

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. There are several key elements in the budget that are based on estimates. Specific attention is given below to those which pose the greatest risks:
4. **Inflationary Risk** - Overall inflation has fallen in the second half of the 2023/24 financial year from the exceptionally high levels seen during 2022/23. Independent forecasts received show that inflation rates are expected to fall further during 2024/25 but will remain above the Bank of England's 2% target. We believe that general inflation will remain around 3% on average during the year. This budget including the forecast of the pay agreement reflects the latest forecasts. I am satisfied that prudential 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, interest rates are expected to start falling gradually during the second half of the 2024/25 financial year as inflation levels continue to fall. Therefore, interest rate risk is considered low and would compensate for the inflation risk, as one is likely to increase and decrease 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.

Local authorities have supported putting pressure on the Welsh Government to bring as many grants as possible into the overall settlement. A limited number of grants will transfer during 2024/25.

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 monitored closely during the year and, if necessary, expenditure will need to be cut back 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 2024/25 from the perspective of income as a number of the proposed savings schemes are tied to increasing income, including some schemes that have slipped from 2023/24.

9. **Risk with Savings** – In order to be able to set a balanced budget, the 2024/25 budget includes £3.7m of 2023/24 savings profiled to be realised in 2024/25 (which includes £820k schools' savings), £15k historic savings (i.e. programmed before 2023/24), as well as £2m new savings. 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. I believe this is the biggest risk in setting this budget. In line with the usual procedure, we will mitigate the risk by ensuring savings schemes are in the ownership of departments and Cabinet members, and regularly monitoring the relevant progress. The budget also includes a strategy of providing 10% of the value of new savings schemes over the lifespan of the programme 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. Where appropriate redundancy costs will be 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 have been over-estimated and that the income collected is lower than the estimated amount (due to property ceasing to be subject to the premium). We are managing the risk by employing inspectors who are checking the facts, 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 steps, the Head of Finance (Section 151 Officer) considers that the budgets are robust, adequate, and achievable.