

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

**Introduction**

This statement is given in respect of the 2011/12 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.

It has been recommended that the Council adopt a Medium Term Financial Strategy spanning a ten-year period covering both Capital and Revenue budgets. It is this Strategy that underpins the budget setting process over the ten-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 the strategy period and to retain a minimum of £2 million in the General Revenue Reserve. 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.

The Borough Council is facing a reduction in funding from central government over the next two years of 28%. Taking into account this significant cut in government funding and further cuts expected in future years a budget 'funding gap' of up to £2m has been identified over the medium term.

We do have a robust Medium Term Financial Strategy and this affords us the time to take a constructive and considered approach to addressing the 'funding gap'. Clearly, the absolute size of the 'funding gap' will influence the timescales we afford ourselves to address the problem.

The financial difficulties faced by the Council are unprecedented, but it is determined that the negative impact on service delivery and council tax increases are minimised, albeit some difficult choices will have to be made.

**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 2011/12 Budget Setting Process and in developing the Strategy are:

The Council's Aims and Priorities	Estimates reflect both the Key priorities for 2011/12 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 2011/12 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	The Council's 2010/11 grant settlement of £6.522m has been reduced by £688,000 in the main to take account of the transfer of responsibility for concessionary fares to the County Council giving an adjusted grant base of £5.834m for 2010/11. The adjusted grant base has then been reduced by 16.6% to give a 2011/12 grant settlement of £4.863m. The 2011/12 grant settlement has been reduced by £43,000 giving an adjusted grant base of £4.82m for 2011/12. The adjusted grant base has then been reduced by another £542,000 to give a 2012/13 grant settlement of £4.278m. Total decrease £585,000 or 12.04%. We have assumed further cuts in grant of 0.9% and 5.6% in 2013/14 and 2014/15 respectively and an increase in grant of 2% each year in subsequent years. To put this into context, 0.5 of a percentage point would currently equate to grant income of about £25,000.
Council Tax Base	The recommended Council Tax Base for 2011/12 is 49,009.38 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 the Government's commitment to freezing council tax in England for at least one year. The latest iteration of the Medium Term Financial Strategy assumes a nil increase in council tax in 2011/12 and 3% year on year in subsequent years.
The Prudential Code and its impact on Capital Planning	Tonbridge and Malling is a debt-free authority and projections suggest that this is unlikely to change in the near future. Recourse to borrowing to fund capital expenditure is unlikely before 2018/19. 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. In 2009/10 there was a change in approach adopted in that there is now an annual capital allowance for new capital schemes (excluding capital renewals and funding for statutory services). That allowance is set at £350,000 (maximum).
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. In response to the difficulties caused by the banking crisis CIPFA undertook a review of the Treasury Management Code of Practice and Cross-Sectoral Guidance Notes and other associated documents. The outcome of that review was the publication in December 2009 of a revised Code. Council adopted the latest edition of the Code of Practice on Treasury Management on 18 February 2010. The Council currently has an investment of £1.0m frozen in an Icelandic bank. It is unclear how much and when any settlement might be made. The Local Government Association, our legal advisors and representatives on the Creditors Committee are working hard to protect our interests and remain optimistic that we will be accorded "preferred creditor" and, if so, should obtain a settlement in excess of 90%.
Interest Rates	Interest returns on the Council's 'core funds' have been set at 1.4% in 2011/12 rising gradually to 5.0% over the medium term. 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 £50,000. 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 £2m in its General Revenue Reserve in order to deal with, amongst other things, interest rate volatility.
Adequacy of Reserves	At the beginning of 2011/12, we anticipate that the General Revenue Reserve balance will be £6.57m. The Adequacy of Reserves is discussed in more detail below.
Pay and Price Inflation	The estimates assume there will be no pay award in 2011/12 and a 2% increase year on year in subsequent years. Estimates reflect price inflation of 4.0% on contractual commitments in 2011/12 and a general uplift of 2.5% in 2012/13 and 2% year on year in subsequent years.

Fees and Charges	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.
Emerging Growth Pressures	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 at least annually.
Financial Management	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 2010 audit concluded that the Council continued to perform strongly, demonstrating excellent financial management, robust governance arrangements and good use of its resources.
Insurance Arrangements and Business Continuity	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.
Corporate Governance and Risk Management	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.
Budget Prioritisation Model	The results of the most recent exercise suggest that we continue to target our resources to reflect our priorities. The Model could also be used as a tool to assist Members with the reallocation of resources or the identification of efficiency savings.
Partnership Working	The Council is working in partnership with its neighbouring councils with the aim of not only delivering savings through joint working, but also to improve resilience and performance.
Economic Downturn	The Medium Term Financial Strategy assumes that the economy will not start to recover until part way through

	2014/15. A 'corporate adjustment' of £1,125,000 is reflected within the estimates for 2011/12 falling to £562,500 in 2014/15 to take account of the impact of the current economic climate on our major income streams.
Government Proposals / Announcements	The proposed New Homes Bonus scheme and proposals to devolve the setting of planning fees to the local authority, if endorsed, could provide greater flexibility to the timescales we afford ourselves to address the budget 'funding gap'. Other proposals / announcements, if endorsed, that may have an impact on the Council's finances over the medium to longer term are cessation of administration of housing benefits from 2017/18; localisation of council tax benefits; and Local Government Resource Review.

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 to be set at £2 million 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 2021 is estimated to be £3.075m with the Council working to a balanced budget by that year.

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 recourse to borrowing to fund capital expenditure is unlikely before 2018/19. The Revenue Reserve for Capital Schemes balance at 31 March 2017 is estimated to be £1.2m.

A schedule of the reserves held by the Council at 1 April 2010 and proposed utilisation of those reserves to 31 March 2012 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 2011/12 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: 1 February 2011

Director of Finance, CPFA