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

Introduction

This statement is given in respect of the 2022/23 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 Settlement Funding Assessment (core funding) decrease by some 65% or £4.3m (from £6.6m in 2010/11 to £2.3m in 2022/23).

The fall in core funding is, in part, negated by the grant award under the New Homes Bonus (NHB) scheme which in 2022/23 is around £1.2m and other time limited grant income. 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 The scheme is withdrawn and not replaced or is replaced, but where the funding stream and sum awarded is much reduced (our working assumption).

Dependent on the outcome of the Fair Funding Review, the future of NHB and the recently introduced lower tier services grant and new one-off services grant, business rates reforms and the extent and speed of the recovery following the pandemic, there is a **risk** the funding gap could be more than is presently reflected in the MTFS.

In the latest iteration of the MTFS it is assumed government grant funding will **steadily** reduce from circa £4.8m in 2022/23 to £2.7m in 2025/26 before seeing a modest increase year on year 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 £2,150,000**. Of this sum **£1.5m** must be ‘bridged’ within the next three years. **Plus** the initiative already built into the MTFS, scaling back of office accommodation in the sum of **£200,000** by April 2024.

The difficult and challenging financial outlook demanding a **pressing and concerted** focus of attention.

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 2022/23 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 with the production of a second-year addendum work in progress for approval at a future Cabinet meeting.
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 2022/23 is £2,302,118, to all intents and purposes the same as that received in 2021/22. The Council also received a payment for the under-indexing of the business rates multiplier of £189,122, a Lower Tier Services Grant allocation of £1,052,110 and a new (one-off) Services Grant in the sum of £158,677.
New Homes Bonus	Our New Homes Bonus (NHB) for 2022/23 is £1,193,947. 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 or other grant income will steadily reduce to £2.7m in 2025/26 before seeing a modest increase year on year thereafter. This will need to be revisited following the outcome of the Fair Funding Review, what happens to NHB and other grant income.
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 including the current high homeless caseload and consequent significant and escalating cost of temporary accommodation. 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 2022/23 is 52,246.97 band D equivalents with an expectation that this will increase by 5,500 over the strategy period, or around 625 per year.
Local Referendums to Veto Excessive Council Tax Increases	The Secretary of State will determine a limit for council tax increases which for 2022/23 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 2022/23 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 2028/29. 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 2022/23 to 2027/28.
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. Updates to both the Prudential Code and Treasury Management Code were published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2021 and uphold a key principle that borrowing primarily for return on investment is not permissible. 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 2022/23.
Interest Rates	Interest returns on the Council's 'core funds' have been set at 0.46% in 2022/23 rising gradually to 2.75% 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 £40,000. 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 Funds and Multi Asset Diversified Income Funds	The Council has taken the decision to invest in one or more property investment funds and more recently multi asset diversified income funds with further potential investment of funds in the future. In order to guard against downward fluctuations in asset values a Property Investment/ Multi Asset Diversified Income Fund Reserve was established.
Adequacy of Reserves	At the beginning of 2022/23, we anticipate that the General Revenue Reserve balance will be £7.513m. The Adequacy of Reserves is discussed in more detail below.
Pay and Price Inflation	The estimates provide for pay inflation of 2% in 2022/23 followed by 2% each year thereafter and price inflation of 4% 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 2023/24 onwards.
Fees and Charges	The estimated annual income from the garden waste service is in excess of £1m which it is assumed will recommence in April 2022 following suspension of the service in July 2021. 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 2021 audit concluded *the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. No significant weaknesses in arrangements identified, but improvement recommendations made*.
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 Fair Funding Review; the sustainability of the NHB scheme and what will follow; business rates reforms; 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 **£2,150,000**. Of this sum **£1.5m** must be 'bridged' within the next three years. **Plus** the initiative already built into the MTFS, the scaling back of office accommodation in the sum of **£200,000** by April 2024. The difficult and challenging financial outlook demanding a **pressing and concerted** focus of attention. **Dependent** on the outcome of the Fair Funding Review, the future of NHB and the recently introduced lower tier services grant and new one-off services grant, business rates reforms and the extent and speed of the recovery following the pandemic, there is a **risk** the funding gap could be more than is presently reflected in the MTFS. In the coming months, options to deliver a further tranche(s) 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:

- Firstly, what will our business rates baseline and baseline funding level be and how will this compare to that reflected in the MTFS taking into account transfer of any new responsibilities?

- Secondly, 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?

- Thirdly, over what time period will the lower tier services grant be 'in play' and how much might we expect to receive year on year in that period and what is to happen to the new one-off services grant?

A further key question is, will the reductions in income and increased costs seen as a result of the pandemic return in large part 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.

Particular reference has been made to the financial implications of the waste services contract (and the current suspension of the garden waste service) and also the escalating cost of homelessness within the borough.

For planning purposes it has been assumed that the garden waste service will resume in full by the beginning of 2022/23, and therefore the income stream will be back to its former levels. At the time of writing this statement the service is still suspended, but it is anticipated that it will be back in full operation in early March 2022. Delays in getting the service back into full operation beyond March 2022 will have implications for the ongoing robustness of the 2022/23 estimates and the MTFS.

In terms of homelessness, consultancy support was sought in trying to address the escalating cost and a report is presently working its way through the Advisory Board. The report identifies opportunities and changes in procedures that urgently need to be taken in order to address the financial pressures. The MTFS assumes that the recent significant increases in costs will be brought under control within the next 6 years, but if this can be addressed in an accelerated timescale as recommended by the consultant this will relieve some of the pressure that is inevitably resting on the reserves.

<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 2032 is estimated to be £7.762m based on an increase in council tax of £5 for 2022/23 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.

One of the earmarked reserves held is the ‘Tonbridge and Malling Leisure Trust Reserve’. The reserve is held to ensure the Council can meet its responsibilities in relation to the Management Agreement; including a responsibility with regard to excessive energy price increases. It is currently too early to say whether the reserve already held will be sufficient to meet those obligations during 2022/23 and accordingly no allowance has been in made in the estimates for (as yet) this unquantified liability. If the earmarked reserve is insufficient, recourse will need to be made to the General Revenue Reserve.

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 2028/29 other than by exception on a case by case basis. The Revenue Reserve for Capital Schemes balance at 31 March 2028 is estimated to be £4.195m.

A schedule of the reserves held as at 1 April 2021 and proposed utilisation of those reserves to 31 March 2023 is provided in Annex 17b.

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

The Chartered Institute of Public Finance and Accountancy Financial Management Code and Financial Resilience Index

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 by way of a self-assessment. The outcome of such an assessment using a RAG rating was reported to the 26 July 2021 Audit Committee where a green rating was assigned to all but two, rated amber, of the seventeen Financial Management Standards.

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.

There are no particular concerns to draw to Members attention from a review of the Financial Resilience Index published in January 2022. A copy of the Index (tier comparator) is attached at Annex 17c for information.

Opinion

I am of the opinion that the approach taken in developing the 2022/23 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: Sharon Shelton Date: 10 February 2022

Director of Finance and Transformation, BSc (Hons) FCPFA