

## 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. **Inflation 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. The current high level of inflation is expected to fall during 2022/23, but there is a risk that inflation will rise again and there is more uncertainty than usual this year about the likely level. An increase in inflation can add to the Council's costs, but this can be alleviated by using a contingency budget as necessary.
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 started to rise and further increases in 2022/23 seem inevitable. 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 know, of course, that there will not be Covid grants from the Welsh Government Hardship Fund (see paragraph 8 below) and some of the other specific grants may fall, or be cut, and we do not have a complete picture as the financial year begins. We have received significant specific grants in social care in recent financial years, with associated commitments, which make fiscal 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.
8. **Risk with Covid-19** – Due to the Covid-19 crisis, it is expected that the Welsh Government Hardship Fund will have compensated Gwynedd Council with grant assistance totalling around £14.4m in 2021/22, in addition to the £20m of support received in 2020/21. However, the Finance Minister in the Welsh Government has stated unequivocally that the Hardship Fund, which has funded this support, will end on 31 March 2022. Therefore, in Gwynedd Council's 2022/23 budget, we have 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. In 2020/21, prior to confirmation of grant aid in the face of significant costs early in the crisis, the existence of council balances had given us the confidence to act unfettered for the benefit of the people of Gwynedd. By claiming an appropriate grant from the Government Hardship Fund in 2020/21 and 2021/22, we have been able to protect the bulk of these balances for 2022/23.
9. **Risk with Savings** – The settlement from Welsh Government means that the Council has been able to write off or postpone around £1.8m of the £2.4m of savings schemes that were to meet their programming for 2022/23. The remaining £595,000 of savings plans appear achievable but some Council departments have a history of failing to deliver their savings plans. As usual, we will mitigate the risk by ensuring that savings plans are owned by departments and Cabinet members, and regularly monitoring the relevant progress.

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.