

## FINANCIAL PROSPECTS AND BUDGET STRATEGY 2017/18 AND BEYOND

### Finance Advisory Committee - 6 September 2016

Report of	Chief Finance Officer
Status:	For Decision
Also considered by:	Cabinet - 15 September 2016
Key Decision:	No

---

#### Executive Summary:

This Financial Prospects Report is the first report of the Council's budget setting process for 2017/18 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, the report proposes that the Council continues to set a revenue budget which assumes no direct funding from Government through the Revenue Support Grant or New Homes Bonus. This will result in the Council continuing to be financially self-sufficient, an ambition 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 £100,000 per annum is currently included. Growth and savings proposals will be presented to the Advisory Committees and their recommendations will be included in the Budget Update report to Cabinet on 1 December 2016.

---

<b>Portfolio Holder</b>	Cllr. Searles
<b>Contact Officers</b>	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.
-

- 
- (b) Advise Cabinet with views on the Government's multi-year settlement offer.

**Recommendation to Cabinet:**

- (a) That subject to the views of the Finance Advisory Committee, endorse the ten-year financial planning approach and principles set out in this report;
- (b) request Advisory Committees to review the Service Dashboards and advise Cabinet of possible growth and savings options;
- (c) request officers to continue to review the assumptions in this report and report back to Cabinet on 1 December 2016;
- (d) advice officers whether they wish to accept the Government's multi-year settlement offer; and
- (e) note the budget timetable set out in Appendix A.
- 

**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;
  - 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 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 expected to cease in 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 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 1 December 2016 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 2017/18 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 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 expecting to receive no Revenue Support Grant from 2017/8.
- 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 expecting to receive no Revenue Support Grant from 2017/18 and New Homes Bonus expected to reduce 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

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.

- 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.

### **Multi-Year Settlement Government Offer**

- 13 In the Provisional 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. At that time, information was limited on what the offer included and how to apply, but that an efficiency plan would need to be submitted when such an offer was requested.
- 14 The Final Local Government Finance Settlement 2016/17 confirmed that the deadline for requesting this offer was 14 October 2016. However, the government did not indicate what the approval process for requesting such an offer was.
- 15 The Secretary of State for Communities and Local Government subsequently issued a letter on 10 March 2016 which clarified a number of matters including:
- The offer covers the figures provided in the Final Local Government Finance Settlement for Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant.
  - In addition, tariffs and top-ups in 2017/18 to 2019/20 will not be altered for reasons related to changes in the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.
  - Efficiency plans do not need to be a separate document. They can be combined with the Budget Strategy and show how a four-year settlement will bring about opportunities for further savings.
- 16 The former Chancellor of the Exchequer made his Budget 2016 announcement on 16 March 2016 which included a number of changes to business rates and reference to additional savings of £3.5bn from public spending in 2019/20. The Government are to compensate local government for the loss of income as a result of the changes to business rates and, as confirmed by the Secretary of State, should not therefore affect the four-year funding offer to councils. What is unknown is how much the additional savings required will fall on the DCLG and, in turn local authorities, and how that might play out in 2019/20 in terms of the multi-year settlement.

- 17 The figures included in the final Local Government Finance Settlement 2016/17 for this council for the grants listed above are as follows:

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
Revenue Support Grant	633	0	0	0
Transitional Grant	0	152	123	0
Rural Services Delivery Grant	0	0	0	0
<b>Total</b>	<b>633</b>	<b>152</b>	<b>123</b>	<b>0</b>

- 18 Clearly the amounts above are extremely small compared to the amounts of Revenue Support Grant that this council used to receive. If this offer is accepted, it should give a degree of certainty regarding these funding streams and there is a danger that councils who do not sign up to four-year settlement will receive even less in the later years.
- 19 The Local Government Finance Settlement 2016/17 also included 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 however this remains a concern and further clarity is sought.
- 20 Taking up the offer would bring a degree of certainty and if Cabinet recommend this approach, a response would be made to Government to accept and requesting clarification that the 'tariff adjustment' is not included in the offer. An efficiency plan would also be produced based on the 10-year budget.

### **Financial Pressures 2017/18 to 2026/76**

#### Overall Summary

- 21 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.
- 22 Looking at expenditure, inflation is running at 0.6% (CPI at July 2016).
- 23 The local government finance settlement for 2017/18 is not likely to be announced by Government until late December. As Revenue Support Grant and New Homes Bonus are no longer used to fund the revenue budget, these funding streams should not have an impact on the budget setting process.

Additional information on the multi-year settlement offer and Business Rates Retention may impact on the 10-year position and officers will report back to Cabinet when further information is available.

- 24 The 10-year budget attached at Appendix B shows a savings requirement of £100,000 per annum to deliver a long term sustainable budget.
- 25 The paragraphs below set out the position in more detail and assess the impact on the current 10-year budget.

### Income

- 26 **Government Support: Revenue Support Grant (RSG)** (£0.6m received in 2016/17 but not used to fund the revenue budget) - This formula based grant has significantly reduced over recent years as the emphasis of Government Support has changed. The indicative amounts in the Final Local Government Finance Settlement 2016/17 show this council receiving no RSG from 2017/18. The attached 10-year budget assumes no Revenue Support Grant resulting in their being no reliance on this funding source to support the revenue budget. Any amounts received 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.
- 27 **New Homes Bonus (NHB)** (£2.2m received in 2016/17 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. 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.
- 28 **Council Tax** (£9.7m) - The Government referendum limit has been set at 2% in recent years although it was changed in February 2016 to the higher of 2% or £5 (2.57% for SDC) for 2016/17. The assumption in the 10-year budget is currently 2% for all years.
- 29 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.
- 30 **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.

- 31 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.
- 32 The Department for Communities and Local Government (DCLG) is currently undertaking 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).
- 33 At this stage it is not clear whether 100% Business Rates will start in 2019/20 or 2020/21 and what impact it will have on this council. Officers will respond to the consultation and keep Members up to date during the budget setting process.
- 34 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.
- 35 **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. Due to the change of emphasis on to the Property Investment Strategy, £250,000 had been assumed for all years as investment balances will become less predictable.
- 36 Following the Bank of England Base Rate reduction from 0.5% to 0.25% on 4 August 2016, the interest receipts assumption has been reduced to £130,000 for 2017/18 and 2018/19 to reflect the Bank Base Rate estimates provided by our treasury advisors. It remains at £250,000 for later years.
- 37 **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.
- 38 Three assets have been purchased to date and on 21 July 2015, Council agreed to set aside a further £10m for the Property Investment Strategy.
- 39 The current assumption is £500,000 in 2017/18, £1.132m in 2018/19, £1.276m from 2019/20 to 2022/23 an additional £100,000 from 2023/24 and a further additional £200,000 from 2026/27. This includes income from the hotel from 2018/19.

- 40 **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 (£0.8m)
- 41 The first three are linked to some extent to activity in the housing market and remain variable.
- 42 The assumption is currently for a 2.5% increase for all years.
- 43 **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.
- 44 The outcome of the EU Referendum may have an impact on the LEADER Programme as there is some uncertainty about the immediate and long term future of this funding. Officers will report to Members when more information is known.
- 45 **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 Counter 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 if it is in this Council's best interests to do so.
- 46 **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

- 47 *Pay* costs total £14m. The national pay award for 2017/18 has not yet been finalised and is unlikely to be resolved prior to the Council setting its draft budget for next year.
- 48 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 is often seen as a guide for those local authorities, including this council, on national terms and conditions. Therefore, the assumption is 1% until 2019/20 and 2% in later years.
- 49 ***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. The next triennial valuation will take place in November 2016 and the outcome of this will be included in the Budget Update report to Cabinet on 1 December 2016.
- 50 ***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 0.6% (CPI - July 2016).
- 51 ***Welfare reform changes*** - the changes affecting Housing Benefits regarding Universal Credit were looked at by a Member Scrutiny Group in 2012. Universal Credit commenced within the district in October 2015 but only in a very small way. Full roll out of Universal Credit is not now expected for several years.
- 52 The change to the Council Tax Reduction Scheme (also known as Council Tax Support) from 1 April 2013 was seen by many as one of the biggest changes to local government since the community charge. A consultation exercise is currently taking place before a new scheme is agreed to commence on 1 April 2017. An update on the financial implications of the new scheme will be included in the Budget Update report to Cabinet on 1 December 2016.
- 53 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. Since then no amount has been clearly identified and it was agreed at Full Council that no funding would be passed on to Town and Parish Councils for Council Tax Reduction. It is not expected that the Government will include an amount for this purpose once again in 2017/18.
- 54 ***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.

- 55 These additional service pressures will where possible be absorbed within existing budgets however, there is some likelihood that some pressures will be difficult to absorb and Members will need to give these consideration as part of the budget process.
- 56 ***Progress on the savings plan*** - 2017/18 will be the seventh year of using the 10-year budget. During this period, 126 savings items have been identified totalling £6.7m. 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.
- 57 The following table shows the differences between the 10-year budget agreed by Council on 16 February 2016 and the latest version set out in Appendix B.

<b>10-Year Budget (total changes for the 10-year period)</b>	<b>£000</b>
Base changes:	
Rolled on to 26/27 and base figures updated to 16/17 budget	(793)
Assumption changes:	
Reduction in Interest Receipts following Base Rate change	240
<b>Total 10-year budget change gap/(surplus)</b>	<b>(553)</b>

- 58 The above table shows an additional contribution to the Budget Stabilisation reserve of £553,000 over the 10-year period (or £55,000 on average per annum). At this stage it is not proposed to change the £100,000 net savings/additional income target for 2017/18 as further changes and additional growth is likely to be included within the assumptions as the budget setting process progresses.
- 59 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**

- 60 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.

61 It is recommended that this strategy continues to be adopted.

### **Process and timetable**

62 Members will note from the timetable set out in Appendix A that this report is being considered by the Finance Advisory Committee on 6 September 2016 and any comments will be considered along with this report at Cabinet on 15 September 2016.

63 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 on 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.

64 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.

65 Cabinet will receive a Budget Update report on 1 December 2016 taking into account any updated information and feedback from the Advisory Committees. Cabinet will agree its draft budget on 9 February 2017 and full Council will consider the budget on 21 February 2017.

### **Consultation**

66 Residents will be consulted as part of the budget process and their views will then be considered before the budget is finalised.

### **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 risks will be mitigated by continuing to review assumptions and estimates, remaining financially self-sufficient 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 has 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**