

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

Introduction

This statement is given in respect of the 2006/07 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 2006/07 to 2011/12. 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 the strategy period (2011/12); to retain a minimum of £3.0m in the General Revenue Reserve; and 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 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 2006/07 Budget Setting Process and in developing the Strategy are:

The Council's Aims and Priorities	Estimates reflect both the Key priorities for 2006/07 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 2003 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 2006/07 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.	This year's finance settlement introduced three-year revenue and capital grant settlements (albeit the first round will only extend to two years). In 2006/07 we are to receive an increase in grant of 3% and in 2007/08 2.7% which happens to be the floor (minimum increases for shire districts in both years). Increase in grant set at 2.5% 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 2006/07 is 46,071.78 band D equivalents with an expectation that this will rise by 1% year on year over the medium term.
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 to see an increase in council tax of 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 a healthy and wide-ranging Capital Plan. It has adopted a Capital Strategy and Capital Planning process that has been commended by the Government Office for the South East (GOSE).
Interest Rates	Interest returns have been set at 4.9% in 2006/07 and in subsequent years. In setting these rates we sought the advice of our Fund Managers. To put this into context, 0.25 of a percentage point would currently generate investment income of about £75,000.
Adequacy of Reserves	At the beginning of 2006/07, we anticipate that the General Revenue Reserve balance will be £5.5m. The Adequacy of Reserves is discussed in more detail below.
Pay and Price Inflation	Estimates reflect the proposed pay award for 2006/07 and assume a 2.5% increase in subsequent years. Price inflation is set at 2.5% each year over the period.
Fees and Charges	As has been the practice for a number of years now, and in line with the feedback from the Council Tax Survey, 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 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.
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 2005 audit found the Council's budgetary control procedures to be sound; was satisfied with the overall internal financial control arrangements; was satisfied with the Council's arrangements for ensuring the legality of transactions; gave an unqualified opinion on the 2004/05 Accounts; and considered the overall level of balances to be healthy.
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.
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	During 2004/05 a Model was developed to enable us to demonstrate that we are targeting our resources to reflect our priorities. 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.
Lyons Inquiry into Local Government	The outcome of the independent Inquiry under the direction of Sir Michael Lyons will be of keen interest. An interim report was released in Autumn 2005 setting out

	his preliminary thinking and publishing the research and analysis undertaken so far.
Gershon Efficiency Review	The outcome of the review is that local authorities have been charged with finding efficiency savings of 2.5% each year for the period 2005/06 to 2007/08. We will continue to look for areas where there is the potential to achieve efficiency savings and have introduced monitoring arrangements to measure our performance against targets set.

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 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 2012 is estimated to be £3.7m 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.

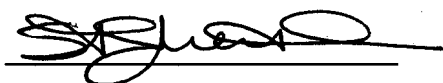
The Revenue Reserve for Capital Schemes is established to finance future capital expenditure. A funding statement illustrates that the Capital Plan can be funded without recourse to borrowing over the medium term. The Revenue Reserve for Capital Schemes balance at 31 March 2012 is estimated to be £9.7m.

A schedule of the reserves held by the Council at 1 April 2005 and proposed utilisation of those reserves to 31 March 2007 is provided in Table A.

Opinion

I am of the opinion that the approach taken in developing the 2006/07 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 Feb 2006

Director of Finance, CPFA