Annex 17

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

Introduction

This statement is given in respect of the 2016/17 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 budget has been prepared within the context of a Medium Term Financial Strategy (MTFS) spanning a ten-year period.

The MTFS 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 £2m in the General Revenue Reserve by the end of the strategy period. The MTFS 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.

By way of context, since 2010/11 the Council has seen its core funding, its Settlement Funding Assessment (SFA), fall by more than £4.2m or 60% with further cuts planned in future years. Indeed, indicative figures up to 2019/20 suggest that our SFA at that time will be £5.8m less in cash terms compared to 2010/11 or 80%. Up until now the fall in core funding has to a large extent been negated by the grant award under the New Homes Bonus (NHB) scheme which in 2016/17 is around £3.8m. However, indicative figures have been provided by the government which reflect proposed changes (subject to consultation) to the scheme where in 2019/20 our NHB is projected to be £2.3m.

It can be seen from the above that the ongoing reduction in government grant funding has and continues to place ever increasing pressure on the Council’s finances and, in turn, financial sustainability. Based on the indicative figures provided by the government in the local government finance settlement 2016/17 for the period 2016/17 to 2019/20, amongst other things, latest projections point to a ‘funding gap’ between expenditure and income of circa £1.825m to be addressed over the medium term. We do believe that our MTFS is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way, but with ever increasing pressure this is becoming progressively more difficult.

It is clear from what is undoubtedly a significant financial challenge some difficult choices will have to be made. Alongside the MTFS now sits a Savings and Transformation Strategy. Its purpose, to provide structure, focus and direction in addressing the significant financial challenge that lies ahead and, in so doing, recognise there is no one simple solution and we will need to adopt a number of ways to deliver the savings within an agreed timetable.

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. It is a Strategy that is adopted by Members of the Council alongside the Budget for 2016/17 to provide a forward looking context for the consideration of the budget year ahead. It also provides the Council's Corporate Management Team with a tool for strategic financial planning and decision making.

Underneath the Strategy sits detailed estimates formulated in conjunction with Service Managers who carry responsibility of delivering their area of service within budget provision. The estimates take into account past outturn, current spending plans and likely future demand levels / pressures.

Factors taken into account for the 2016/17 Budget Setting Process and in developing the Strategy are:

The Council's Aims and Priorities	The current set of seven Key priorities applies to 2012/15 and the Council is in the process of preparing a new Corporate Performance Plan which will be shaped by the continuing financial pressure faced by the Council.
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	Our Settlement Funding Assessment (SFA) for 2016/17 is £2,761,567. Indicative figures have also been provided up to 2019/20 where our SFA in that year is projected to be £1,283,705, a cash decrease of £2,394,894 or 65.1% compared to 2015/16. Included in the SFA is the parish councils' indicative allocation in respect of the council tax support scheme, however, it is not separately identified. Beyond 2019/20 it is assumed that our SFA will increase by 2% each year.
New Homes Bonus	Our New Homes Bonus (NHB) for 2016/17 is £3,843,083. Again, indicative figures have also been provided up to 2019/20 which reflect proposed changes (subject to consultation) to the scheme where our NHB is projected to be £2,332,049, a cash decrease of £769,104 or 24.8% compared to 2015/16. This figure is rolled forward each year thereafter, but remains at risk to further reductions over the period of the MTFS. Taken together, our overall grant funding including NHB in 2019/20 is projected to be £3,615,754, a cash decrease of £3,163,998 or 46.7% compared to 2015/16.
Business Rates	For medium term financial planning purposes beyond 2016/17 we assume that the business rates baseline attributed to Tonbridge and Malling under the Business Rates Retention Scheme is not notably different to the

	actual business rates income. If our actual income is less than the baseline set the authority will have to meet a share of that shortfall up to a maximum of circa £158,000 in 2016/17. This figure increases each year in line with inflation.
Council Tax Base	The Council Tax Base for 2016/17 is 47,629.13 band D equivalents with an expectation that this will increase by 4,275 over the strategy period, or 475 per year.
Local Referendums to Veto Excessive Council Tax Increases	The Secretary of State will determine a limit for council tax increases which for 2016/17 has been set at the higher of 2% or £5. 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 MTFS reflects an increase in council tax of £5 each year for the four-year period 2016/17 to 2019/20 and thereafter assumes 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 recourse to borrowing to fund capital expenditure is unlikely before 2019/20. 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	Other than funding for the replacement of our assets which deliver services as well as recurring capital expenditure, there is now an annual capital allowance for all other capital expenditure. That allowance is set at £200,000 (maximum) whilst the Council has sufficient funding in its capital reserves.
Treasury Management	A Treasury Management and Annual 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 and Annual Investment Strategy for 2016/17.
Interest Rates	Interest returns on the Council’s ‘core funds’ have been set at 1.0% in 2016/17 rising gradually to 4.25% over the medium term. In setting these rates due regard has been taken of the interest rate forecasts of the Council’s independent Treasury Adviser, Capita Services. To put this into context, 0.25 of a percentage point would currently generate investment income on our ‘core funds’ of about £37,500. 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 2016/17, we anticipate that the General Revenue Reserve balance will be £4.745m. The Adequacy of Reserves is discussed in more detail below.
Pay and Price Inflation	The estimates provide for a 1% pay award in 2016/17 and for the following three years and 2% in subsequent years. Estimates reflect price inflation of 1.5% on contractual commitments in 2016/17 and a general uplift of 2% year on year in subsequent years.
Fees and Charges	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.
Emerging Growth Pressures and Priorities	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. Our external auditor (Grant Thornton UK LLP) following the 2015 audit concluded that the Council continues to have an effective framework of financial control and robust arrangements for financial governance; it has a structured approach to addressing financial pressures within a strong medium term planning framework, and a history of achieving planned savings.
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 is committed to a Risk Management Strategy involving the preparation of Risk Registers at both strategic and operational 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 Led Initiatives / Proposals	Continued public sector finance cuts; Welfare Reform and cessation of the administration of housing benefits over a transitional period in the lead up to the introduction of Universal Credit; the sustainability of the NHB scheme and what will follow; the ongoing impact of the localisation of council tax support; the business rates retention scheme; and proposals to transfer the Land Charges function to HM Land Registry and 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.
Savings Initiatives	The Council has a significant challenge ahead in respect of delivering savings over the medium term with a current projected funding gap of circa £1.825m. It should also be noted depending on what happens to NHB further savings could be required. The Council is able to break these savings down into "tranches" to enable more measured steps to be taken in securing these savings. In the coming months, options to deliver a further tranche/s of the required savings will need to be considered, agreed and actioned under the framework set out in the Savings and Transformation Strategy. In addition, the Management Team will continue to seek efficiency savings in the delivery of existing services.

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 including New Homes Bonus
- Identified savings not being delivered in the required timescales
- Localisation of council tax support
- Business rates retention scheme and associated volatility of income
- 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 2026 is estimated to be £2.645m based on an increase in council tax of £5 for 2016/17 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 2019/20. The Revenue Reserve for Capital Schemes balance at 31 March 2022 is estimated to be £1.994m.

A schedule of the reserves held as at 1 April 2015 and proposed utilisation of those reserves to 31 March 2017 is provided in Annex 17 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 2016/17 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: 11 February 2016

Director of Finance and Transformation, BSc (Hons) CPFA