

BUDGET UPDATE 2018/19

Cabinet - 7 December 2017

Report of Chief Finance Officer

Status For Decision

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 seven 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 eighth year this method has been used and provides the Council with a stable basis for future years.

This report sets out progress made in preparing the 2018/19 budget and updates Members on key financial information.

There are no changes to the assumptions since the Financial Prospects report on 5 September 2017 however, it is likely that the Council Tax increase referendum limit will be the higher of 2% or £5 for a Band D property. If Members choose the higher £5 level, it would result in a Council Tax increase of 2.44%.

Since the last report the Advisory Committees have been presented with savings proposals. If all of the proposals are accepted by Cabinet, the £100,000 net savings target will have been achieved. However, further information has been received and the Advisory Committees have suggested a number of other growth and savings proposals. These are likely to result in further savings being required to ensure that the Council continues to have a balanced 10-year budget and remain financially self-sufficient.

The Cabinet will make its final recommendation on the budget at its meeting on 6 February 2018, after taking into account any updated information available at that date including the Local Government Finance Settlement.

Portfolio Holder Cllr. John Scholey

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Recommendation to Cabinet:

(a) Consider and respond to comments and recommendations of the Advisory

Committees regarding the savings proposals listed in Appendix D

- (b) Consider and respond to the further growth and savings suggestions listed in Appendix F.
- (c) Request that officers identify further savings options to be included in the Budget Update report to Cabinet on 11 January 2018.
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Reason for recommendation: It is important that the views of the Advisory Committees are taken into account in the budget process to ensure that the Council's resources are used in the most suitable manner.

Introduction and Background

- 1 The Council's financial strategy over the past thirteen 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. 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 Revenue Support Grant provided by Government ceasing from 2017/18 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 and business rate base; and
 - generating more income.

- 5 At the Cabinet meeting on 5 September 2017, Members considered a report setting out the Council's financial prospects for 2018/19 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 2018/19 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 will be considered at this meeting.

Financial Self-Sufficiency

- 7 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.
- 8 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.
- 9 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.
- 10 The Council's decision to seek to become financially self-sufficient was subject to scrutiny by the Local Government Associations Peer Challenge of the District Council during December 2013. In their closing letter to the Council they concluded that they 'fully support that aspiration and given the existing and anticipated squeeze upon public finances this makes much sense'.
- 11 With the Council receiving no Revenue Support Grant from 2017/18 and New Homes Bonus reducing from 2018/19, this approach remains appropriate. The attached 10-year budget assumes no Revenue Support Grant or New Homes Bonus. Any funding received from these sources 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 supporting the Property Investment Strategy. One of the aims of the Property Investment Strategy is to achieve returns of 5% when not borrowing or in excess of 3% for schemes that include some external borrowing; therefore using funding for this purpose will result in additional year on year income that is not impacted by Government decisions.

- 12 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.

Updates to the Financial Prospects Report

- 13 The following sections provide the latest information on the major income and expenditure streams together with details of the assumptions included in the attached 10-year budget.
- 14 The Government announced its Autumn Budget on 22 November 2017. Initial indications suggest that this will have no impact on the 10-year budget assumptions but officers will continue to monitor this as further details are released and provide any additional information at the meeting. Announcements relevant to local government are summarised in Appendix G.

Income

- 15 **Government Support: Revenue Support Grant (RSG)** (£nil received in 2017/18) - This formula based grant has significantly reduced over recent years as the emphasis of Government Support has changed, in fact this council received no RSG in 2017/18 and is not expected to receive any in future years. The attached 10-year budget assumes no RSG, if any amounts are received in future years they will be put into the Financial Plan Reserve to support the 10-year budget including 'invest to save' initiatives and support for the Property Investment Strategy.
- 16 In the Local Government Finance settlement 2016/17, the Government stated that it would offer any council that wishes to take it up, a four-year funding settlement to 2019/20. On 15 September 2016, Cabinet agreed to accept this multi-year settlement offer. The figures included in the final Local Government Finance settlement 2017/18 for this council for the grants included are as follows:

Multi-Year Settlement Offer	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
Revenue Support Grant	633	0	0	0
Transitional Grant	152	123	0	0
Rural Services Delivery Grant	0	0	0	0
Total	785	123	0	0

- 17 The Local Government Finance Settlement 2017/18 continued to include an indicative 'tariff adjustment' amount of £1.083m in 2019/20. This is in

- effect a negative Revenue Support Grant and is not included in the list of grants mentioned in the multi-year settlement. This is not included in the 10-year budget as it is expected to be part of the adjustments made when Business Rates Retention is fully implemented.
- 18 ***New Homes Bonus (NHB)*** (£1.8m received in 2017/18 but not used to fund the revenue budget) - 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. Last year the Government announced that the basis of NHB has been changed. Previously it was based on cumulative figures for 6 years but this has been reduced to 5 years from 2017/18 and 4 years from 2018/19. In addition, NHB will only be received on tax base growth above 0.4% instead of on all growth.
 - 19 In the same way as RSG, the attached 10-year budget assumes no NHB resulting in there being no reliance on this funding source to support the revenue budget. Any amounts received will be put into the Financial Plan Reserve for the same purpose as noted above.
 - 20 ***Council Tax*** (£10.0m) - The Government referendum limit has been set at 2% in recent years although it was changed later in the process in both of the last two years to the higher of 2% or £5 (equivalent to 2.50% for SDC in 2017/18). The assumption in the 10-year budget is currently 2% for all years.
 - 21 It is likely that the Government will amend the referendum limit for the Council Tax increase for district council's again in 2018/19 to the higher of 2% or £5 for a Band D property.
 - 22 The current assumption in the 10-year budget is a 2% increase for all years based on previous referendum limits. If Members choose to increase Council Tax by the higher £5 amount in 2018/19 only, this would result in a 2.44% increase and an additional £44,000 per annum.
 - 23 The tax base increases each year due to the general increase in the number of residential properties and future developments as well as the continuing work to check the validity of Council Tax discounts awarded. The assumption going forward reflects the increases achieved in recent years and the ongoing work. The increased tax base results in additional Council Tax income which is assumed to be greater than the incremental cost of servicing the additional properties.
 - 24 ***Locally Retained Business Rates*** (£2.0m) - 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.
 - 25 There has been a commitment from central government to introduce 100% Business Rates Retention since before the 2015 General Election. The

Department for Communities and Local Government (DCLG) invited local authorities to participate in a pilot of 100% Business Rates Retention in 2018/19.

- 26 A Kent-wide pilot bid has been submitted including Sevenoaks, which was agreed by Cabinet on 12 October 2017. If successful, this would result in this council retaining a significant additional amount of Business Rates in 2018/19. It is expected that the successful bids will be announced shortly.
- 27 A Business Rates Retention Pool is currently in operation within Kent. In certain circumstances it is financially beneficial to be a member of a pool but this council is not currently a member of the pool but would wish to be in the future.
- 28 If the Kent Business Rates Retention Pilot bid is not successful it will revert to the current pool arrangements. All Kent authorities agreed that Sevenoaks District Council would receive an additional amount equivalent to the amount if it had been in the Kent Business Rates Pool.
- 29 Due to the large number of business rates appeals being outstanding with the Valuation Office Agency (VOA) and the limited opportunities to increase the number of businesses in the district, the assumption in the 10-year budget remains at the safety net level which is the amount of business rates the council is assured of retaining in the current scheme. This assumption will be reviewed when the successful pilot bids are announced.
- 30 **Interest receipts** (£0.13m) - Returns are continuing to be significantly lower than they were a few years ago due to low interest rates and the Council's Investment Strategy taking a low risk approach. Due to the change of emphasis on to the Property Investment Strategy and the current low interest rates, £130,000 has been assumed for 2017/18 - 18/19 and £250,000 for later years as investment balances will become less predictable. The Finance Advisory Committee will be reviewing the Treasury Management Strategy for 2018/19 at their meeting on 30 January 2018 and recommend whether the level of risk should change.
- 31 **Property Investment Strategy** - The strategy was approved by Council on 22 July 2014 with the intention of building on an approach of property based investment in order to deliver increased revenue income. This was set against a background of reducing Government Support and continued low rates of return through existing treasury management arrangements.
- 32 Five assets have been purchased to date at a cost of nearly £18m and on 25 April 2017, Council agreed to set aside a further £25m for the Property Investment Strategy.
- 33 The current assumption is £500,000 in 2017/18, £735,000 in 2018/19 and £1.185m in 2019/20 which includes income from the hotel.
- 34 A Property Investment Strategy Update report will be presented to Finance Advisory Committee on 30 January 2018 and Cabinet on 6 February 2018.

- 35 **Variable fees and charges** - 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 Management (£0.8m);
 - Building Control (£0.4m);
 - Car parks (£2.3m); and
 - On-street parking (£0.9m)
- 36 The first three are linked to some extent to activity in the housing market and remain variable.
- 37 The assumption is currently for a 2.5% increase for all years.
- 38 **External Funding** - the Council has been very successful in securing external funding across a number of services, based on it delivering a wide range of innovative services to local residents, often in partnership with other agencies. 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.
- 39 **Shared working** - Various services have included savings from shared working in recent years budgets. The Council successfully works in partnership with other authorities in a number of areas including Revenues, Benefits, Counter Fraud, Internal Audit Finance, IT, Licensing, Building Control, CCTV and Environmental Health. Any further proposals that come forward for shared working ideas will continue to be actively pursued if it is in this Council's best interests to do so.
- 40 **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 in recent years. As part of the financial strategy, it is important that reserves continue to be used flexibly.

Expenditure

- 41 **Pay** costs total £15m. The national pay award for 2018/19 has not yet been finalised. There have been calls from the local government unions and press coverage regarding increasing public sector pay but no announcements were

included in the Government's Autumn Budget. It should be noted that a 1% change in pay would have an annual impact of £143,000. The assumption is 1% for 2017/18 to 2019/20 and 2% in later years.

- 42 The Council's new Corporate Plan is likely to be launched in the next financial year. In order to ensure the effective delivery of the Corporate Plan, services are being redesigned so that they are better aligned to customer needs and with a much stronger emphasis on wrapping services around the customer.
- 43 In order to achieve this, a model of customer contact centre that is resourced with a wider skill set in order to deal with more interactions at first point of contact and in parallel more effective processing is being investigated. This will be aligned with work currently being undertaken on recruitment and retention and should be in place for April 2018. It is anticipated that this can be met within approved budgets and therefore a SCIA will not be required.
- 44 **Superannuation fund** - the last pension fund triennial valuation, which was the third by the actuaries Barnett Waddingham, took place in November 2016.
- 45 The funding level has increased from 72% to 77% since the previous valuation in 2013 and the deficit recovery period for the fund has reduced from 20 years to 17 years. The 10-year budget includes the contribution amounts set by the actuaries for 2017/18 to 2019/20 and includes an additional £200,000 from 2020/21 when the next triennial valuation will come in to effect. This amount will continue to be reviewed during the budget process if additional information becomes available.
- 46 **Non-pay costs** - The budget assumes non-pay costs will increase by an average of 2.25% in all years. In practice, items such as rates and energy costs often rise at a higher rate, so other non-pay items have been allowed a much lower inflation increase. Inflation is currently at 3.0% (CPI - October 2017).
- 47 **Welfare reform changes** - Universal Credit commenced within the district in October 2015 but only in a very small way. It will continue to roll out gradually during 2018 at the local Job Centres but full roll out is not expected for several years.
- 48 **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 for dealing with these. These are identified in the Service Change Impact Assessments (SCIAs) that can be reported to the Advisory Committees between September and November or to Cabinet in later budget reports.
- 49 **Progress on the savings plan** - 2018/19 will be the eighth year of using the 10-year budget. During this period, 143 savings items have been identified totalling £6.9m. The majority of these savings have already been achieved

and Portfolio Holders, Chief Officers, Heads of Service and Service Managers have worked closely to deliver these savings.

- 50 Appendix C sets out a summary of the savings and growth items approved by Council since the 10-year budget strategy was first used in 2011/12. This has allowed the Council to deliver a 10-year balanced budget.
- 51 ***Additional growth and savings*** - The attached 10-year budget (Appendix B) assumes new net savings of £100,000 in each year up to 2026/27.
- 52 Savings proposals were presented to the Advisory Committees between September and November. These proposals are listed in Appendix D and further details supporting each proposal are contained in the Service Change Impact Assessments (SCIAs) in Appendix E.
- 53 The new net savings of £100,000 in this budget setting process are required to deliver net savings of £1m over the 10-year budget period.
- 54 The total of these growth and savings proposals for the 10-year budget period is £1.01m, therefore if they are all approved, the savings target for 2018/19 will be achieved.

Feedback from the Advisory Committees

- 55 To assist the Advisory Committees in making additional suggestions for growth or savings for Cabinet to consider, Members were given a Service Dashboard and budget details for the services within their terms of reference.
- 56 Each Committee then decided which suggestions would be passed to Cabinet.
- 57 Provided at Appendix F is a list of the growth and savings suggestions from the Advisory Committees.
- 58 Training sessions on the budget process have been provided to Members in previous years to ensure they have an understanding of the process and relevant issues to allow them to play an active part in the budget setting process. This year Members were offered individual refresher training.

Current Budget Position

- 59 The 10-year budget (Appendix B) currently shows a fully funded 10-year position. If the savings listed in Appendix D are supported, then the £100,000 of new net savings required will have been achieved.

- 60 The further suggestions made by the Advisory Committees (Appendix F) are largely growth items. Officers are also aware of the following pressures:

Growth	2018/19 Impact £000	10-year Budget Impact £000
Land Charges - income expectation below budget	50	500
IT Developers - savings to fund salaries not expected in 2018/19 only	51	51
Asset Maintenance - increased annual spend to ensure ongoing use of assets (further details to be included in the Capital Programme and Asset Maintenance report to FAC and Cabinet)	50	500
Members Allowance - revised scheme from 2019/20 (£15,000) (approved by Council 21/11/17)	-	135
Net Total	151	1,186

- 61 Service Change Impact Assessments (SCIAs) will be produced for the above items and any items listed in Appendix F that Cabinet wish to support will be included in the Budget Update report to Cabinet on 11 January 2018.
- 62 It is therefore expected that further savings will be required to offset any growth. Officers have commenced looking for further savings and will report back to Cabinet in January.
- 63 The Government is expected to announce the 2018/19 funding settlement in late December. Even though this Council has signed up to the Government's multi-year settlement offer and the Revenue Support Grant and New Homes Bonus are no longer included in the revenue budget, it is still important to analysis any potential impact of the settlement.
- 64 The Cabinet will make its final recommendation on the 2018/19 budget at its meeting on 6 February 2018, after taking account of the latest information available at that date.

Collection Fund and Tax Base

- 65 The 2018/19 tax base will be agreed at Cabinet on 11 January 2018. At the same time, Members will be presented with an estimate of the Collection Fund balance as at 1 December 2017.

2017/18 Outturn

- 66 Supported by the Finance Advisory Committee, tight financial monitoring and control has been in place for a number of years and again for 2017/18. Given the constraints being placed on all budgets, and the savings planned for 2017/18 and future years, it will be essential to continue on this basis.

67 The latest 2017/18 monitoring report shows a favourable forecast position of £108,000. The major reason for this is income from the additional spaces at the Bradbourne Car Park which is a one-off benefit for this year as the annual repayments for the internal borrowing for the car park will not commence until 2018/19.

Consultation

68 Consultation requirements will be reviewed if any significant changes are proposed during the budget setting process.

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.

Current and future challenges together with risks were included in the Service Dashboards presented to the Advisory Committees and each Service Change Impact Assessment (SCIA) includes 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 changes to Business Rates Retention. The risk will be mitigated by continuing to review assumptions and estimates and by updating Members throughout the process.

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 equality impact assessments have been completed for all Service Change Impact Assessments (SCIAs) to ensure the decision making process is fair and transparent.

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.

Conclusions

The changes explained in this report show that this Council aims to remain financially self-sufficient from direct Government funding which will continue to be a major achievement.

The budget process will continue to be a significant 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 customers, 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

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

Appendix D - New savings proposals presented to the Advisory Committees

Appendix E - Service Change Impact Assessment forms (SCIAs) for the new growth and savings proposals in Appendix D

Appendix F - Further growth and savings suggestions from the Advisory Committees

Appendix G - Government Autumn Budget Summary

Background Papers

[Report to Cabinet 9 February 2017 - Budget and Council Tax Setting 2017/18](#)

[Report to Cabinet 14 September 2017 - Financial Prospects and Budget Strategy 2018/19 and](#)

Beyond

Report to Economic and Community Development Advisory Committee 3 October 2017, Policy and Performance Advisory Committee 5 October 2017, Housing and Health Advisory Committee 10 October 2017, Legal and Democratic Services Advisory Committee 17 October 2017, Direct and Trading Advisory Committee 2 November 2017, Finance Advisory Committee 14 November 2017, Planning Advisory Committee 23 November 2017-
Budget 2018/19: Service Dashboards and Service Change Impact Assessments (SCIAs)

Adrian Rowbotham

Chief Finance Officer