Annex 17

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

Introduction

This statement is given in respect of the 2018/19 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 local government finance settlement (core funding) decrease by some 67% or £4.4m (from £6.6m to £2.2m in 2018/19). Indeed, there are further cuts planned in future years, with the indicative settlement figure for 2019/20 being some £1.3m. The fall in core funding is, in part, negated by the grant award under the New Homes Bonus (NHB) scheme which in 2018/19 is around £3.3m. However, NHB funding is expected to fall sharply in future years as the changes made to the scheme in 2017 work their way through the system, and the high levels of housing growth seen in recent years fall out of the calculation. In due course, assuming no further changes are made to the scheme, it is estimated that NHB could be in the order of £1.5m.

This gives overall grant funding of circa £2.8m compared to the £6.6m received back in 2010/11.

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 funding figures provided by the government and the impact of recent changes to the NHB scheme, amongst other things, latest projections point to a 'funding gap' between expenditure and income of about £1.0m to be addressed over the short to 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 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 2018/19 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 2018/19 Budget Setting Process and in developing the Strategy are:

Corporate Strategy	The Council's financial plans should be in support of its strategic priorities and objectives set out in overview in the recently updated Corporate Strategy. The Strategy sets out Our Vision: *To be a financially sustainable Council that delivers good value services, provides strong and clear leadership and, with our partners, addresses the needs of our Borough* guided by the following core values: Taking a business-like approach; Promoting fairness; Embracing effective partnership working; and Valuing our environment and encouraging sustainable growth.
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 2018/19 is £2,214,110. Indicative figures have also been provided for 2019/20 where our SFA in that year is projected to be £1,264,921, a cash decrease of £1,631,475 or 56.3% compared to 2016/17 (year one of a four-year settlement) . Beyond 2019/20 it is assumed that our SFA will increase by 2% year on year.
New Homes Bonus	Our New Homes Bonus (NHB) for 2018/19 is £3,334,128. NHB funding is expected to fall sharply in future years as the changes made in 2017 work their

	way through the system, and the high levels of housing growth seen in recent years fall out of the calculation such that by 2022/23 it is estimated that NHB could be in the order of £1.5m. For financial planning purposes it is assumed that from 2020/21 the scheme will reduce in length to three years and from 2021/22 the Council will receive either via NHB and or alternative funding source in the order of £1.3m rising steadily thereafter to around £1.4m by 2027/28. Changes over and above that assumed will only add to what is already a very difficult financial outlook.
Business Rates	For financial planning purposes beyond 2018/19 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 £166,000 in 2018/19 (or would do if we were not part of the 2018/19 Kent and Medway business rates pilot).
Council Tax Base	The Council Tax Base for 2018/19 is 49,924.51 band D equivalents with an expectation that this will increase by 4,500 over the strategy period, or 500 per year.
Local Referendums to Veto Excessive Council Tax Increases	The Secretary of State will determine a limit for council tax increases which for 2018/19 has been set at 3%, or more than 3% and more than £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 2.99% in 2018/19 followed by an increase of £5 up to 2026/27 and 3% in 2027/28.
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 2021/22. 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 2018/19.
Interest Rates	Interest returns on the Council's 'core funds' have been set at 0.8% in 2018/19 rising gradually to 3.75% 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, Link Asset Services. To put this into context, 0.25 of a percentage point would currently generate investment income on our 'core funds' of about £55,000. 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.
Property Investment Fund/s	The Council has recently taken the decision to invest in one or more property investment funds with further investment of proceeds from the sale of certain Council owned assets expected in the near future. In order to guard against downward fluctuations in property values a Property Investment Fund Reserve is to be established.
Adequacy of Reserves	At the beginning of 2018/19, we anticipate that the General Revenue Reserve balance will be £6.5m. The Adequacy of Reserves is discussed in more detail below.
Pay and Price Inflation	The estimates provide for a 2% pay award in 2018/19 and each year thereafter. Estimates reflect price inflation of 3% in 2019/20 and 2% 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 MTFS 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 2017 audit concluded that you have proper arrangements to plan finances effectively to manage the medium term financial position of the Council.
Insurance	Risks identified via the preparation of Service / Section

Arrangements and Business Continuity	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 Local Code of 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	Where there are deemed to be equality issues as a result of adjustments to revenue budgets 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 Issues	Continued public sector finance cuts; Welfare Reform and cessation of the administration of housing benefits for working age claimants 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 Fair Funding Review and proposed move to 100% Business Rates Retention scheme; Brexit; 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 short to medium term with a current projected funding gap of circa £1.0m. 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.

Two key questions remain to be answered.

What will our baseline funding level be under an 'eventual' 100% Business Rates Retention scheme and how that then compares to that reflected in the MTFS taking into account transfer of any new responsibilities; and

The extent to which NHB will feature in future government grant funding and if replaced what level of funding would we receive in its place?

The answers to these questions are fundamental for the ongoing financial planning for this Council.

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.

- Brexit
- 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 2028 is estimated to be £4.666m based on an increase in council tax of 2.99% for 2018/19 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 2021/22. The Revenue Reserve for Capital Schemes balance at 31 March 2024 is estimated to be £3.141m.

A schedule of the reserves held as at 1 April 2017 and proposed utilisation of those reserves to 31 March 2019 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 2018/19 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: 8 February 2018

Director of Finance and Transformation, BSc (Hons) FCPFA