Annex 17

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

Introduction

This statement is given in respect of the 2015/16 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 spanning a ten-year period.

The Strategy 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 Strategy 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, the Council has seen its general government grant, the Settlement Funding Assessment, fall by more than £3.3m or 50% over the five-year period 2011/12 to 2015/16 with further cuts expected in future years. To date, this has to a large extent been negated by the grant award under the New Homes Bonus scheme which in 2015/16 was around £3.1m.

Our concern has always been what happens when the New Homes Bonus scheme in its current form ceases or is replaced by something else, and the potential impact on the Council’s finances.

For medium term financial planning purposes, it is assumed that there will be a phased withdrawal of the current New Homes Bonus scheme from 2016/17 onwards and that the model will be replaced with something else at a reduced level of funding for TMBC. Based on the above and an assumption about further cuts in grant funding in future years (amongst other things), latest projections point to a ‘funding gap’ between expenditure and income of circa £1.4m (council tax increase 1.99%) or £1.525m (council tax freeze) to be addressed over the medium term.

We believe our Medium Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the ‘funding gap’ will influence the timescales we afford ourselves to address the problem.

It can be seen the Council continues to face a significant financial challenge, but remains determined that the negative impact on service delivery and council tax increases are minimised, albeit some difficult choices will have to be made. Management Team have committed to bringing forward a transformation strategy to assist in delivering the savings needed.

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.

Underneath the Strategy sits detailed estimates formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures.

Factors taken into account for the 2015/16 Budget Setting Process and in developing the Strategy are:

The Council's Aims and Priorities	The current set of seven Key priorities apply to 2012/15 and the Council is in the process of preparing a new Corporate Performance Plan which will be shaped by the continuing financial pressure faced by the Council.
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 for 2015/16 is £3,678,599. This represents a cash decrease of £678,519 or 15.6% when compared to the equivalent figure of £4,357,118 in 2014/15. Included in the Settlement Funding Assessment is the parish councils' indicative allocation in respect of the council tax support scheme, however, it is not separately identified. We have assumed over the three years 2016/17 to 2018/19 that our overall government grant funding including New Homes Bonus will decrease by some £2.5m before rising by 2% each year thereafter.
New Homes Bonus	In 2011/12 the Government introduced a New Homes Bonus (NHB) scheme which would see councils receiving financial rewards for the delivery of new homes in their areas. For medium term financial planning purposes it is assumed that there will be a phased withdrawal of the current NHB scheme from 2016/17 and that the model will be replaced with something else at a reduced level of funding. Depending on how any replacement model allocates funding to individual local authorities there is a real risk that the Council could see its overall grant funding reduce by more than that currently forecast and reflected in the Medium Term Financial Strategy.
Business Rates	For medium term financial planning purposes we have assumed that the business rates baseline attributed to

	TMBC 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 £156,700 in 2015/16. This figure increases each year in line with inflation.
Council Tax Base	The recommended Council Tax Base for 2015/16 is 46,900.52 band D equivalents with an expectation that this will increase by 3,550 over the strategy period, averaging slightly fewer than 400 per year.
Local Referendums to Veto Excessive Council Tax Increases	The Secretary of State will determine a limit for council tax increases which for 2015/16 has been set at 2.0% or more including levies. 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 latest iterations of the Medium Term Financial Strategy assume for 2015/16 a 1.99% increase in council tax or council tax freeze and thereafter a 3% increase year on year.
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 2019/20. 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 £320,000 (maximum) whilst the Council has sufficient funding in its capital reserves.
Treasury Management	A Treasury Management Strategy Statement and 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 Strategy Statement and Annual Investment Strategy for 2015/16.
Interest Rates	Interest returns on the Council's 'core funds' have been set at 1.0% in 2015/16 rising gradually to 4.5% 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, Capita Services. To put this into context, 0.25 of a percentage point would currently generate investment income on our 'core funds' of about £38,500. 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.
Adequacy of Reserves	At the beginning of 2015/16, we anticipate that the General Revenue Reserve balance will be £4.8m. The Adequacy of Reserves is discussed in more detail below.
Pay and Price Inflation	The estimates provide for a 1% pay award in 2015/16 and 1.5 % in 2016/17 and 2017/18 and 2% in subsequent years. Estimates reflect price inflation of 2.5% on contractual commitments in 2015/16 and a general uplift of 2% year on year 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 Medium Term Financial Strategy 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 2014 audit concluded that the Council continues to have a strong focus on effective financial management, with a robust medium term planning framework and well established processes for budget monitoring; and there is an effective framework to address financial pressures and to deliver planned savings.
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 Corporate Governance Code based upon the requirements of the CIPFA/SOLACE Corporate Governance framework. This incorporates Risk Management and the Council has committed itself to a Risk Management Strategy involving the preparation of Risk Registers for each Service area at operational and strategic levels.
Equality Impact Assessments	Adjustments to revenue budgets where there are deemed to be equality issues 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 Initiatives / Proposals	Continued public sector finance cuts; Welfare Reform and cessation of the administration of housing benefits over a transitional period 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 business rates retention scheme; 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 medium term. Projected savings of circa £1.4m will be needed should a council tax increase for 2015/16 of 1.99% be approved. Those savings will increase to £1.525m should the council tax freeze grant be accepted. It should also be noted depending on what happens to NHB a further savings tranche/s 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. 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.

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.

- Interest Rate volatility
- Income volatility
- Change to Government Grant including New Homes Bonus
- 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 2025 is estimated to be £3.216m (council tax increase 1.99%) or £3.324m (council tax freeze) 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 2019/20. The Revenue Reserve for Capital Schemes balance at 31 March 2021 is estimated to be £1.2m.

A schedule of the reserves held by the Council at 1 April 2014 and proposed utilisation of those reserves to 31 March 2016 is provided in Annex 17 Table A (council tax increase 1.99%) and Annex 17 Table B (council tax freeze).

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 2015/16 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: 12 February 2015

Director of Finance and Transformation, BSc (Hons) CPFA