

BUDGET AND COUNCIL TAX SETTING 2017/18

Council - 21 February 2017

Report of Chief Finance Officer

Status: For Decision

Also considered by: Cabinet - 9 February 2017

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 six 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 seventh 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 2017/18.

The report proposes a net expenditure budget of £14.470m in 2017/18 (£13.689m in 2016/17). Subject to any further changes this would result in a Council Tax increase of 2.5% in 2017/18, with the District's Council Tax being £202.77 for a Band D property for the year (£197.82 in 2016/17).

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. John Scholey

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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 2017/18 set out in Appendix E be approved.

(b) Approve the 10-year budget 2017/18 to 2026/27 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) Approve the Capital Programme 2017/20 and funding method set out in Appendix H.
- (d) Approve the changes to reserves and provisions set out in Appendix I.
- (e) Due to their length and complexity, the further recommendations have been produced as a separate document (Appendix M).

Introduction and Background

- 1 The Council's financial strategy over the past twelve 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 remains 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 At the Cabinet meeting on 15 September 2016, Members considered a report setting out the Council's financial prospects for 2017/18 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 2017/18 and beyond.
- 6 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 1 December 2016.
- 7 The report to Cabinet on 1 December 2016 also contained updates to the Financial Prospects report. An update report was presented to Cabinet on 23 January 2017 following the announcement of the Provisional Local Government Finance Settlement.
- 8 The adoption of the 10-year budget over the last six years has resulted in a much more stable budget position than had previously been achieved.
- 9 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 - Capital Programme 2017-20
 - Appendix I - Reserves
 - Appendix J - Risk analysis;
 - Appendix K - Latest information on precepting authorities (only in Council report)
 - Appendix L - Town and Parish Council precepts and council tax rates (only in Council report)

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

Financial Self-Sufficiency

- 10 The Council's Corporate Plan, introduced in 2013, set out an ambition for the Council to become financially self-sufficient which was achieved in 2016/17. This means that the Council no longer requires direct funding from Government, through Revenue Support Grant or New Homes Bonus, to deliver its services.
- 11 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.
- 12 This approach was adopted in response to the financial challenges the Country is faced with in bringing its public spending down to ensure it is able to live within its means. In practice this has seen Government funding to local authorities dramatically reduced since 2010/11 with Sevenoaks District Council receiving no Revenue Support Grant from 2017/18.
- 13 The attached 10-year budget assumes no Revenue Support Grant or New Homes Bonus 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 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 remain financially self-sufficient and be ahead of the game. This will allow this Council 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.

Provisional Local Government Finance Settlement

- 16 ***The Provisional Local Government Finance Settlement*** for 2017/18 was announced on 15 December 2016. This included confirmation that this council was one of the 97% of councils that applied for the multi-year settlement that was offered last year. The grants included in this offer are:
 - Revenue Support Grant - nil in 2017/18 to 2019/20.
 - Transitional Grant - £123,000 in 2017/18, nil in 2018/19 to 2019/20.

- Rural Services Delivery Grant - nil in 2017/18 to 2019/20.

- 17 The Government has announced that the basis of **New Homes Bonus (NHB)** has been changed. Previously it was based on cumulative figures for 6 years but this is being reduced to 5 years from 2017/18 and 4 years from 2018/19. Also in future NHB will only be received on tax base growth above 0.4% instead of on all growth.

New Homes Bonus (estimated amounts)

2017/18	£1.756m
2018/19	£1.339m
2019/20	£1.284m

- 18 A reduction was previously assumed from 2018/19 but the latest announcement results in the reduction starting a year earlier. NHB is not used to fund the revenue budget but does support the Property Investment Strategy (PIS) therefore other funding sources may be required to fund future PIS schemes. The review of reserves section of this report addresses this issue.
- 19 **Locally Retained Business Rates** - 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 the funding received by each local authority is not significantly different to pre 2013/14 amounts.
- 20 The Department for Communities and Local Government (DCLG) has undertaken a consultation called 'Self-sufficient local government: 100% Business Rates Retention'. The Government intends to introduce 100% Business Rates Retention to local government by the end of the current Parliament. It is expected that, at the same time, the Government will update the relative needs formulae (i.e. that determine the amount of resources that an authority will have if it collects at its Business Rates target) but this has not yet been announced.
- 21 The Tariff Adjustment (negative Revenue Support Grant) which first appeared last year is still currently included in the settlement details for 2019/20 but this will be re-looked by Government at as part of the wider Business Rates Retention changes.
- 22 Revised 'safety-net' amounts were included in the settlement which have been included in the attached 10-year budget. These are slightly higher than the amounts announced last year.

Business Rates Safety-Net

2017/18	£1.990m
2018/19	£2.055m
2019/20	£2.128m

- 23 It is expected that the Government will issue a Final Local Government Finance Settlement for 2017/87 in early February 2017 and any changes that impact Sevenoaks District Council will be reported at the Council meeting.

Council Tax Support Funding for Town and Parish Councils

- 24 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.
- 25 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.
- 26 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.
- 27 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.
- 28 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 was within (c) and no specific amount for this purpose was shown.
- 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 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 and 2016/17.

- 31 The Provisional Local Government Finance Settlement once again did not include a separate amount for major preceptors or Town and Parish Councils. As this council does not now receive any Revenue Support Grant there is no longer a decision required therefore no funding will be passed on.

Collection Fund Surplus/Deficit Calculation

- 32 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 surplus or deficit 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.
- 32 The estimated surplus at 15 January 2016 was £1,967,800 whilst the actual surplus balance at 31 March 2016 was £1,972,100. The balance is relatively small in the context of the gross council tax collectible during 2015/16 of nearly £77m. It came about following a review of the bad debt provision once the council tax support scheme (which replaced council tax benefit) had been operating for two years.
- 33 The calculation at 16 January 2017 estimates a likely surplus or deficit balance on the collection fund at 31 March 2017. This is based on the tax bills issued for the year, current collection performance and the level of bad debt provision held.
- 34 The overall estimated balance at 31 March 2017 is zero, meaning that there is no apportionment required between District, County Fire and Police.

Current Budget Position

- 35 There are no changes to the budget position since the report to Cabinet on 23 January 2017.
- 36 The total impact of the new growth and savings items, together with the increased Council Tax assumption, Council Tax Base changes and small increase to the Business Rates Safety Net amount result in a net saving of £100,000 per annum as assumed in the 10-year budget.
- 37 When the 10-year budget was agreed by Council in February 2016, an annual savings/additional income assumption of £100,000 was included. This assumption remains in all years of the 10-year budget.
- 38 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.

2017/18 Budget and Council Tax

- 39 After allowing for the growth and savings agreed and the key changes made during this budget process, the resulting net expenditure for 2017/18 is £14.470m. As shown in Appendix E this results in Council Tax income of £10.013m, meaning that the District element of the Band D charge will be £202.77.
- 40 When the other preceptors announce their increases, details will be included in Appendix K.

Capital Programme

- 41 A report setting out the proposed 2017/20 Capital Programme, with supporting documentation in a standard format for individual scheme bids was presented to the Finance Advisory Committee on 31 January 2017 and Cabinet on 9 February 2017.
- 42 Scheme bid documents were received for all new schemes which included the proposed funding methods.
- 43 Unspent budgets in the current year's programme (2016/17) can be carried forward to 2017/18, subject to Cabinet approval, when the outturn is known.
- 44 Appendix H summarises the position if all schemes are approved, and indicates the funding method proposed.
- 45 Council will be informed at the meeting of any changes recommended by Cabinet.

Integration with other budget reports on the Cabinet Agenda

- 46 A separate report on the Treasury Management Strategy is being presented to Cabinet and Council. The attached revenue budgets take into account the recommendations and revenue implications set out in this report as well as the Capital Programme.

Opinion under the Local Government Act 2003 (LGA 2003)

- 47 Under the LGA 2003 the Statutory Finance Officer (Chief Finance Officer) is required to give Members an opinion on the robustness of the budget estimates and the adequacy of reserves.
- 48 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 2017/18 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.

49 As is the case every year, inevitably there are a number of risk factors within the 2017/18 budget proposals; these are set out in some detail in Appendix J. This Appendix was also considered by the Finance Advisory Committee on 31 January 2017. 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 2020/21 and an increase assumption has been included in the 10-year budget from then.

d) Investment receipts

Interest receipts have remained low in 2016/17 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 2017/18 is reported separately on this Agenda.

e) Capital investment

Property Investment Strategy income is 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.

- 50 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

- 51 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 I. This review should ensure that all provisions and earmarked reserves are adequate for their purposes.
- 52 It is recommended that the Council hold a minimum General Fund reserve balance of 10% of its net Revenue Budget, for emergencies.
- 53 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 2017/18 this equates to £1.45m).

Referendums relating to council tax increases

- 54 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.

55 The Secretary of State has published draft thresholds in relation to 2017/18 council tax levels. The Government proposes to set an average annual threshold of 4% over three years for local authorities with social care responsibilities. District councils will be allowed a Band D council tax increase of the higher of 2% or £5. This council is therefore able to increase Band D council tax by up to £5 without requiring a referendum. As in previous years, no equivalent principles are being proposed for Town and Parish Councils although the Government has said that they will keep this under review and take action if necessary.

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 J.

Current and future pressures were included in the Service Dashboards 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 future Business Rates Retention scheme. 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 Budget Update 2017/18 reports to Cabinet on 1 December 2016 and 23 January 2017.

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, however, this budget ensures the Council remains in a financially sustainable position.

If the council tax resolution attached in Appendix M is approved, the Sevenoaks District Council element of the band D council tax will be £202.77.

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 - Capital Programme 2017-20 (also being considered by Finance Advisory Committee on 31 January 2017)

Appendix I - Reserves

Appendix J - Risk analysis (also being considered by Finance Advisory Committee on 31 January 2017)

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

Appendix L - Town and Parish Council precepts and council tax rates (only in Council report)

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

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

Background Papers:

Report to Cabinet 16 February 2016 - Budget and Council Tax Setting 2016/17

Report to Cabinet 15 September 2016 - Financial Prospects and Budget Strategy 2017/18 and Beyond

Report to Planning Advisory Committee 22 September 2016, Housing and Health Advisory Committee 4 October 2016, Policy and Performance Advisory Committee 6 October 2016, Economic and Community Development Advisory Committee 11 October 2016, Legal and Democratic Services Advisory Committee 18 October 2016, Direct and Trading Advisory Committee 1 November 2016, Finance Advisory Committee 15 November 2016 - Budget 2017/18: Service Dashboards and Service Change Impact Assessments (SCIAs)

Report to Cabinet 1 December 2016 - Budget Update 2017/18

Report to Cabinet on 23 January 2017 - Budget Update 2017/18

**Adrian Rowbotham
Chief Finance Officer**