

FINANCIAL PROSPECTS AND BUDGET STRATEGY 2016/17 AND BEYOND

Cabinet – 17 September 2015

Report of	Chief Finance Officer
Status:	For Decision
Also considered by:	Finance Advisory Committee – 1 September 2015
Key Decision:	No

Executive Summary:

This Financial Prospects Report is the first report of the Council's budget setting process for 2016/17 onwards. It sets out the financial pressures the Council is likely to face in the coming years and suggests an appropriate strategy, utilising the 10 year budget framework first adopted in 2011/12, to ensure the Council remains financially stable over the long term.

Informed by the latest information from Government and discussions with the Portfolio Holder and Cabinet Members the report proposes that from next year the Council sets a budget which assumes no funding from Government through the Revenue Support Grant. This is the first major step taken towards the Council's ambition to be financially self-sufficient as set out in its Corporate Plan.

To achieve this aim and to ensure a balanced budget position over the next 10 year period, whilst also increasing the Council's ability to be sustainable beyond that time, a savings requirement of £500,000 in 2016/17 is required, along with additional income or savings of £100,000 in each of the following nine years.

Portfolio Holder	Cllr. Searles
Contact Officer(s)	Adrian Rowbotham Ext. 7153 Helen Martin Ext. 7483 Lee Banks Ext. 7161

Recommendation to Finance 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 Advisory Committee, endorse the ten-
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- year financial planning approach and principles set out in this report;
- (c) request Advisory Committees to review Service Dashboards 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 3 December 2015; 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 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;
 - 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 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. However, using the data sources available to the Council, this report sets out a budget over the 10-year period but recognises that it is likely that more accurate data will become available in future months and current assumptions may need to be updated.
- 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 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.
- 6 The intention of this report is to enable Members to give 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 3 December 2015 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 service dashboards for 2016/17 onwards.

Financial Self-Sufficiency

- 7 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.
- 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 seeing a 32% reduction in its funding from government in 2015/16 alone.
- 9 The decision to become financially self-sufficient is intended to give the Council greater control over their 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 The Revenue Support Grant has reduced drastically over recent years and we are unlikely to know the amount for 2016/17 until very late in the budget process with no details for later years. New Homes Bonus is only guaranteed until 2016/17 and with Government committed to significant reductions in public sector funding and priorities in public health and devolution amongst other ideas, funding for District Councils is likely to continue to be squeezed.
- 12 By continuing to assume income from direct government funding, the overall position of the 10-year budget will be less assured as the Government is likely to continue to provide funding for one or two years at a time resulting in increased uncertainty going forward. With this uncertainty, the level of savings required in later years will also have to be fluid as the need to react to fluctuating funding levels continues.
- 13 The attached 10-year budget assumes no Revenue Support Grant from 2016/17 and no New Homes Bonus from 2019/20. If funding continues to be received from these sources, the intention is to put it into the Financial Plan Reserve which

can be used to support the 10-year budget by funding invest to save initiatives and support for 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.

- 14 Cabinet are keen to become financially self-sufficient early to be ahead of the game and after reviewing the assumptions in the 10-year budget it is clear that it is an achievable aim 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.

Financial Pressures 2016/17 to 2025/26

Overall Summary

- 15 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.
- 16 Looking at expenditure, inflation is running at 0.1% (CPI at July 2015).
- 17 The local government finance settlement for 2016/17 is not likely to be announced by Government until late December. The Council has seen a dramatic reduction to its grant funding since 2011, which included a 32% reduction for 2015/16 alone.
- 18 On this basis the 10-year budget accompanying this report proposes that the Council budgets for zero Revenue Support Grant from 2016/17 onwards. This means that the Council would no longer place any reliance on this grant and would take a large step forward in its ambition to be self-sufficient. If this approach is endorsed by Members, Sevenoaks District Council would become one of, if not the very first local authority to seek to deliver its services without reliance on direct government funding through the Revenue Support Grant.
- 19 By taking this approach the 10-year budget attached at Appendix B shows a savings requirement of £500,000 in 2016/17 and £100,000 per annum in later years to deliver a long term sustainable budget.
- 20 The paragraphs below set out the position in more detail and assess the impact on the current 10-year budget.

Income

- 21 **Government Support: Revenue Support Grant** (£1.5m in 2015/16) – This formula based grant has significantly reduced over recent years as the emphasis of Government Support has changed. The draft amount for 2016/17 is unlikely to be announced until late December. Due to the uncertainty regarding the amount in 2016/17 and further reductions expected in later years, the attached 10-year budget assumes no Revenue Support Grant for 2016/17 onwards resulting in their being no reliance on this funding source to support the revenue budget. It is likely that an amount of Revenue Support Grant will be received in 2016/17 which

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.

- 22 **New Homes Bonus** (£1.8m) – 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. The future of this funding stream is uncertain from 2017/18 so a 40% reduction has been applied in 2017/18 and 2018/19 with no funding assumed from 2019/20 onwards. Similarly to the Revenue Support Grant, if funding above the assumed level is received, this will be placed in the Financial Plan Reserve for the same purpose as noted above.
- 23 **Council Tax** (£9.3m) – The Government referendum limit has been set at 2% in recent years. The previous assumption for Council Tax was a 2% increase in 2016/17 to 2018/19 and 3% in later years. Following the General Election result in May the assumption has changed to 2% for all years.
- 24 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 has been increased to reflect the increases achieved in recent years and the ongoing work. The increased tax base results in additional Council Tax income.
- 25 **Locally Retained Business Rates** (£1.9m) - 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.
- 26 In the first two years of this scheme, this council has been below the safety net level and future projections continue to take this prudent approach.
- 27 A Business Rates Retention Pool is in operation within Kent. In certain circumstances it is financially beneficial to be a member of a pool. To date, it has not been financially beneficial for this council to be a member of the pool but officers will continue to review the position and report to members if the situation changes.
- 28 **Interest receipts** (£0.3m) – 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. The assumption was previously 1.35% in 2016/17, 1.75% in 2017/18 and 1.85% in later years reflecting Bank Rate estimates provided by our treasury advisors. Due to the change of emphasis on to the Property Investment Strategy, £250,000 has been assumed for all years as investment balances will become less predictable
- 29 **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.

- 30 No income was previously assumed from this strategy as it was deemed prudent to wait until assets had been purchased and income was starting to be received. Three assets have now been purchased, one will be developed and two are producing income of over £400,000 per annum. With further funding approved by Council, assumptions have now been included for income of £500,000 from 2016/17 to 2017/18, £700,000 from 2018/19 to 2022/23 and £800,000 for later years.
- 31 **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 Control (£0.7m);
 - Building Control (£0.5m);
 - Car parks (£2.2m); and
 - On-street parking (£0.7m)
- 32 The first three are linked to some extent to activity in the housing market and remain variable; however, all of these income sources are currently forecast to be on budget for the year.
- 33 The assumption was previously a 3.5% increase for all years for fees and charges that the Council sets, but this has now been reduced to 2.5% for all years following concerns being raised about the ability to increase fees and charges by that amount going forward.
- 34 **External Funding** - 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 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.
- 35 **Shared working** - Various services have included savings from shared 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, Building Control, CCTV and Environmental Health. Any further proposals that come forward for shared working ideas will continue to be actively pursued.
- 36 **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.

Expenditure

- 37 **Pay** costs total £13.7m. The national pay award for 2016/17 has not yet been finalised and is unlikely to be resolved prior to the Council setting its draft budget for next year. The assumption was previously 1.5% in 2016/17 to 2017/18 and 2% in later years.
- 38 The Government's emergency budget on 8 July 2015 announced that there will be Public Sector pay rises of 1% for the next four years. This does not directly affect local government but it often seem as a guide for those local authorities, including this council, on national terms and conditions. Therefore, the assumption has changed to 1% in 2016/17 to 2019/20 and 2% in later years.
- 39 **Superannuation fund** - the last pension fund triennial valuation, which was the second by the actuaries Barnett Waddingham, took place in November 2013. The minimum annual contribution to fund the deficit remained similar to that recommended in the previous valuation.
- 40 Recent valuations for this council have been better than many other Kent authorities due to the practice of making lump sum contributions each year instead of linking payments to current staffing levels. Due to the uncertain economic situation over recent years, budgets for this purpose have not been reduced even though payments made have been below budgeted levels so as to protect any adverse changes at future triennial valuations. Assumed increases in 2017/18 and 2020/21 are still included but at a lower level than before.
- 41 **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 0.1% (CPI – July 2015).
- 42 **Welfare reform changes** - the changes affecting Housing Benefits regarding Universal Credit were looked at by a Member Scrutiny Group in 2012. Universal Credit will commence within the district in October 2015 but only in a very small way. It is still uncertain as to 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.
- 43 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. The cost of benefits will continue to fluctuate 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.
- 44 Town and Parish Councils have also been impacted by this change. In 2013/14 additional funding was clearly identified in the Government Grant Settlement which was fully passed on by this council. In 2014/15 and 2015/16, no amount was clearly identified and it was agreed at Full Council that no funding would be

passed on to Town and Parish Councils for Council Tax Support. It is not expected that the Government will include an amount for this purpose once again in 2016/17.

- 45 **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. The model does not allow for unavoidable service pressures which could be significant. These will be identified in the Service Change Impact Assessments (SCIAs) that will be reported to the Advisory Committees between September and November.
- 46 **Progress on the savings plan** - 2016/17 will be the sixth year of using the 10-year budget. During this period, 113 savings items have been identified totalling £6.1m. 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.
- 47 The following table shows the differences for 2016/17 between the 10-year budget agreed by Council on 17 February 2015 and the latest version set out in Appendix B.

10-Year Budget	£000
Previous 10-year budget 2016/17 gap/(surplus)	(1,077)
Base changes:	
Base figures updated to 15/16 budget and updated base data	33
Assumption changes:	
Removing reliance on Revenue Support Grant	1,355
Increase in Council Tax Base	(58)
Reduction in Pay Award inflation (1.5% to 1%)	(67)
Reduction in fees and charges inflation (3.5% to 2.5%)	64
Removal of 2010 Superannuation Fund deficit roll forward	(390)
Reduction in inflation on Superannuation Fund deficit	(331)
Property Investment changes:	
Income from Property Investment Strategy	(500)
Property Team growth item from 2016/17	73
Reduction in Interest Receipts	259
Savings:	
Additional savings items	(500)

Revised 10-year budget 2016/17 gap/(surplus)**(1,139)**

The surplus in 2016/17 helps to support the position in later years resulting in a sustainable 10-year budget.

- 48 When looking at prospects for year 11 onwards, there is still likely to be a need to take further actions as these years come into the rolling 10 year period.

Proposed Business and Financial Planning Strategy

- 49 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.

- 50 It is recommended that this strategy continues to be adopted.

Process and timetable

- 51 Members will note from the timetable set out in Appendix A that this report is being considered by the Finance Advisory Committee on 1 September 2015 and any comments will be considered along with this report at Cabinet on 17 September 2015.
- 52 All Advisory Committees will be presented with their Service Dashboards and Service Change Impact Assessments (SCIAs) between September and November when they will be asked for their views and priorities on their service areas using the information provided in the report and their knowledge. It is likely that they will also be asked to come up with growth and savings proposals for their areas. This part of the process ensures that all members have a role to play in the Governance of the council and the budget decision making process.
- 53 Training will be provided to members in September 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.
- 54 Cabinet will receive a Budget Update report on 3 December 2015 taking into account any updated information and feedback from the Advisory Committees. Cabinet will agree its draft budget on 4 February 2016 and full Council will consider the budget on 16 February 2016.

Consultation

55 Residents will be consulted as part of the budget process and their views will then be considered prior to decisions being made as to how the budget will be balanced. Residents will be asked if they agree with the approach to become financially self-sufficient as opposed to being reliant on central government.

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, pursuing self-sufficiency and by updating Members throughout the process.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

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 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.

By becoming financially self-sufficient at an early stage, this Council will become much more in control of its own destiny as the Property Investment Strategy should provide a much more stable income stream than the reducing direct government funding streams.

The attached 10-year budget shows that this Council can continue to be financially stable going into the future with a level of assurance that any council would aspire to.

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
Chief Finance Officer**