 but will remain relatively high during the year. The proposed budget for 2023/24 reflects this and I am satisfied that prudent estimates of inflation levels have been included.

5. **Interest Rate Risk** - Interest rates can affect the revenue budget through the interest earned - i.e. an interest rate increase would mean more income. In line with the Council's Investment Strategy (in a subsequent item on the programme of this meeting), the budget does not depend on excessive returns. In 2021 interest rates remained at record lows, but have risen since then. However, while further small increases are expected in early 2023/24, interest rates are expected to start falling later in the year as the economy shrinks and inflation levels fall. Therefore, interest rate risk is considered low and would compensate for the inflation risk, as one is likely to increase with the other.

6. **Specific Grant Risks** – There are risks which relate to the large number of specific grants from the Welsh Government and others that support a proportion of the Council's expenditure. We have received significant specific grants in social care in recent financial years, with associated commitments, which make financial planning difficult. In general, the associated expenditure will have to end when a grant ends, but the terms of a contract may mean that expenditure cannot be cut as quickly as the grant, or that redundancy costs are to be funded. Furthermore, funded activity 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 about grants, but the funding bodies (Government, etc.) manage this situation.
7. **Income Risks** - The budget is based on securing a specific increase in fee income equivalent to the increase in relevant costs. If demand for Council services falls, and income targets are not met, this can lead to an overspend on departmental budgets. The actual budget position will need to be closely monitored during the year and, if necessary, cut back on expenditure to match the reduction in income. That will not be possible with some large corporate budgets, where income estimates must be set at a prudent level.

I believe there is a higher than normal risk in 2023/24 from an income perspective as a number of the proposed savings schemes are tied to increasing income.
8. **Risk with Covid-19** –The Welsh Government Hardship Fund which compensated Cyngor Gwynedd with grant assistance totalling around £20m in 2020/21 and £14.4m in 2021/22, ended on 31 March 2022. Therefore, in Cyngor Gwynedd's 2022/23 budget, we included an additional permanent provision of £1.4m to cope with costs and losses from the continuation of the crisis. Also, specific funds (the Covid Fund, and the Financial Strategy Fund) have been protected in reserve to support any expenditure or loss of income above the £1.4m in the 2022/23 budget. During the year, actual spending as a result of Covid-19 is thought to have been around £1.9m, largely due to pressures in the homelessness area. The sum of £1.4m remains in the budget for 2023/24 but I believe the internal Covid Fund can now be released to deal with financial pressures on the Council.
9. **Risk with Savings** – The 2023/24 budget includes £950,250 of historic savings already programmed, as well as £4.2m of new savings to enable a balanced budget to be set. However, some Council departments have a history of failing to deliver on their savings plans and that presents a significant risk to long-term financial sustainability. In line with normal procedures, we will mitigate the risk by ensuring savings schemes are owned by departments and Cabinet members, and regularly monitoring the relevant progress. The budget also includes a provision of 20% of the value of new savings schemes to deal with situations where savings schemes slip.

10. **Staff Redundancy Costs** - Some services restructure their staff to achieve savings, and staff are made redundant. There will not be many cases this year, but redundancy costs will be appropriately funded from a central reserve, and a suitable amount has been set aside to this end, which mitigates the risk.
11. **Council Tax Premium** - In determining the taxbase, the number of second homes and empty homes to be included in the figures was assessed prudently. There is a risk that the number of properties that will pay is over-objective and the income collected is lower than the estimated amount (due to property transferring to the business tax list). We manage the risk by employing fact-checking inspectors, and by not committing all potential tax products from the Premium before the situation becomes clearer.
12. **Statutory Finance Officer's Opinion** - Having considered all the risks identified above and the mitigation, the Head of Finance (Section 151 Officer) considers that the budgets are robust, adequate, and achievable.