

BUDGET AND COUNCIL TAX SETTING 2016/17

Cabinet - 4 February 2016

Report of Chief Finance Officer

Status: For Decision

Also considered by: Council - 16 February 2016

Key Decision: No

Executive Summary: 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 five years ago, for 2011/12 the Council produced a 10-year budget together with a savings plan for the first time. This will be the sixth year this method has been used and provides the Council with a stable basis for future years.

This report sets out the proposed budget and required level of Council Tax for 2016/17. The report details changes to the draft budget since the Cabinet meeting on 14 January 2016.

The report proposes a net expenditure budget of £13.689m in 2016/17 (£14.253m in 2015/16). Subject to any further changes this would result in a Council Tax increase of 1.96% in 2016/17, with the District's Council Tax being £196.65 for a Band D property for the year (£192.87 in 2015/16).

The report also contains details of the precepts received from other authorities; the Collection Fund position and an opinion on the robustness of the budget and the adequacy of the reserves.

Portfolio Holder Cllr. Searles

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Recommendation to Cabinet:

That recommendations (a) to (d) set out below be recommended to Council.

Recommendation to Council:

- (a) The Summary of Council Expenditure and Council Tax for 2016/17 set out in Appendix E be approved.
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- (b) Approve the 10-year budget 2016/17 to 2025/26 which is the guiding framework for the detailed approval of future years' budgets set out in Appendix B to the report, including the growth and savings proposals set out in Appendix C-D to the report, and that where possible any variations during and between years be met from the Budget Stabilisation Reserve: and
- (c) The changes to reserves and provisions set out in Appendix H be approved.
- (d) Members' views are sought on the issue of Council Tax Support funding for Town and Parish Councils and one of the following options be approved:
- i. No funding is passed to Town and Parish Councils for Council Tax Support in 2016/17;
 - ii. An amount of funding is passed to Town and Parish Councils for Council Tax Support in 2016/17 equivalent to the amount passed on in 2013/14 less 78% (the Council's reduction in Revenue Support Grant);
 - iii. A different amount is passed to Town and Parish Councils for Council Tax Support in 2016/17.
- (e) Due to there length and complexity, the further recommendations have been produced as a separate document (Appendix L).
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Introduction and Background

- 1 The Council's financial strategy over the past eleven 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;
 - improving 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. In financial terms, the adoption of this strategy has to date allowed the Council to move away from its reliance on general fund reserves.
- 3 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.

- 4 With the amount of Revenue Support Grant provided by Government continuing to reduce at a significant rate it is important that the council aims to become more financially self-sufficient by having a balanced economy and a financial strategy that is focused on local solutions. These solutions include:
 - continuing to deliver financial savings and service efficiencies;
 - growing the council tax base; and
 - generating more income.
- 5 Local Government generally appears to be feeling the impacts of the Government funding reductions and the recession. However, productivity and morale within this Council remain high which has a positive impact on the financial bottom line.
- 6 At the Cabinet meeting on 17 September 2015, Members considered a report setting out the Council's financial prospects for 2016/17 and beyond. That report set out the major financial pressures the Council is likely to face, together with a proposed strategy for setting a balanced and sustainable budget for 2016/17 and beyond.
- 7 As part of the budget process officers put forward their Service Dashboards to the Advisory Committees between September and November, which set out a summary of current and future challenges and risks. The Advisory Committees recommended new growth and savings items which were considered at the Cabinet meeting on 3 December 2015.
- 8 The report to Cabinet on 3 December 2015 also contained updates to the Financial Prospects report. An update report was presented to Cabinet on 14 January 2016 following the announcement of the Provisional Local Government Finance Settlement.
- 9 The adoption of the 10-year budget over the last five years has resulted in a much more stable budget position than had previously been achieved.
- 10 This report includes a number of attachments:
 - Appendix A - Budget timetable
 - Appendix B - 10-year budget;
 - Appendix C - Summary of the Council's agreed savings and growth items;
 - Appendix D - Summary of new growth and savings items proposed during the current budget process;

- Appendix E - Summary of Council Expenditure and Council Tax;
- Appendix F - Summary of service analysis in budget book format;
- Appendix G - Analysis of pay costs;
- Appendix H - Reserves
- Appendix I - Risk analysis;
- Appendix J - Latest information on precepting authorities (only in Council report)
- Appendix K - Town and Parish Council precepts and council tax rates (only in Council report)
- Appendix L - Council tax setting recommendations (only in Council report)
- Appendix M - Council tax rates across the district (only in Council report)

Financial Self-Sufficiency

- 11 The Council's Corporate Plan, introduced in 2013, set out an ambition for the Council to become financially self-sufficient. This would mean the Council no longer required direct funding from Government, through Revenue Support Grant or New Homes Bonus, to deliver its services.
- 12 The decision to become financially self-sufficient is intended to give the Council greater control over its services, reducing the potential for decision making to be influenced by the level of funding provided by government to local authorities.
- 13 The attached 10-year budget assumes no Revenue Support Grant or New Homes Bonus from 2016/17 but does incorporate income from the Property Investment Strategy including the development of Sennocke and Bradbourne car parks.
- 14 It is intended that any funding received from Revenue Support Grant and New Homes Bonus will be put into the Financial Plan Reserve which can be used to support the 10-year budget by funding 'invest to save' initiatives and to support the Property Investment Strategy. One of the aims of the Property Investment Strategy is to achieve returns of 6%; therefore using funding for this purpose will result in additional year on year income that is not impacted by Government decisions.
- 15 Cabinet are keen to become financially self-sufficient early so that the Council is better able to anticipate and shape change, and place the Council on a stronger footing going forward. After making these changes, it is achievable to be free from Government control and be able to move ahead

in the knowledge that this Council has the financial resources to provide the services that the district's residents want into the future.

Government Funding

- 16 ***The Provisional Local Government Finance Settlement*** for 2016/17 was announced on 17 December 2015 together with indicative figures for 2017/18 to 2019/20. The level of reduction was much larger and faster than had been predicted by experts. This was discussed by Cabinet on 14 January.
- 17 The Settlement included an amount of £632,791 for 2016/17 which is 61% lower than the amount received for 2015/16.
- 18 The indicative figures show that this Council is expected to receive no Revenue Support Grant (RSG) in any year after 2016/17 and in addition a 'tariff adjustment' has been included for the first time. Fourteen other district councils have also been affected in the same way from 2017/18 and many others in the following two years. This 'tariff adjustment' is in effect a negative RSG.
- 19 This dramatic reduction and by including a 'tariff adjustment' for the first time will have a major impact on district councils and it brings into question whether all local authorities will be able to survive in their current format.
- 20 The Council Leader and Leaders from two of the other fourteen other district councils initially affected, met Greg Clark MP, Secretary of State for Communities and Local Government on 4 January 2016 to discuss the Provisional Settlement and in particular the impact of the new 'tariff adjustment'.
- 21 The provisional settlement included a consultation document, with a deadline of 15 January 2016, which this council has responded to. It is expected that the Government will issue a Final Local Government Finance Settlement for 2016/17 on 11 February 2016 and any changes that impact Sevenoaks District Council will be reported at the Council meeting.
- 22 As the figures for 2017/18 to 2019/20 are only indicative at this time, they have not been incorporated into the attached 10-year budget. Early indications suggest that a resolution will be found that removes the need for a 'tariff adjustment' before the provisional settlement figures are provided for these years. Should the 'tariff adjustment' amounts remain, one option would be to use New Homes Bonus income to offset this loss. However, if this approach was taken, less would be transferred into the Financial Plan Reserve to support the Property Investment Strategy.

Council Tax Support Funding for Town and Parish Councils

- 23 The Government introduced a change from Council Tax Benefit (CTB) to Council Tax Support (CTS) from 1 April 2013. CTB was fully reimbursed by Government but CTS is a Council Tax Discount (similar to the Single Person

Discount) and local authorities now only receive the amount of Council Tax they collect.

- 24 To partly offset this, the Government gave a grant to Major Precepting Authorities (i.e. Sevenoaks District Council, Kent County Council, Fire and Police) in 2013/14 amounting to 90% of the CTB they had received in 2012/13. Town and Parish Councils were initially excluded from this but the Government later changed their mind and allocated an additional identifiable grant to billing authorities to pass on to Town and Parish Councils.
- 25 When allocating this additional grant for 2013/14, the Government pointed out that this may not continue in future years. Officers advised Town and Parish Councils that in view of the information published by Government it could not be certain that this additional funding would be paid in future years. This resulted in many Town and Parish Councils increasing their Council Tax Precept (as Town and Parish Councils do not have a referendum limit like Major Precepting Authorities) to offset the future likely loss of this funding stream.
- 26 When the Government announce the funding settlement each year they can show funding in the following three ways:
 - a. Ring-fence an amount so that it has to be spent on a specific purpose or it has to be returned.
 - b. Highlight an amount for a specific purpose using a separate formula; this does not have to be spent on the specific purpose.
 - c. Revenue Support Grant - a formula based grant that can be used for any legal purpose.
- 27 In 2013/14 the additional funding for Town and Parish Councils was shown as a (b), in 2014/15, 2015/16 and 2016/17 it is within (c) and no specific amount for this purpose is shown.
- 28 Governments have treated other funding in a similar way in the past, e.g. Concessionary Fares, when funding was initially separately identified but was later included within the Revenue Support Grant.
- 29 As the additional funding for Town and Parish Councils was clearly identified in 2013/14, Sevenoaks District Council was early to commit to pay the full amount.
- 30 Officers have continued to inform Town and Parish Councils that if this additional funding could not be clearly identified in the grant settlement, it is likely that nothing would be passed on to Town and Parish Councils.
- 31 A report was presented to Council on 13 May 2014 requesting that members approve one of three options for 2014/15. Members decided not to pass on any funding to Town and Parish Councils for Council Tax Support in 2014/15. Members made the same decision for 2015/16.

- 32 Council Members' views are sought for 2016/17 and are asked to approve one of the following three options:
- i. No funding is passed to Town and Parish Councils for Council Tax Support in 2016/17;
 - ii. An amount of funding is passed to Town and Parish Councils for Council Tax Support in 2016/17 equivalent to the amount passed on in 2013/14 less 78% (the Council's reduction in Revenue Support Grant);
 - iii. A different amount is passed to Town and Parish Councils for Council Tax Support in 2016/17.
- 33 The Provisional Local Government Finance Settlement announced on 17 December 2015 once again did not include a separate amount for major preceptors or Town and Parish Councils therefore the assumption in the 10-year budget remains that no funding will be passed on.
- 34 Members may wish to note that in the first year of the Council Tax Support Scheme an amount of £1.008m was included within the Revenue Support Grant (RSG) for this purpose. The total RSG for 2016/17 is only £632,791. If a proportion of the RSG is passed on to Town and Parish Councils, further savings would be required to continue to have a balanced 10-year budget.

Collection Fund Surplus/Deficit Calculation

- 35 Rules governing the operation of the collection fund require the Council to make an estimate on 15 January (or the next working day) each year of the fund's likely difference at the end of the current financial year, in respect of council tax transactions. The amount so estimated is to be shared between the District Council, County Council, Fire and Police in proportion to their precepts on the collection fund. Each authority's share is to be taken into account by the authority in calculating its council tax for the year following the year in which the surplus or deficit has been estimated.
- 36 The actual surplus balance on the collection fund at 31 March 2015 was £299,145. The actual balance is very small in the context of the gross council tax collectible during 2014/15 of £74m.
- 37 The calculation at 15 January 2016 estimates a surplus balance on the collection fund at 31 March 2016. This is based on the tax bills issued for the year, current collection performance and the level of bad debt provision held.
- 38 The overall estimated surplus balance at 31 March 2016 is £1.968m, of which this Council's share is £333,000. This has come about following a review of the bad debt provision now that the council tax support scheme (which replaced council tax benefit) has been operating for two years.

Current Budget Position

- 39 The only changes to the budget since 14 January 2015 are the Collection Fund Surplus of £333,000 as explained earlier, and the use of this amount to increase the Corporate Project Support Reserve (see Appendix H).
- 40 Included in the 10-year budget is an additional £100,000 of income per annum from 2017/18. If this cannot be achieved via income, further savings would be required.
- 41 The 10-year budget (Appendix B) shows a fully funded 10-year position. By continuing to use the 10-year budget strategy, this council remains in a strong position going forward.

2016/17 Budget and Council Tax

- 42 After allowing for the growth and savings agreed and the key changes made during this budget process, the resulting net expenditure for 2016/17 is £13.689m. As shown in Appendix E this results in Council Tax income of £9.615m, meaning that the District element of the Band D charge will be £196.65.
- 43 When the other preceptors announce their increases, details will be included in Appendix J.

Integration with other budget reports on the Cabinet Agenda

- 44 A report on the Treasury Management Strategy is being presented to Cabinet and Council and a report setting out the Capital Programme and Asset Maintenance proposals is being presented to Cabinet. The attached revenue budgets take into account the recommendations and revenue implications set out in those reports.

Opinion under the Local Government Act 2003 (LGA 2003)

- 45 Under the LGA 2003 the Statutory Finance Officer (Chief Executive) is required to give Members an opinion on the robustness of the budget estimates and the adequacy of reserves.
- 46 In terms of the robustness of the budget, the following sources of assurance were taken into account:
- The Strategic Business and Financial Planning process used for the 2016/17 budget.
 - The Financial Strategy, including a 10-year Budget, clear financial objectives, sensitivity analysis and the savings package.
 - Growth and savings suggestions proposed.

- The strong financial control structure and effective performance management within the Council, confirmed by feedback from external auditors.
- Clear budget responsibilities at individual officer level.
- Effective monitoring regime giving early notification of potential financial issues through the use of the Finance Advisory Committee.
- Effective Internal/External audit system, with risk-based audits, reporting through the Audit Committee.
- Set aside of earmarked funds for potential liabilities in the medium term.
- Effective strategic and operational risk management.

47 As is the case every year, inevitably there are a number of risk factors within the 2016/17 budget proposals; these are set out in some detail in Appendix I. This Appendix was also considered by the Finance Advisory Committee on 25 January 2016. Some of the more significant items are set out below.

a) Pay costs

Pay costs are budgeted on 100% basis, with a 1% inflationary pay award assumption included and with a separate vacancy saving target. With controls over the appointment of any staff and monitoring of staff numbers as well as costs, pay costs are subject to a high level of control.

b) Income

In-depth monitoring of income budgets will continue throughout the year and will be given regular consideration by the Finance Advisory Committee.

c) Pensions funding

The next actuarial valuation will take effect from 2017/18.

d) Investment receipts

Interest receipts have remained low in 2015/16 and are not expected to increase in the near future. The Treasury Management Strategy will be kept under review and brought back to Members for consideration as necessary during the year. The proposed Strategy for 2016/17 is reported separately on this Agenda.

e) Capital investment

Property Investment Strategy income is now included in the 10-year budget. Members are assured that any property acquisitions will be

supported by a thorough business case and approved by the relevant Portfolio Holders.

f) Growth

The 10-year budget has no allowance for growth as it is anticipated that where possible this will be met through additional savings or the Budget Stabilisation Reserve.

- 48 Members will recognise that budget risk cannot be avoided completely. However, the structures already in place and the actions being put in place should ensure that next year's overall revenue spend figure is achieved, particularly through the Council's flexible approach to budgeting allowing the risk areas to be compensated by those that are underspent or over achieve on income.

Adequacy of Reserves

- 49 Ensuring the adequacy and sustainability of the Council's reserves continues to be a key part of the budget process. Individual balances have been reviewed as part of writing this report and the detailed work is set out in Appendix H. This review should ensure that all provisions and earmarked reserves are adequate for their purposes.
- 50 It is recommended that the Council hold a minimum General Fund reserve balance of 10% of its net Revenue Budget, for emergencies.
- 51 The strong formal advice of the Section 151 officer to the Council is that every effort must be made to achieve the agreed savings plan in order to ensure financial sustainability and preserve the level of reserves for future commitments. The Council should avoid, at all costs, the General Fund Reserve balance reducing below 10% of its Net Service Expenditure (for 2016/17 this equates to £1.4m).

Referendums relating to council tax increases

- 52 Section 72 of the Localism Act 2011 inserted Section 52ZB into the Local Government Finance Act 1992. This sets out the duty on local authorities, fire authorities and Police and Crime Commissioners (PCCs) to each determine whether the amount of council tax they plan to raise for a financial year is excessive. If an authority's relevant basic amount of council tax is excessive, the provisions in relation to the duty to hold a referendum apply.
- 53 The Secretary of State has published draft thresholds in relation to 2016/17 council tax levels. The Government proposes to set a threshold of 4% for local authorities with social care responsibilities and 2% for district councils, PCCs, fire authorities and the Greater London Authority. Districts and PCCs whose council tax level is in the lowest quartile of their type of authority may raise council tax by up to £5.00 on a band D bill (which may be a greater rise than 2%). Sevenoaks is not one of these authorities. As in

previous years, no equivalent principles are being proposed for Town and Parish Councils.

Key Implications

Financial

All financial implications are covered elsewhere in this report.

Legal Implications and Risk Assessment Statement.

There are no legal implications.

For the effective management of our resources and in order to achieve a sustainable budget it is essential that all service cost changes and risks are identified and considered. The budget risk analysis is included as Appendix I.

Current and future pressures were included in the Service Overviews presented to the Advisory Committees and each Service Change Impact Assessment (SCIA) included the likely impacts including a risk analysis.

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.

The Council has in place a number of specific reserves and provisions to address identified risks.

Equality Assessment

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to (i) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010, (ii) advance equality of opportunity between people from different groups, and (iii) foster good relations between people from different groups.

Individual equalities assessments have been completed for all Service Change Impact Assessments (SCIAs) to ensure the decision making process is fair and transparent. These were included in the Draft Budget 2016/17 report to Cabinet on 3 December 2015.

Community Impact and Outcomes

In making any budget proposals, Members need to consider the impact on customers, service quality and staff well-being, to ensure that the budget supports the Council's aspirations for customer-focused services.

Conclusions

The budget process has once again been a major financial challenge for a council that already provides value for money services to a high standard. The 10-year budget shows a fully funded position over the whole period which keeps this council in a strong position going forward.

The future financial prospects for the public sector are increasingly difficult, with the added uncertainty of the pending elections. However, this budget ensures the Council is in a financially sustainable position but it will be reviewed when changes resulting from the elections are known.

If the council tax resolution attached in Appendix L is approved, the Sevenoaks District Council element of the band D council tax will be £196.65.

Appendices

Appendix A - Budget timetable

Appendix B - 10-year budget

Appendix C - Summary of the Council's agreed savings and growth items

Appendix D - Summary of new growth and savings items proposed during the current budget process

Appendix E - Summary of Council Expenditure and Council Tax

Appendix F - Summary of service analysis in budget book format

Appendix G - Analysis of pay costs

Appendix H - Reserves

Appendix I - Risk analysis (also being considered by Finance Advisory Committee on 25 February 2016)

Appendix J - Latest information on precepting authorities (only in Council report)

Appendix K - Town and Parish Council precepts

and council tax rates (only in Council report)

Appendix L - Council tax setting
recommendations (only in Council report)

Appendix M - Council tax rates across the district
(only in Council report)

Background Papers:

Report to Council 17 February 2015 - Budget and
Council Tax Setting 2015/16

Report to Cabinet 17 September 2015 - Financial
Prospects and Budget Strategy 2016/17 and
Beyond

Report to Housing and Health Advisory
Committee 22 September 2015, Economic and
Community Development Advisory Committee 24
September 2015, Direct and Trading Advisory
Committee 6 October 2015, Legal and
Democratic Services Advisory Committee 8
October 2015, Planning Advisory Committee 13
October 2015, Finance Advisory Committee 17
November 2015, Policy and Performance Advisory
Committee 26 November 2015 - Budget 2016/17:
Review of Service Dashboards and Service Change
Impact Assessments (SCIAs)

Report to Cabinet 3 December 2015 - Draft
Budget 2016/17

Report to Cabinet 14 January 2016 - Draft Budget
2016/17 Update

**Adrian Rowbotham
Chief Finance Officer**