

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

**Introduction**

This statement is given in respect of the 2012/13 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.

Given the scale of the financial challenge faced by the Council as part of the 2011/12 budget setting process we moved to a Medium Term Financial Strategy spanning a 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 formula grant funding from central government in the order of 28% over the two-year period 2011/12 to 2012/13. Taking into account this significant cut in government funding and further cuts expected in future years a budget 'funding gap' in the order of £2.54m (council tax increase 2.9%) or £2.9m (council tax freeze) has been identified to be addressed over the medium term.

We believe our Medium Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the 'funding gap' will influence the timescales we afford ourselves to address the problem.

Clearly, the Council continues to face a significant financial challenge, but remains 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 2012/13 Budget Setting Process and in developing the Strategy are:

The Council's Aims and Priorities	On 10 January 2012, Overview and Scrutiny Committee endorsed the scope of seven Key priorities for 2012/15. These have since been clarified by the Council's Management Team for further consideration and approval by Members in due course. Estimates reflect both these Key priorities for 2012/15 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 2012/13 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 2011/12 Grant settlement of £4,889,857 has been reduced by £43,183 giving an adjusted grant base of £4,846,674. The adjusted grant base has then been reduced by £576,785 or 11.9% to give a 2012/13 Grant settlement of £4,269,889 and, therefore, over the two-year period 2011/12 to 2012/13 the Council have seen a cut of more than 28%. Included in the 2012/13 Grant settlement is the 2011/12 council tax freeze grant which for us is £210,630 giving a total settlement figure of £4,480,519. 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 £21,000. However, from April 2013 a Business Rates Retention scheme is to replace Formula Grant funding.
Council Tax Base	The recommended Council Tax Base for 2012/13 is 49,256.68 band D equivalents with an expectation that this will rise by 1.0% each year in subsequent years.
Local Referendums to Veto Excessive Council Tax Increases	The Secretary of State will determine a limit for council tax increases which for 2012/13 has been set at 3.5% for most principal authorities (including district councils). The limit for individual councils may differ slightly due to the requirement to exclude certain payments from the calculation and after taking into account these payments the limit for us is 2.9%. If an authority proposes to raise

	<p>council tax above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or veto the rise. Due regard has been taken of the guidelines issued by the Secretary of State. The latest iterations of the Medium Term Financial Strategy assume for 2012/13 both a 2.9% increase in council tax or council tax freeze and thereafter a 3% increase year on year.</p>
<p>The Prudential Code and its impact on Capital Planning</p>	<p>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.</p>
<p>The Council's Capital Strategy and Capital Plan</p>	<p>A few years ago a new approach was adopted where, other than funding for the replacement of our assets which deliver services as well as funding for statutory services, there is now an annual capital allowance for all other capital expenditure. That allowance is set at £350,000 (maximum). The Council's Capital Planning process is to be subject to review during 2012/13.</p>
<p>Treasury Management</p>	<p>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 December 2009 edition of the Code on 18 February 2010 and due regard has also been given to subsequent revisions in preparing the Treasury Management Strategy Statement and Annual Investment Strategy for 2012/13. The Council has a "defaulted £1m investment with the Icelandic Bank, Landsbanki. UK local authorities' claims have been recognised as deposits with priority status over other creditors' claims. This should mean we will recover almost all (98%) of the £1m we had on deposit with the failed Icelandic Bank, Landsbanki.</p>
<p>Interest Rates</p>	<p>Interest returns on the Council's 'core funds' have been set at 1.25% in 2012/13 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</p>

	<p>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.</p>
Adequacy of Reserves	<p>At the beginning of 2012/13, we anticipate that the General Revenue Reserve balance will be £5.52m. The Adequacy of Reserves is discussed in more detail below.</p>
Pay and Price Inflation	<p>The estimates assume a 2% pay award in 2012/13 and in subsequent years. However, Members are yet to discuss and determine a pay award for 2012/13 and this could be less than 2% bearing in mind the guidance received from the Chancellor regarding pay restraint in the public sector. Estimates reflect price inflation of 5% on contractual commitments in 2012/13 and a general uplift of 3% in 2013/14 and 2% year on year 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 at least annually.</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 District Auditor following the 2011 audit concluded that the Council continues to have a strong and effective framework for financial planning and budgetary control.</p>
Insurance Arrangements and Business Continuity	<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>

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.
Equality Impact Assessments	Adjustments to revenue budgets where there are deemed to be equality issues a separate equality impact assessment has or will be undertaken at the appropriate time. In addition, an equality impact assessment is undertaken and reported to Members prior to commencement of a new capital plan scheme.
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.
Government Proposals / Announcements	The cessation of administration of housing benefits over a transitional period ending in 2017/18; the localisation of council tax support; the business rates retention scheme; and proposals to devolve the setting of planning fees will impact on the Council's finances and, in turn, the Medium Term Financial Strategy over the medium to longer term. We continue to monitor the implications of these major issues as information becomes available and further guidance emerges.
Savings Initiatives	<p>Like all public sector organisations, the Council has a significant challenge ahead in respect of identifying and implementing savings over the medium term. Savings of circa £2.54m will be needed should a council tax increase for 2012/13 be approved; alternatively those savings will increase to £2.9m should the one-off council tax freeze grant be accepted. The Council is able to break these savings down into "tranches" to enable more measured steps to be taken in securing these savings. The Council identified and implemented savings well in excess of £300,000 for inclusion in the 2012/13 detailed Estimates as guided by the Cabinet.</p> <p>In the coming months, Members will consider options to deliver the first tranche of the required savings. In addition, the Management Team will continue to seek efficiency savings in the delivery of existing services and monitoring reports will be brought forward to Members so that good management of the process can be maintained.</p>

These assumptions and changing circumstances will require the Strategy to be reviewed and updated at least annually.

## **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
- Localisation of council tax support
- Business rates retention scheme
- Planning Inquiries
- Partnership Working
- 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 2022 is estimated to be £3.465m (council tax increase 2.9%) or £3.302m (council tax freeze) 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 2018 is estimated to be £0.2m.

A schedule of the reserves held by the Council at 1 April 2011 and proposed utilisation of those reserves to 31 March 2013 is provided in Annex 17 Table A (council tax increase 2.9%) and Annex 17 Table B (council tax freeze). 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 2012/13 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: 7 February 2012

Director of Finance, CPFA