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

Introduction

This statement is given in respect of the 2020/21 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 £3.0m 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 65% or £4.3m (from £6.6m to £2.3m in 2020/21).

The fall in core funding is, in part, negated by the grant award under the New Homes Bonus (NHB) scheme which in 2020/21 is around £3.4m. However, NHB, in its current form at least, is highly unlikely to continue beyond 2020/21 where legacy payments only, excluding the 2020/21 allocation, will be received, the last of which in 2022/23. Notwithstanding NHB would have continued to reduce over time as the changes already made to the scheme worked their way through the system and the recent above average housing delivery fell out of the calculation to around £1.8m. It remains our ambition to restructure the MTFS so it is not as reliant on NHB or its replacement.

In the latest iteration of the MTFS it is assumed overall government grant funding (core funding + NHB or its replacement) will **steadily** reduce to £2.45m in 2023/24 uplifted by inflation thereafter and where the latest projected ‘outstanding’ funding gap between expenditure and income is **circa £320,000** to be addressed over the medium term.

However, funding beyond 2020/21 will be **dependent** on the expected multi-year settlement to follow and the Fair Funding Review and what happens to NHB. How we will fair at the end of that process is extremely difficult to predict at this stage making financial planning that more difficult. As a result 2019/20 and now 2020/21 could be seen as **holding years**. 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 this is becoming progressively more difficult.

Alongside the MTFS sits a Savings and Transformation Strategy. The purpose of the Strategy is to provide structure, focus and direction in addressing the financial challenge faced by the Council. In so doing, it recognises that there is no one simple solution and as a result we will need to adopt a number of ways to deliver the required savings and transformation contributions within an agreed timescale.

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 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 2020/21 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 Corporate Strategy. The Strategy sets out Our Vision: *To continue to be a financially sustainable Council with strong leadership that delivers valued services, a commitment to delivering innovation and change to meet the needs of our Borough* guided by our values and priorities: *Achieving efficiency;* *Embracing effective partnership working;* *Valuing our environment and encouraging sustainable growth; and* *Innovation*. At the time of writing the Corporate Strategy is in the process of being refreshed and a new version is expected to be approved alongside the Budget reconfirming the above values and priorities.
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 from Central Government towards the costs of local services	Our Settlement Funding Assessment (SFA) for 2020/21 is £2,301,752. This represents a cash increase of £36,902 or 1.6% when compared to the equivalent figure of £2,264,850 in 2019/20.

New Homes Bonus	Our New Homes Bonus (NHB) for 2020/21 is £3,375,063. NHB, in its current form at least, is highly unlikely to continue beyond 2020/21 where legacy payments only, excluding the 2020/21 allocation, will be received, the last of which in 2022/23. Notwithstanding NHB would have continued to reduce over time as the changes already made to the scheme worked their way through the system and the recent above average housing delivery fell out of the calculation to around £1.8m. It remains our ambition to restructure the MTFS so it is not as reliant on NHB or its replacement. For medium term financial planning purposes we have assumed there will continue to be some form of performance funding, but at a much reduced level.
Business Rates	For medium term financial planning purposes beyond 2020/21 we assume an element of growth performance above the business rates baseline attributed to Tonbridge and Malling under the Business Rates Retention Scheme. If our actual income is less than the baseline set the authority will have to meet a share of that shortfall.
Overall Grant Funding	For medium term financial planning purposes, it is assumed overall government grant funding whether that be baseline funding level, some element of growth performance, NHB or its replacement will steadily reduce to £2.45m in 2023/24 uplifted by inflation thereafter. This will need to be revisited following the outcome of the expected multi-year settlement to follow and Fair Funding Review and what happens to NHB.
Council Tax Base	The Council Tax Base for 2020/21 is 51,371.02 band D equivalents with an expectation that this will increase by 4,950 over the strategy period, or 550 per year.
Local Referendums to Veto Excessive Council Tax Increases	The Secretary of State will determine a limit for council tax increases which for 2020/21 has been set at 2%, or more than 2% 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 £5 in 2020/21 and each year thereafter.
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 2026/27. This does not however, preclude a decision to borrow in order to fund in full or in part a commercial investment opportunity that meets the Council’s strategic priorities and objectives, achieves value for money and delivers a financial return. Each such opportunity to be considered

	on a case by case basis as appropriate. 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. Subject to review each year the maximum 'annual capital allowance' is to be set at £250,000 for the period 2020/21 to 2025/26.
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 in October 2018 adopted the updated Treasury Management and Prudential Codes of Practice published by the Chartered Institute of Public Finance and Accountancy in December 2017. The focus of both updates is to ensure the risks associated with investment in 'non-financial assets which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time. The requirements of the updated Codes of Practice have been taken into account and reflected as appropriate in the annual review and update of the Capital Strategy and in preparing the Treasury Management and Annual Investment Strategy for 2020/21.
Interest Rates	Interest returns on the Council's 'core funds' have been set at 1.20% in 2020/21 rising gradually to 3.5% 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 £60,000. 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 £3m 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 potential investment of proceeds from the sale of Council owned assets in the 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 2020/21, 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 2.5% pay award in 2020/21 followed by pay inflation of 2% each year thereafter and price inflation of 2% in 2020/21 and each year thereafter. Except energy and the waste services contract where price inflation is set at 5% and 4% respectively.
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 2019 audit concluded *in all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people*.
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 Local Code of Corporate Governance 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	Brexit; the outcome of the Spending Review and Fair Funding Review; the sustainability of the NHB scheme and what will follow; proposed move to 100% Business Rates Retention scheme; 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 ongoing impact of the localisation of council tax support; 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.
Savings and Transformation Contributions	Latest projections point to a 'funding gap' between expenditure and income of £320,000 to be addressed over the period of the MTFS. It should also be noted dependent on the outcome of the Spending Review and the Fair Funding Review and what happens to NHB, further savings and transformation contributions could be required. Furthermore, the ongoing service reviews by the Overview and Scrutiny Committee dependent on the outcome could result in budget growth. The Council is able to break the required savings and transformation contributions into "tranches" to enable more measured steps to be taken and give time for the Spending Review and the Fair Funding Review to be concluded. In the coming months, options to deliver a further tranche of the required savings and transformation contributions 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 business rates baseline and baseline funding level be under an 'interim' 75% and 'eventual' 100% Business Rates Retention scheme, and how will this compare to that reflected in the MTFS taking into account transfer of any new responsibilities?

- What is 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.

<u>Adequacy of Reserves</u>

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 £3.0m 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
- Climate Change
- 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
- Cyber/data loss
- 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 2030 is estimated to be £7.234m based on an increase in council tax of £5 for 2020/21 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 2026/27 other than by exception on a case by case basis. The Revenue Reserve for Capital Schemes balance at 31 March 2026 is estimated to be £3.518m.

A schedule of the reserves held as at 1 April 2019 and proposed utilisation of those reserves to 31 March 2021 is provided in Annex 17b.

Balances held generate interest receipts which support, underpin and contribute towards meeting the objectives of the Strategy.

<u>The Chartered Institute of Public Finance and Accountancy Financial Management Code and Financial Resilience Index</u>

In October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Management Code (FM Code) to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM code is based on a series of principles supported by specific standards and statements of practice considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances
- manage financial resilience to meet unforeseen demands on services
- financially manage unexpected shocks in their financial circumstances.

The Code requires that a local authority demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and sought to rely on the local exercise of professional judgement backed by appropriate reporting. None of this is should be of particular concern to us as we believe good financial management is in all significant respects already embedded at Tonbridge and Malling.

Compliance will typically but not always be demonstrated by documenting compliance with the Statements of Standard Practice which underpin each of the Financial Management Standards. We see this requiring a response to each of the Statements of Standard Practice by way of a self-assessment which is to be progressed later this year and the outcome reported to the Finance, Innovation and Property Advisory Board.
In addition, the Financial Resilience Index produced by CIPFA aims to provide a tool with a group of indicators able to illustrate the trajectory of an authority's financial position and resilience within the context of each authority's own comparator tier and nearest neighbour group. CIPFA has designed the index to provide reassurance and prompt challenge where it may be needed.

There are no particular concerns to draw to Members attention from a review of the Financial Resilience Index published in December 2019. A copy of the Index (tier comparator) is attached at Annex 17c.

Opinion

I am of the opinion that the approach taken in developing the 2020/21 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: 13 February 2020

Director of Finance and Transformation, BSc (Hons) FCPFA