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

Introduction

This statement is given in respect of the 2021/22 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 and not to fall below £2.0m at any time during the 10-year 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 2021/22).

The fall in core funding is, in part, negated by the grant award under the New Homes Bonus (NHB) scheme which in 2021/22 is around £2.2m. However, the future of NHB or a replacement remains the subject of discussion, but at the very least will not continue in its current form leaving one of two options. The scheme is withdrawn and not replaced or is replaced, but where the funding stream and sum awarded is much reduced (our working assumption).

In the latest iteration of the MTFS it is assumed government grant funding (core funding + NHB or its replacement) will **steadily** reduce to £2.4m in 2023/24 uplifted by inflation thereafter and that the reductions in income and increased costs seen as a result of the pandemic in large part **will return** to pre Covid-19 levels in the short to medium term; where the latest projected funding gap between expenditure and income is **circa £475,000**. Adding to this sum those initiatives already built into the MTFS, but yet to be delivered, totalling in excess of **£500,000** gives a figure of **£975,000** to be found and delivered within the next four years.

However, funding beyond 2021/22 will be **dependent** on the outcome of the expected multi-year settlement to follow and the Fair Funding Review. Dependent on the outcome of the expected multi-year settlement, the Fair Funding Review, what happens to NHB and the extent and speed of the recovery following the Covid-19 pandemic, there is a **risk** the funding gap could be more than is presently reflected in the MTFS. 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 2021/22 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*. A one-year Addendum has been added to the Corporate Strategy to provide a framework within which to consider a wide range of issues in response to the Covid-19 pandemic and development of a future recovery plan.
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	Our Settlement Funding Assessment (SFA) for 2021/22 is £2,301,752, the same as that received in 2020/21.

Government towards the costs of local services	The Council also received a new on-off Lower Tier Services Grant in the sum of £665,485.
New Homes Bonus	Our New Homes Bonus (NHB) for 2021/22 is £2,209,818. However, the future of NHB or a replacement remains the subject of discussion, but at the very least will not continue in its current form leaving one of two options. The scheme is withdrawn and not replaced or is replaced, but where the funding stream and sum awarded is much reduced (our working assumption).
Business Rates	For medium term financial planning purposes we assume we will be on or around the safety net position in the short term and the business rates baseline thereafter under the current Business Rates Retention Scheme arrangements. 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 government grant funding whether that be baseline funding level, some element of growth performance, NHB or its replacement will steadily reduce to £2.4m in 2023/24 uplifted by inflation thereafter. This will need to be revisited following the outcome of the expected multi-year settlement to follow, the Fair Funding Review and what happens to NHB.
Covid-19 Pandemic	It is assumed that the reductions in income and increased costs seen as a result of the pandemic in large part will return to pre Covid-19 levels in the short to medium term. The extent and speed of the recovery will need to be closely monitored and to take corrective action if this is proved not to be the case.
Council Tax Base	The Council Tax Base for 2021/22 is 51,374.86 band D equivalents with an expectation that this will increase by 5,500 over the strategy period, or around 600 per year.
Local Referendums to Veto Excessive Council Tax Increases	The Secretary of State will determine a limit for council tax increases which for 2021/22 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 2021/22 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 2027/28. This does not however, preclude a decision to borrow in order to fund in full or in part a capital 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 2021/22 to 2026/27.
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 2021/22.
Interest Rates	Interest returns on the Council’s ‘core funds’ have been set at 0.35% in 2021/22 rising gradually to 3.0% over the ten-year period. 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 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 was established.
Adequacy of Reserves	At the beginning of 2021/22, we anticipate that the General Revenue Reserve balance will be £7.0m. The Adequacy of Reserves is discussed in more detail below.
Pay and Price Inflation	The estimates provide for pay inflation of 1% in 2021/22 followed by 2% each year thereafter and price inflation of 1% in 2021/22, 1.5% in 2022/23 and 2% each year thereafter. Except energy where price inflation is set at 5% and the waste services contract where price inflation is set at 4% from 2024/25 onwards.
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 2020 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 other councils with the aim of not only delivering savings through joint working, but also to improve resilience and performance.
Government Led Issues	The outcome of the expected multi-year settlement and the 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; the ongoing impact of the localisation of council tax support; the transfer of the Land Charges function to HM Land Registry; and proposals 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 circa £475,000. Adding to this sum those initiatives already built into the MTFS, but yet to be delivered, totalling in excess of £500,000 gives a figure of **£975,000** to be found and delivered within the next four years. Dependent on the outcome of the expected multi-year settlement, the Fair Funding Review, what happens to NHB and the extent and speed of the recovery following the Covid-19 pandemic, there is a risk the funding gap could be more than is presently reflected in the MTFS. 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 a better understanding to begin to emerge of the financial challenge ahead. 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 STS. 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.

Three 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?

- Will the reductions in income and increased costs seen as a result of the pandemic in large part return to pre Covid-19 levels to the extent and in the timescale assumed?

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 not to fall below £2.0m at any time during the 10-year period; and given below are areas of operational and financial risk (not exhaustive) considered in determining the appropriate minimum level.

- Global Pandemic
- EU Transition
- 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
- Local Plan / 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 2031 is estimated to be £5.018m based on an increase in council tax of £5 for 2021/22 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 2027/28 other than by exception on a case by case basis. The Revenue Reserve for Capital Schemes balance at 31 March 2027 is estimated to be £3.896m.

A schedule of the reserves held as at 1 April 2020 and proposed utilisation of those reserves to 31 March 2022 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.

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. None of this should be of particular concern as we believe good financial management is in all significant respects already embedded at Tonbridge and Malling.

In addition, the CIPFA Financial Resilience Index 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.

The Index incorporating the year ended 31 March 2020 has yet to be published due to the delay nationally in the audit of the 2019/20 accounts. There were, however, no particular concerns to draw to Members attention from the review of the Financial Resilience Index published in December 2019 and believe one year on the position has not changed. Albeit at the same time acknowledging that the impact of Covid-19 on the Council's finances and reserve balances will feed into later versions of the Index.

Opinion

I am of the opinion that the approach taken in developing the 2021/22 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: [redacted] Date: 11 February 2021

Director of Finance and Transformation, BSc (Hons) FCPFA