

FINANCE AND RESOURCES ADVISORY COMMITTEE
29 August 2013 at 7.00 pm

Further to the recent despatch of agenda and papers for the above meeting, please find the following item(s) which were marked as 'to follow':

7. **Financial Prospects and Budget Strategy 2014/15 and Beyond** (Pages 1 - 14)

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FINANCIAL PROSPECTS AND BUDGET STRATEGY 2014/15 AND BEYOND

Finance and Resources Advisory Committee – 29 August 2013

Report of Group Manager – Financial Services

Status: For Decision

Also considered by: Cabinet - 12 September 2013

Key Decision: No

Executive Summary: This report sets out the major financial pressures the Council is likely to face over the next ten years, together with a proposed strategy for setting a balanced and sustainable budget for 2014/15 and beyond. The Council has an excellent track record in identifying, planning for and addressing financial challenges. In light of the challenging financial position facing all authorities three years ago, for 2011/12 the Council produced a 10-year budget together with a four-year savings plan for the first time. This will be the fourth year this method has been used and provides the Council with a stable basis for future years.

Building on the considerable progress made over recent years, this report updates Members on significant risk areas as well as setting out the way forward for the budget setting process.

The overall emphasis is on building on the strong framework provided by the 10-year budget, whilst taking into account any new Government funding and policy announcements as well as changes in the economy that have an impact on budget assumptions. This report also provides Members with the proposed timetable for the budget setting process.

It is increasingly difficult to produce an accurate forecast at this stage due to the level of uncertainty being greater than ever before. The assumptions currently included take into account the latest information and are intended to start the debate. They will be updated as more accurate information becomes available during the budget setting process.

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder Cllr. Ramsay

Contact Officer(s) Adrian Rowbotham Ext. 7153

Helen Martin Ext. 7483

Lee Banks Ext. 7161

Recommendation to Finance and Resources Advisory Committee:

- (a) Advise Cabinet with views on the ten-year financial planning approach and principles set out in this report.

Recommendation to Cabinet:

- (b) That subject to the views of the Finance and Resources Advisory Committee, endorse the ten-year financial planning approach and principles set out in this report;
 - (c) request Advisory Committees to review Service Plans and advise Cabinet of possible growth and savings options;
 - (d) request officers to continue to review the assumptions in this report and report back to Cabinet on 5 December 2013; and
 - (e) note the budget timetable set out in Appendix A.
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Introduction and Background

- 1 The Council's financial strategy over the past nine years has worked towards increasing financial sustainability and it has been successful through the use of a number of strategies including:
 - implementing efficiency initiatives;
 - significantly reducing the back office function;
 - improved value for money;
 - maximising external income;
 - the movement of resources away from low priority services; and
 - an emphasis on statutory rather than non-statutory services.
- 2 Over this period the Council has focused on delivering high quality services based on Members' priorities and consultation with residents and stakeholders through the Community Plan. In financial terms, the adoption of this strategy has to date allowed the Council to move away from its reliance on general fund reserves which has ensured that the general fund reserves have remained largely unchanged.
- 3 Due to the level of funding and other potential changes and uncertainties, it is increasingly difficult to anticipate with sufficient accuracy what the level of Government settlement is likely to be after 2014/15. However, using the data sources available to the Council, this report sets out a budget deficit figure over the 10-year period but recognises that this is a constantly changing situation and more accurate data will become available in future months.
- 4 In setting its budget for 2011/12 onwards, the Council recognised the need to address both the short-term reduction in Government funding as well as the longer-term need to reduce its reliance on reserves. The outcome was a 10-year

budget, together with a four-year savings plan, that ensured the Council's finances were placed on a stable footing but that also allowed for flexibility between budget years.

- 5 The intention of this report is to enable Members to give early consideration to the pressures likely to be faced by the Council and put in place a long-term solution that ensures service reductions are minimised. This report sets out the high level approach and principles but a report to Cabinet on 5 December 2013 will provide further budget details along with analysis of the areas the Cabinet has requested officers to consider in assisting the balancing of the budget, as well as feedback from advisory committees on proposed service plans for 2014/15 onwards.

Financial Pressures 2014/15 to 2023/24

Overall Summary

- 6 In the medium term, the Council will have to progress its savings plan and maintain tight control over net expenditure in order to deliver its 10-year budget.
- 7 Looking at expenditure, inflation is running at 2.8% (CPI at July 2013). At this early stage we are anticipating the Council is likely to receive a reduction of 7% in Government Support in 2014/15 and further 18% reduction in 2015/16.
- 8 The 10-year budget attached at Appendix B shows a shortfall of £0.667m. The financial challenges and uncertainty ahead are likely to leave little flexibility over the period.
- 9 The paragraphs below set out the position in more detail and assess the impact on the current Financial Plan.

Income

- 10 **Government Support** (£3.8m in 2013/14) – The basis for allocating Government Support from 2013/14 changed to the Business Rates Retention Scheme. This scheme initially allows billing authorities, such as this council, to keep 40% of Business Rates received, however tariffs and top ups are applied to ensure that initially each local authority is not significantly affected by this change.
- 11 In the first year of this scheme, it has been assumed that this council will receive funding at the safety net level as no significant increase in the amount of Business Rates collected was expected. Future projections continue to take this prudent approach and further analysis will be completed when more information on the current years collection is available.
- 12 Provisional Government Support figures for 2014/15 were provided in February and show a 7% reduction in funding. The Government's Spending Round on 26 June 2013 announced a 10% reduction to local government funding in 2015/16. However, as certain functions provided by upper tier authorities are receiving protection, it is expected that the impact on district councils will be much more severe. The current assumption for 2015/16 is a reduction of 18%. This would mean that the Council would have seen a 5-year grant reduction of around 54%.

Agenda Item 7

- 13 There remains a significant risk to the level of funding the Council will receive from Government in future years. Since the figures published in the June spending round the Government has announced further top slices from the total local government expenditure levels, totalling £2,248m (10% of the total spend), with the greatest amount coming from New Homes Bonus as explained below. The Government has provided very little detail making it difficult to predict the likely impact on this Council. It is anticipated that the Government will clarify the impact of these announcements alongside the final local government funding levels in December this year.
- 14 **New Homes Bonus** (£1.0m) – the Government started this new funding stream in 2011/12 with the intention that local authorities would be rewarded for new homes being built over a six-year period. In the last 10-year budget, New Homes Bonus was only included for the initial period, however, it is now anticipated, based on some national groups and think tanks that this will continue for the full period of this 10-year budget. In the Government’s Spending Round, it was announced that this funding would be top sliced by 40% to help fund the Single Local Growth Fund. This adjustment has been made to the assumptions for 2015/16 and 2016/17 with the same assumption in later years.
- 15 **Council Tax** (£8.7m) – The change from Council Tax Benefit to Council Tax Support from 1 April 2013 reduced the Council Tax base and therefore reduced Council Tax income.
- 16 The assumptions for Council Tax which were approved by Council on 19 February 2013 were for an increase of 3% in 2014/15 and 4% in later years. The Government referendum limit was set at 2% in 2013/14 and this will continue until 2015/16. The assumptions in the 10-year budget attached have therefore been reduced to 2% for 2014/15 to 2015/16 and 3% for later years.
- 17 It has also been assumed that there will be an increase to the tax base each year resulting in additional Council Tax income. This is due to the changes made earlier this year to Council Tax discounts, additional work to check Single Person Discount entitlements, the general increase in the number of residential properties and future developments.
- 18 **Investment income** (£0.2m) – returns are continuing to be significantly lower than they were a few years ago due to low interest rates and the revision of the Council’s current Investment Strategy towards a low risk approach. It is certain that the Council’s reserves will continue to fall due to their use in the 10-year budget; so as a consequence, investment income will continue to reduce. The latest assumption is for the following returns: 0.8% in 2014/15, 1.2% in 2015/16 and 1.3% in later years based on the Bank Rate estimates provided by our treasury advisors.
- 19 **Variable income sources** – The Council receives income in fees and charges from a number of sources. This includes (income figures are shown gross):
- Land Charges (£0.2m);
 - Development Control (£0.7m);

- Building Control (£0.5m); and
 - Car parks (£2.0m);
 - On-street parking (£0.8m)
- 20 The first three are linked to some extent to activity in the housing market and remain vulnerable; however, they are all slightly above budget at 31 July 2013.
- 21 Despite the current economic conditions on-street parking income is currently slightly above budgeted levels but off-street parking income is currently slightly below budget. Any future on-street parking increases will need to be contained within inflation levels.
- 22 **External Funding** (£0.6m) - the Council has been very successful in securing external funding across a range of services, based on it delivering a wide range of innovative services, often in partnership with other agencies, to local residents. The Council's officers continue to seek new opportunities for funding. As financial constraints are put on public services the funding available from health and other public bodies is expected to reduce.
- 23 **Partnership working** - Various services have included savings from partnership working in recent years budgets and this continues to be an area that is being investigated. The Council successfully works in partnership with other authorities in a number of areas, including Revenues, Benefits, Internal Audit and Anti Fraud, Finance, IT, Licensing and Environmental Health. Further partnership working ideas will continue to be investigated but opportunities are becoming limited.
- 24 **Use of reserves** - One of the principles of the Financial Strategy is to make more effective use of the remaining earmarked reserves. When this strategy was first used in 2011/12, it was agreed that the remaining balances in the Asset Maintenance and Superannuation Fund Deficit Reserves would be moved to a new Financial Plan Reserve and used over the initial 10-year budget period. The Budget Stabilisation Reserve was also set up at the same time to manage the fluctuations between years to ensure that an overall balanced budget remained for the 10-year period. This reserve has been increased by surpluses achieved on the revenue budget since 2009/10. The surpluses were mainly due to over £2.7m being received for VAT refunds.

Expenditure

- 25 **Pay** costs total £13m. The nationally agreed 2013/14 pay award has recently been finalised at 1%. The 10-year budget assumes the pay award for 2014/15 to 2015/16 will also be 1%; 1.5% in 2016/17 to 2017/18 and 2% in later years.
- 26 **Superannuation fund** - the last pension fund triennial valuation, which was the first by the new actuaries Barnett Waddingham, took place in November 2010 and showed a significant improvement compared to the previous valuation. This was better than predicted but the full impact was not built in to the 10-year budget due to the threat that the next valuation could be worse. It is proposed to use the reserve that has built up since 2011/12 to extend the Financial Plan Reserve for two years until 2023/24. The next triennial valuation is due in November 2013.

Agenda Item 7

- 27 ***Non-pay costs*** – the budget assumes non-pay costs will increase by an average of 3% in 2014/15 and 2.25% in later years. In practice, items such as rates and energy costs have risen at a higher rate, so other non-pay items have been allowed a much lower inflation increase. Inflation is currently at 2.8% (CPI – July 2013). It will be challenging to contain the inflation on current services within these levels.
- 28 ***Welfare reform changes*** - the changes affecting Housing Benefits regarding Universal Credit were looked at by a Member Scrutiny Group last year. It is uncertain how the final scheme will operate, whether staffing and funding levels will reduce, the timescales involved and whether this Council will need to provide additional resources to support our residents. The change to the Local Council Tax Support Scheme from 1 April 2013 was seen by many as one of the biggest changes to local government since the community charge. In the current economic climate, the cost of benefits will continue to increase and the impact on district councils both financially and from a social wellbeing perspective is likely to be significant and unsustainable. The full effect of both of these changes will potentially have an adverse financial impact.
- 29 ***Unavoidable service pressures*** - One of the lessons to be learnt from previous financial strategies is that there is always a likelihood of unavoidable service pressures and there needs to be a clear strategy in dealing with these. The model does not allow for unavoidable service pressures which could be significant. These will be identified in the Service Plan stage of the budget process.
- 30 ***Progress on the 4 year savings plan*** – 2014/15 will be the fourth year of using the 10-year budget. The current savings plan includes 84 items and some of those contain a significant element of risk. The majority of these savings have already been achieved and Portfolio Holders, Management Team and Heads of Service have worked closely to deliver these savings.

- 31 The following table shows the differences between the 10-year budget agreed by Council on 19 February 2013 and the latest version set out in Appendix B.

10-Year Budget	£m
Previous 10-year Budget (surplus)	(0.6)
Changes:	
10-year budget rolled on by one year	0.6
Pay inflation: reduction	(2.6)
Other costs inflation: increased	2.1
Government support: reduction	4.8
New Homes Bonus: extend to 23/24	(6.5)
Council Tax: reduction	7.0
Council Tax: increased tax base	(3.3)
Superannuation Fund Reserve: use to extend Financial Plan Reserve for two years until 23/24	(0.8)
Revised budget gap	0.7

Proposed Business and Financial Planning Strategy

- 32 In order to maintain a viable Council that continues to deliver on its main priorities and the services it provides to its residents, the Council has already adopted a Financial Strategy that embraces the following principles:
- A ten-year balanced budget;
 - Flexible use of the Budget Stabilisation Reserve;
 - More effective use of remaining earmarked reserves;
 - Structured use of capital receipts; and
 - The review and tighter management of inflationary pressures.
- 33 It is recommended that this strategy continues to be adopted.

External Audit

- 34 Our external auditor made the following comment in the Value for Money section of his most recent Annual Governance Report.

“The quality of financial governance and leadership within an organisation is critical in meeting the financial management challenges and for securing financial

Agenda Item 7

resilience. Although good basic systems, controls and processes are important, it is the overall financial culture that makes the difference. Sevenoaks District Council has a strong culture of financial leadership provided by experienced and knowledgeable officers who have been able to respond to the scale of financial challenges arising from cuts in government funding.

The Authority's financial planning and modelling extends over the long term, which allows it to take decisions in a planned way, allowing for the lead-in time that is necessary in implementing organisational change."

Process and timetable

- 35 Members will note from the timetable set out in Appendix A that this report has also been considered by the Finance and Resources Advisory Committee at its meeting on 29 August 2013 and any comments will be considered at this meeting. All Advisory Committees will be presented with their Service Plans and Service Change Impact Assessments (SCIAs) in October and November when they may be asked to come up with savings proposals for their areas. Cabinet will receive a Budget Update report on 5 December 2013 taking into account any updated information and feedback from the Advisory Committees. Cabinet will agree its final budget on 6 February 2014 and full Council will consider the budget on 18 February 2014.

Consultation

- 36 Residents will be consulted on the suggestions for budget changes put forward by the Advisory Committees. Their views will then be considered prior to decisions being made as to how the budget will be balanced.

Key Implications

Financial

All financial implications are covered elsewhere in this report.

Legal Implications and Risk Assessment Statement.

There are no legal implications.

An effective integrated policy and priority driven long-term financial and business process is required for the Council to deliver on its priorities and maintain a sustainable budget. It is also essential that continuous improvements are identified and implemented in order to take account of the changing climate within which the Council operates and to meet the expectations of both Government and the public on the quality of service demanded from this Council.

The risks associated with the 10-year budget approach include uncertainty around the level of shortfall and the timing of key announcements such as future grant settlements. The risk will be mitigated by continuing to review assumptions and estimates and by updating Members throughout the process.

Community Impact and Outcomes

Members’ early consideration of the issues raised in this report would be beneficial to residents in that a planned approach to achieving a balanced budget should produce the best outcome for the community in limiting the level in budget reductions.

Equality Impacts

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	Not at this stage of the Budget Setting process.	Individual equalities assessments will be completed for all of the Service Change Impact Assessments (SCIAs) to ensure the decision making process is fair and transparent.
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Conclusions

There is no doubt that there are a number of risks associated with this approach, including significant cost pressures that may destabilise the ten-year budget. However, by adopting this approach, many of these will be predictable and more importantly, the Council will be better placed to react to such events. This solution also allows the Council a little more stability and sustainability in delivering its services and dealing with its finances.

The Strategic Financial and Business Planning process has ensured that the Council follows a logical and well considered process and approach in dealing with the many difficult financial challenges which it has faced. The 10-year budget has further improved this process and helped to ensure that the Council is well placed in dealing with more immediate and longer-term financial challenges.

Looking at the medium term, although the Council has made considerable savings in previous years, it is possible that additional savings will be required to meet the expected pressures explained earlier in the report and also for potential growth items. Changes in grant distribution methodology and welfare reform changes are two major factors that are likely to have a significant impact on the Council

The level of Government support this Council is likely to receive in the next two years and beyond remains very uncertain as the Government continues to announce changes to the funding given to local authorities generally. These announcements contain very little detail that makes it very difficult to predict the impact on this Council. The level of

Agenda Item 7

Government support is more uncertain than it has ever been as the position has never shifted as much or as frequently in the past.

This budget process will once again be a major financial challenge for a Council that already provides value for money services to a high standard. In making any budget proposals, Members will need to consider the impact on service quality and staff well-being, to ensure that these proposals lead to an achievable 10-year budget that supports the Council's aspirations for customer-focused services.

Appendices

Appendix A – Budget Timetable

Appendix B – 10-year Budget

Background Papers:

None

Adrian Rowbotham

Group Manager – Financial Services

2014/15 Budget Setting Timetable

	Date	Committee
Stage 1		
Financial Prospects and Budget Strategy 2014/15 and Beyond	29 August	Finance & Resources AC
	12 September	Cabinet
↓		
Stage 2		
Review of Service Plans and Service Change Impact Assessments (SCIAs)	8 October	Strategy & Performance AC
	15 October	Housing & Comm. Safety AC
	24 October	Economic & Comm. Dev. AC
	12 November	Finance & Resources AC
	19 November	Local Planning & Env. AC
↓		
Stage 3		
Budget Update (incl. Service Change Impact Assessments (SCIAs), feedback from Advisory Committees & Other Consultation)	5 December	Cabinet
↓		
Stage 4		
Budget Update and further review of Service Change Impact Assessments (if required)	January	Advisory Committees
↓		
Stage 5		
Budget Setting Meeting (Recommendations to Council)	6 February	Cabinet
↓		
Stage 6		
Budget Setting Meeting (incl. Council Tax setting)	18 February	Council

Note: The Scrutiny Committee may 'call in' items concerning the budget setting process.

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Ten Year Budget - Revenue

	Budget 2013/14	Plan 2014/15	Plan 2015/16	Plan 2016/17	Plan 2017/18	Plan 2018/19	Plan 2019/20	Plan 2020/21	Plan 2021/22	Plan 2022/23	Plan 2023/24
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Expenditure											
Net Service Expenditure c/f	13,443	13,800	14,709	15,125	15,537	15,932	16,260	16,700	17,136	17,549	17,963
Inflation	621	488	533	555	558	629	626	623	413	414	416
Superannuation Fund deficit: actuarial increase	0	520	0	0	0	0	0	0	0	0	0
Net savings (approved in previous years)	(404)	(119)	(117)	(143)	(162)	(301)	(186)	(187)	0	0	0
New growth and savings	140	20	0	0	0	0	0	0	0	0	0
Net Service Expenditure b/f	13,800	14,709	15,125	15,537	15,932	16,260	16,700	17,136	17,549	17,963	18,379
Financing Sources											
Government Support (1)	(3,788)	(3,542)	(2,904)	(2,841)	(2,814)	(2,898)	(2,985)	(3,075)	(3,167)	(3,262)	(3,360)
New Homes Bonus	(976)	(1,276)	(946)	(1,126)	(1,126)	(1,126)	(1,126)	(1,126)	(1,126)	(1,126)	(1,126)
Govt Support - to be passed on to Towns/Parishes	(274)	(279)	(285)	(294)	(303)	(312)	(321)	(331)	(341)	(351)	(362)
Govt Support - passed on to Towns/Parishes	274	279	285	294	303	312	321	331	341	351	362
Council Tax	(8,728)	(8,955)	(9,188)	(9,519)	(9,861)	(10,216)	(10,582)	(10,962)	(11,355)	(11,762)	(12,183)
Council Tax Support grant	(734)	(749)	(764)	(747)	(740)	(762)	(785)	(809)	(833)	(858)	(884)
Interest Receipts	(229)	(234)	(356)	(375)	(351)	(317)	(286)	(260)	(239)	(221)	(221)
Contributions to Reserves	787	418	418	418	298	298	298	298	298	298	298
Contributions from Reserves	(795)	(580)	(580)	(580)	(580)	(580)	(580)	(580)	(580)	(405)	(405)
Total Financing	(14,463)	(14,918)	(14,320)	(147,770)	(15,174)	(15,601)	(16,046)	(16,514)	(17,002)	(17,336)	(17,881)
Budget Gap (surplus)/deficit	(663)	(209)	805	767	758	659	654	622	547	628	499
Contribution to/(from) Stabilisation Reserve	663	209	(805)	(767)	(758)	(659)	(654)	(622)	(547)	(628)	(499)
Unfunded Budget Gap (surplus)/deficit	0	0	0	0	0	0	0	0	0	0	0

Remaining balance / (shortfall) in Budget Stabilisation reserve:

4,703 5,033 4,348 3,702 2,943 2,284 1,630 1,007 460 (168) (667)

Assumptions	
Government Support:	-7% in 14/15, -18% in 15/16, -2% in 16/17, -1% in 17/18, +3% later years
Council Tax:	2% in 14/15 - 15/16, 3% later years
Interest Receipts:	0.8% in 14/15, 1.2% in 15/16, 1.3% later years (based on Sector Bank Rate forecast + 0.3%)
Pay award:	1% in 14/15 - 15/16, 1.5% in 16/17 - 17/18, 2% later years
Other costs:	3% in 14/15, 2.25% later years
Income:	3.5% in all years
Note 1	Government Support includes Council Tax Freeze Grants

To continue to have a balanced budget, permanent savings of £67,000 starting in 2014/15 would be required, or £74,000 from 2015/16

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