

**STATEMENT ON THE ROBUSTNESS OF THE ESTIMATES
AND THE ADEQUACY OF THE RESERVES**

Introduction

This statement is given in respect of the 2009/10 Budget Setting Process for Tonbridge and Malling Borough Council. I acknowledge my responsibility for ensuring the robustness of the estimates and the adequacy of the reserves as part of this process.

The Council has adopted a Medium Term Financial Strategy covering both Capital and Revenue budgets for the period 2009/10 to 2014/15. It is this Strategy that underpins the budget setting process over the six-year period.

The Strategy sets out the high level financial objectives the Council wishes to fulfil over the agreed time span. This includes achieving a balanced revenue budget by the end of 2012/13 (in the latest projections a balanced budget is achieved by the end of 2011/12); to retain a minimum of £3.0m in the General Revenue Reserve by the end of the strategy period; and where possible to accommodate emerging priorities and growth pressures from elsewhere within the Council's Budget. The Strategy also sets out, based on current financial information, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council's spending plans.

Robustness of Estimates

The aim of the Medium Term Financial Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future.

Underneath the Strategy sits detailed estimates formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures.

Factors taken into account for the 2009/10 Budget Setting Process and in developing the Strategy are:

The Council's Aims and Priorities	Estimates reflect both the Key priorities for 2009/10 endorsed by the Council and those more specific priorities that go to support their achievement.
Consultation with Council Taxpayers	The results of the Council Tax Survey undertaken during the Summer of 2007 and the survey undertaken during the Autumn of 2004 on the Council's Budget and Spending Priorities have been taken into account in setting the budget strategy for 2009/10 and the medium term.

Consultation with Non Domestic Ratepayers	The Council consults representatives of its non-domestic ratepayers about its expenditure proposals who may make written representations if they deem it appropriate. No such representations have been received.
The level of funding likely from Central Government towards the costs of local services.	In 2009/10 and 2010/11 we are to receive an increase in grant of 0.5% and 0.6% respectively. Increase in grant of 2.0% has been assumed in subsequent years. To put this into context, 0.5 of a percentage point would currently equate to grant income of about £30,000.
Council Tax Base	The recommended Council Tax Base for 2009/10 is 47,951.43 band D equivalents with an expectation that this will rise by 1.0% each year in subsequent years.
Capping powers of the Secretary of State in respect of rising Council Tax levels.	Due regard has been taken of the Government's intentions regarding the capping of tax levels that are seen to be excessive and that it expects council tax increases to be substantially less than 5%.
The Prudential Code and its impact on Capital Planning.	Tonbridge and Malling is a debt-free authority and projections suggest that over the capital plan period this is unlikely to change. Borrowing to fund capital expenditure is, therefore, unlikely in the foreseeable future. A key objective of the Prudential Code is to ensure, within a clear framework, the capital investment plans of local authorities are affordable, prudent and sustainable.
The Council's Capital Strategy and Capital Plan.	The Council has adopted a Capital Strategy and Capital Planning process that has been commended by the Government Office for the South East (GOSE). From 2009/10 there is to be a change in approach in that there is to be an annual capital allowance for new capital schemes (excluding capital renewals and funding for statutory services). This allowance is currently set at £600,000 (maximum) per year.
Treasury Management	A Treasury Management Strategy Statement and Investment Strategy is adopted by the Council each year as required by the Local Government Act 2003 as part of the budget setting process. The Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. As a consequence of the additional risks arising from the current systemic weakness in the banking sector and the subsequent "credit crunch" the risk assessment process for investments has been supplemented with sovereign ratings, market intelligence, group limits and the availability of government guarantees. In addition, the process for authorising investments is now restricted to the Chief Executive, Director of Finance and Chief Accountant. The Council currently has an investment of £1.0m frozen in an Icelandic bank. The Icelandic Government has

	<p>stated its intention to honour all its commitments as a result of their banks being placed into receivership. At the current time we anticipate that we will recover most, if not all, of the investment, but are uncertain as to when reimbursement will be made.</p>
Interest Rates	<p>Interest returns on the Council's 'core funds' have been set at 3.8% in 2009/10 and 3.7% in 2010/11 before rising gradually to 4.75% by the end of the strategy period. In setting these rates we sought the advice of the Council's independent Treasury Adviser, Sector Treasury Services and our Fund Manager. To put this into context, 0.25 of a percentage point would currently generate investment income on our 'core funds' of about £60,000. Conversely, a dip in investment returns would have a negative impact on the Council's budget. The Council has chosen to retain a minimum of £3.0m in its General Revenue Reserve by the end of the strategy period in order to deal with, amongst other things, interest rate volatility.</p>
Adequacy of Reserves	<p>At the beginning of 2009/10, we anticipate that the General Revenue Reserve balance will be £3.7m. The Adequacy of Reserves is discussed in more detail below.</p>
Pay and Price Inflation	<p>Estimates reflect the proposed pay award for 2009/10 and assume a 2.0% increase each year for 2010/11 and 2011/12 and 2.5% in subsequent years. Estimates reflect price inflation of 1.0% on contractual commitments in 2009/10 and a general uplift for inflation of 2.5% in subsequent years.</p>
Fees and Charges	<p>As has been the practice for a number of years now, and in line with the feedback from the Council Tax Surveys, the objective has been to maximise income, subject to market conditions, opportunities and comparable charges elsewhere.</p>
Emerging Growth Pressures	<p>The projections within the Medium Term Financial Strategy include all known and quantified priorities and growth pressures that we are aware of at the present time. New priorities and growth pressures will undoubtedly emerge over the period and in consequence, the Strategy will be updated annually. There is an expectation that expenditure on expanding and improving services should be accommodated by omissions and reductions elsewhere within the Council's budget.</p>
Financial Management	<p>The Council's financial information and reporting arrangements are sound and its end of year procedures in relation to budget under / overspends clear. Collection rates for council tax and NNDR remain good. The Audit Commission following the 2008 audit found the Council's budgetary control procedures to be sound; was satisfied with the overall internal financial control arrangements;</p>

	<p>was satisfied with the Council's arrangements for ensuring the legality of transactions; gave an unqualified opinion on the 2007/08 Accounts; and considered the overall level of balances to be healthy.</p>
<p>Insurance Arrangements and Business Continuity</p>	<p>Risks identified via the preparation of Service / Section Risk Registers have wherever possible been reduced to an acceptable level. Any remaining risk has been transferred to an external insurance provider. In addition, specific arrangements are in place to ensure the continuity of business in the event of both major and minor disruptions to services. As insurance premiums are reactive to the external perception of the risks faced by local authorities and to market pressures, both risks and excess levels are kept under constant review. The Council recognises that not all risks are financial; and takes into account all risks when making decisions.</p>
<p>Corporate Governance and Risk Management</p>	<p>The Council has adopted a Corporate Governance Code based upon the requirements of the CIPFA/SOLACE Corporate Governance framework. This incorporates Risk Management and the Council has committed itself to a Risk Management Strategy involving the preparation of Risk Registers for each Service area at operational and strategic levels.</p>
<p>Budget Prioritisation Model</p>	<p>The Model was recently refreshed and updated and the results of that exercise suggest that we continue to target our resources to reflect our priorities. The Model also provides a management tool to assist Members with the reallocation of resources or the identification of efficiency savings (within the context of the MTFs) if needed in the future.</p>
<p>Public Sector Efficiency Agenda</p>	<p>The continuation of the Efficiency Agenda post 2007/08 was announced as part of the Comprehensive Spending Review 2007. A target of 3% has been set for the local government sector for each year of the three-year period of the CSR 2007, all of which is to be 'cashable'. Whilst no individual targets have been set failure to try and comply with these targets could impact on the Use of Resources Assessment. We will continue to look for areas where there is the potential to achieve efficiencies and have in place monitoring arrangements to measure our performance.</p>
<p>Economic Downturn</p>	<p>The Medium Term Financial Strategy assumes that the economy will not start to recover until part way through 2011/12. A 'corporate adjustment' of £600,000 is reflected within the estimates for 2009/10 and 2010/11 falling to £300,000 in 2011/12 to take account of an anticipated reduction of £1.0m in our major income streams due to the recession offset by management savings of £400,000 in a full-year.</p>

These assumptions and changing circumstances will require the Strategy to be reviewed in each financial year.

Adequacy of Reserves

The minimum prudent level of reserves that the Council should maintain is a matter of judgement. It is the Council's safety net for unseen or other circumstances. The minimum level cannot be judged merely against the current risks facing the Council as these can and will change over time. The minimum General Revenue Reserve balance is currently set at £3.0m by the end of the strategy period and given below are areas of operational and financial risk (not exhaustive) considered in determining the appropriate minimum level.

- Interest Rate volatility
- Income volatility
- Change to Government Grant

- Planning Inquiries
- Emergencies
- Economic and world recession
- Poor performance on Superannuation Fund
- Bankruptcy / liquidation of a major service partner
- Closure of a major trading area, e.g. leisure centre for uninsured works
- Problems with computer systems causing shortfall or halt in collection performance
- Government Legislation
- Ability to take advantage of opportunities
- Uninsured risks

Clearly, the minimum General Revenue Reserve balance needs to and will be kept under regular review. The General Revenue Reserve balance at 31 March 2015 is estimated to be £3.6m with the Council working to a balanced budget by 2011/12.

In addition, a number of Earmarked Reserves exist to cover items that will require short-term revenue expenditure in the near future.

The Revenue Reserve for Capital Schemes is established to finance future capital expenditure. A funding statement illustrates that the Capital Plan can be funded without recourse to borrowing over the medium term. The Revenue Reserve for Capital Schemes balance at 31 March 2015 is estimated to be £5.9m.

A schedule of the reserves held by the Council at 1 April 2008 and proposed utilisation of those reserves to 31 March 2010 is provided in Table A. Balances held generate interest receipts which support, underpin and contribute towards meeting the objectives of the Strategy.

Opinion

I am of the opinion that the approach taken in developing the 2009/10 budget meets the requirements contained in the Local Government Act 2003 to ensure the robustness of the estimates and the adequacy of the reserves.

Signed: 

Date: 3 February 2009

Director of Finance, CPFA