

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

**Introduction**

This statement is given in respect of the 2013/14 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 by the end of the strategy period. 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 has seen its government grant funding by way of Formula Grant funding or from April 2013 its replacement, the Business Rates Retention scheme, fall by around £2.0m or 34% over the three-year period 2011/12 to 2013/14. Taking into account this significant cut in government funding and further cuts expected in future years a budget 'funding gap' in the order of £2.8m (council tax increase 1.9%) or £3.1m (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 2013/14 Budget Setting Process and in developing the Strategy are:

The Council's Aims and Priorities	On 17 April 2012, the Council adopted seven Key priorities for 2012/15. Estimates reflect both these Key priorities for 2012/15 and those more specific priorities that go to support their achievement.
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	From April 2013 a Business Rates Retention scheme is to replace formula grant funding. Under the proposals funding above a minimum amount will be dependent on growth in an authority's business rates base. In 2013/14, the Council is to receive £3,815,912, a cash decrease of £453,977 or 10.6% when compared to the equivalent figure of £4,269,889 in 2012/13. In addition to the above a number of grants have been rolled into the Business Rates Retention scheme giving a total start-up funding allocation of £5,033,255 including the parish councils funding of £173,111 in respect of the council tax support scheme. We have assumed further cuts in grant year-on-year to 2017/18 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.
New Homes Bonus	In 2011/12 the Government introduced a New Homes Bonus scheme which would see councils receiving financial rewards for the delivery of new homes in their areas. We continue, for medium term financial planning purposes, to assume the New Homes Bonus in its current form will cease in 2015/16 by which time it is estimated to be in the order of £2.5 million. Thereafter, funding by way of its replacement, whatever that might be, is assumed to be £1.2 million. It can be seen that this issue, depending both on timing and outcome, could have a significant impact on the Council's finances.
Council Tax Base	The recommended Council Tax Base for 2013/14 is 44,924.13 band D equivalents with an expectation that this will rise by 0.8% in 2014/15 and 2015/16; 0.9% and 1% in 2016/17 and 2017/18 respectively; and 1.1% each year in subsequent years.
Local Referendums to Veto Excessive Council Tax	The Secretary of State will determine a limit for council tax increases which for 2013/14 has been set at 2.0% for most district councils. The limit may differ slightly due to

Increases	the requirement to use alternative notional amounts for the year 2012/13 provided by central government and to exclude certain payments from the calculation and after taking the above into account the limit for us is a fraction over 1.9%. If an authority proposes to raise 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 2013/14 both a 1.9% increase in council tax or council tax freeze and thereafter a 3% increase year on year.
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	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 £320,000 (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. Council adopted the December 2009 edition of the CIPFA Treasury Management Code of Practice and Cross-Sectoral Guidance Notes 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 2013/14. The Council has a defaulted £1m investment with the Icelandic Bank, Landsbanki. Subject to exchange rates, we anticipate that we will recover all of the £1m we had on deposit with Landsbanki, together with the interest that was due had the deposit been repaid on time (October 2008) plus the award of additional interest for the period October 2008 to April 2009. To date just under £491,000 has been recovered.
Interest Rates	Interest returns on the Council's 'core funds' have been set at 1.25% in 2013/14 rising gradually to 5.0% over the medium term. In setting these rates we sought the advice of the Council's independent Treasury Adviser,

	<p>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 £40,000. 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 2013/14, we anticipate that the General Revenue Reserve balance will be £5.26m. The Adequacy of Reserves is discussed in more detail below.</p>
Pay and Price Inflation	<p>The estimates assume a 2% pay award in 2013/14 and in subsequent years. However, Members are yet to discuss and determine a pay award for 2013/14 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 3% on contractual commitments in 2013/14 and a general uplift of 2% year on year in subsequent years.</p>
Fees and Charges	<p>As has been the practice for a number of years now the objective has been to maximise income, subject to market conditions, opportunities and comparable charges elsewhere.</p>
Emerging Growth Pressures and Priorities	<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> <p>A significant priority for 2013/14 is likely to surround detailed proposals for a key regeneration site in the Botany area of Tonbridge town centre. Discussions are underway to secure a retail-led redevelopment project in this area that will secure economic benefit for the town as a whole and help the vitality of the High Street in particular.</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 2012 audit commented that the Council has a history of effective financial management and continues to have a strong focus on maintaining a sustainable financial position in the medium term, based on a ten-year Medium Term Financial Strategy.</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</p>

	<p>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	<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>
Equality Impact Assessments	<p>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.</p>
Partnership Working	<p>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.</p>
Government Proposals / Announcements	<p>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 in-year and over the medium to longer term. The increased volatility and uncertainty attached to a number of these issues is such that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections. As a result we will need to closely monitor the impact of these issues on the Council's finances at regular intervals.</p>
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 £2.8m will be needed should a council tax increase for 2013/14 be approved; alternatively those savings will increase to £3.1m should the 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.</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</p>

	<p>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> <p>One significant savings option (circa £500,000 per annum) is the potential transfer of the Council's leisure centres and golf course to a Trust model. A decision will be taken by the Council in February regarding this option.</p>
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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 objective is to retain a minimum of £2 million in the General Revenue Reserve 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
- 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 2023 is estimated to be £2.084m (council tax increase 1.9%) or £2.161m (council tax freeze) with the Council working to a balanced budget.

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 2019 is estimated to be £0.7m.

A schedule of the reserves held by the Council at 1 April 2012 and proposed utilisation of those reserves to 31 March 2014 is provided in Annex 17 Table A (council tax increase 1.9%) 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 2013/14 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: 12 February 2013

Director of Finance and Transformation, CPFA