

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

**Introduction**

This statement is given in respect of the 2010/11 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 2010/11 to 2015/16. 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 and to retain a minimum of £3.0m 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.

However, as mentioned throughout the 2010/11 Budget Setting Process due to the state of public finances general government grant is likely to be cut significantly after the next General Election and subsequent Spending Review. The key problem we face is that we will not know the extent of any decrease in general government grant until part way through the 2010/11 financial year, other than it is likely to require a detailed re-examination of the objectives set out in the Medium Term Financial Strategy as part of a fundamental review of our overall finances.

For this reason, the 2010/11 financial year could be seen as a 'holding year' whilst we await the outcome of the next spending Review and a clearer picture begins to emerge about the size of the financial challenge faced by the Council.

**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 2010/11 Budget Setting Process and in developing the Strategy are:

The Council's Aims and Priorities	Estimates reflect both the Key priorities for 2010/11 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 2010/11 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 2010/11 we are to receive an increase in grant of 0.6%. A decrease in grant of 6% each year for the two-year period 2011/12 to 2012/13 has been assumed and an increase in grant of 2% 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 2010/11 is 48,623.10 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 following the announcement by the Local Government Minister in November 2009 it has been assumed the cap might fall around 3% for 2010/11.
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. 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). The annual allowance at recommended within the report to Cabinet is £350,000 (maximum).
Treasury Management	A Treasury Management Strategy Statement and Investment Strategy is adopted by the Council each year

	<p>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 and is to be adopted by this Council.</p> <p>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 80%.</p>
Interest Rates	<p>Interest returns on the Council's 'core funds' have been set at 2.5% in 2010/11 rising gradually to 5.0% 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 £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 £3.0m 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 2010/11, we anticipate that the General Revenue Reserve balance will be £5.97m. The Adequacy of Reserves is discussed in more detail below.</p>
Pay and Price Inflation	<p>The estimates assume there will be no pay award in 2010/11 and assume a 1% increase each year for 2011/12 and 2012/13 and 2% in subsequent years. Estimates reflect price inflation of 2.0% on contractual commitments in 2010/11 and a general uplift for inflation of 2.0% 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</p>

	undoubtedly emerge over the period and in consequence, the Strategy will be updated at least 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 2009 audit concluded that the Council has strong arrangements in place to manage finances, govern the business and manage other resources. Financial management and financial planning are particularly strong and the Council has a good track record of identifying priorities and delivering strong outcomes that are also cost effective.
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 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.
Public Sector Efficiency Agenda	In the Comprehensive Spending Review (CSR) 2007 the Government announced the continuation of the efficiency agenda for the three-year period 2008/09 to 2010/11. Under CSR 2007 local authorities have been set a national 'cashable' efficiency gains target of 3% year on year for the three-year period. The target for the final year was subsequently increased to 4% in the

	<p>Chancellor's Budget Statement in March 2009. Whilst no individual targets have been set failure to achieve 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>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>
Economic Downturn	<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 £1,025,000 is reflected within the estimates for 2010/11 falling to £512,500 in 2011/12 to take account of an anticipated reduction of £1.1m in our major income streams due to the recession offset by management savings of £75,000, in addition to the £75,000 built in to the base budget, 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 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 2016 is estimated to be £5.47m with the Council working to a balanced budget by 2012/13, but it should be remembered this is subject to the outcome of the fundamental review of our overall finances which has already commence and we anticipate concluding by the Autumn 2010.

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 2016 is estimated to be £5.29m, again subject to the outcome of the fundamental review of our overall finances.

A schedule of the reserves held by the Council at 1 April 2009 and proposed utilisation of those reserves to 31 March 2011 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 2010/11 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: 2 February 2010

Director of Finance, CPFA