‘SECTION 25’ STATEMENT
ON THE ROBUSTNESS OF THE ESTIMATES
AND THE ADEQUACY OF THE RESERVES

Introduction

This statement is given in respect of the 2024/25 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 draft Budget for 2024/25 shows a balanced position with a contribution to General Revenue Reserve being made. Details of how this has been achieved are set out in the detailed Budget report. However, beyond 2024/25 the position is projected to be very different as a result of both increasing costs and reduced external funding.

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 59% or £3.9m (from £6.6m in 2010/11 to £2.7m in 2024/25).

The fall in core funding is, in part, negated by the grant award under the New Homes Bonus (NHB) scheme and other grant income. 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 The scheme is withdrawn and not replaced or is replaced, but where the funding stream and sum awarded is much reduced (our working assumption). The future of other grant income more generally is also uncertain.

Dependent on the outcome of the yet to be concluded Fair Funding Review, what is to happen to NHB and other grant income moving forward, business rates reforms, the extent and speed of the recovery following the pandemic and the impact of the current adverse economic climate, 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 and increased business rates income to be retained will reduce from circa £9.49m in 2024/25 to £3.42m in 2027/28 before seeing a modest increase year on year thereafter~~;~~ where the latest projected funding gap between expenditure and income is **circa £1,705,000**. **Plus** the initiative already built into the

MTFS, the scaling back of office accommodation in the sum of £200,000 and reductions in the costs of Temporary Accommodation of £400,000.

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

Alongside the MTFS sits a Savings and Transformation Strategy (STS). 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. The detailed itemised plan for delivery of the savings and transformation contributions is still 'work in progress' and therefore the delivery of the STS has been recorded as RED on the Strategic Risk Register in order to ensure that this is visible and highlighted as a priority for the Council.

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 2024/25 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. Additional earmarked reserve contributions totalling £4.495m to support the Council's key priorities within the Corporate Strategy has been made via the 2024/25 Budget.
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 2024/25 is £2,665,451. The Council also received a payment for the under-indexing of the business rates multiplier of £464,291, a Services Grant of £14,648 and a funding guarantee in the sum of £2,335,834. It has been

	assumed in our financial planning that the funding guarantee will not be repeated beyond 2024/25.
New Homes Bonus	Our New Homes Bonus (NHB) for 2024/25 is £343,373 as a result of lower property completions and higher unoccupied properties at the time of assessment. 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, it is assumed retained business rates income will be above the baseline funding level 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. The Council is a member of the Kent Business Rates Pool.
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 reduce to £3.42m in 2027/28 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.
Aftermath of 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 2024/25 is 53,477.93 band D equivalents with an expectation that this will increase by 5,700 over the strategy period, or around 630 on average per year.
Local Referendums to Veto Excessive Council Tax Increases	The Secretary of State will determine a limit for council tax increases which for 2024/25 has been set at 3% or £5, whichever is higher. 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 3% in 2024/25 followed by the higher of 2% or £5 each year thereafter.

The Prudential Code and its impact on Capital Planning	Tonbridge and Malling is a debt-free authority and projections based on the current capital plan suggest that recourse to borrowing to fund capital expenditure is unlikely before 2029/30. 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. The annual capital allowance is currently set at £250,000. However, at its meeting on 5 December following receipt of a VAT 'windfall', Cabinet recommended to Full Council that a further £750,000 be added to the revenue reserve for capital schemes in 2023/24 for use in later years to allow additional approved schemes to proceed. It is proposed that the capital allowance will go back to its £250,000 in due course until 2028/29.
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 2024/25.
Interest Rates	Interest returns on the Council's 'core funds' have been set at 5.0% in 2024/25, 3.8% in 2025/26 and fluctuating between 3.25% and 3.0% thereafter. 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 £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 2024/25, we anticipate that the General Revenue Reserve balance will be £9.852m. In addition ./The Adequacy of Reserves is discussed in more detail below.
Pay and Price Inflation	The estimates provide for pay inflation of 5% in 2024/25 and 3% in 2025/26 followed by 2% each year thereafter and general price inflation of 5% in 2024/25 and 3% in 2025/26 followed by 2% each year thereafter. Exceptions include energy and the waste services contract where different indices have been applied.
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 2023 audit concluded the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Two significant weaknesses in arrangements, covering Procurement and Key Performance Indicators were identified, and improvement plans are now in place and are being monitored.
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; and the transfer of the Land Charges function to HM Land Registry 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 £1,705,000. Plus the initiative already built into the MTFS, the scaling back of office accommodation in the sum of £200,000 and reductions in the costs of Temporary Accommodation of £400,000. Beyond 2024/25, the difficult and challenging financial outlook demands a pressing and concerted focus of attention. Dependent on the outcome of the Fair Funding Review, the future of NHB and other grant income, business rates reforms, the extent and speed of the recovery following the pandemic and the impact of the current adverse

	economic climate, 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 other grant income be 'in play' and how much might we expect to receive year on year in that period?

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 current adverse economic climate most notably inflation and temporary accommodation costs for homelessness purposes.

For planning purposes it has been assumed that the current higher levels of inflation will over the next few years return to levels as prescribed by the Bank of England. If high levels of inflation persist beyond the period assumed this will have implications for the ongoing robustness of the estimates and the MTFS.

In terms of homelessness, the MTFS assumes that the recent significant increases in costs will be brought under control over the medium term, but if this can be addressed in an accelerated timescale this will relieve some of the pressure that is inevitably resting on the reserves.

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 £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
- 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
- Recruitment and retention of staff and associated capacity issues

Clearly, the minimum General Revenue Reserve balance needs to and will be kept under regular review. The General Revenue Reserve balance at 31 March 2034, the end of the 10-year MTFS, is estimated to be £6.480m based on an increase in council tax of 3% for 2024/25 with the Council working to a balanced budget.

The Budget Stabilisation Reserve was introduced in February 2020 to assist in the management of risk, assist in meeting future savings and transformation contributions and/or fund in full or in part an appropriate commercial investment opportunity. During the pandemic and the subsequent economic crisis this reserve has assisted in dealing with financial volatility.

In addition, a number of Earmarked Reserves exist to cover items that will require short-term expenditure in the near future, or have been set aside to deliver Key Priorities.

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 2029/30 other than by exception on a case by case basis. The Revenue Reserve for Capital Schemes balance at 31 March 2029 is estimated to be £5.0m.

A schedule of the reserves held as at 1 April 2023 and proposed utilisation of those reserves to 31 March 2025 is provided in Annex 16b.

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 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.

A review of the Financial Resilience Index relating to data from financial year 2021/22 identified no particular concerns. A new release of the Financial Resilience Index relating to data for the financial year 2022/23 is expected imminently but at the time of writing has not been received. Once it is received it will be published as a supplement to the agenda.

Opinion

I am of the opinion that the approach taken in developing the 2024/245 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: 13 February 2024

Director of Finance and Transformation, BSc (Hons) FCPFA