

BUDGET AND COUNCIL TAX SETTING 2018/19

Council - 20 February 2018

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| Report of | Chief Finance Officer |
| Status | For Decision |
| Also considered by | Cabinet - 6 February 2018 |
| 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 the proposed budget and required level of Council Tax for 2018/19.

The report proposes a net expenditure budget of £14.687m in 2018/19 (£14.470m in 2017/18). Subject to any further changes this would result in a Council Tax increase of 2.97% in 2018/19, with the District's Council Tax being £208.80 for a Band D property for the year (£202.77 in 2017/18), an increase of £6.03.

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

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|-------------------------|---|
| Portfolio Holder | Cllr. John Scholey |
| Contact Officers | Adrian Rowbotham, Ext. 7153 Alan Mitchell, Ext. 7483 |

Recommendation to Cabinet:

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

Recommendation to Council:

- (a) The Summary of Council Expenditure and Council Tax for 2018/19 set out in Appendix E be approved.
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- (b) Approve the 10-year budget 2018/19 to 2027/28 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.
- (c) Approve the Capital Programme 2018/21 and funding method set out in Appendix H.
- (d) Approve the changes to reserves and provisions set out in Appendix I.

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 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;
 - 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 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 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 were considered at the Cabinet meeting on 7 December 2017.
- 7 The report to Cabinet on 7 December 2017 also contained updates to the Financial Prospects report. Another update report was presented to Cabinet on 11 January 2018 following the announcement of the Provisional Local Government Finance Settlement. Further growth and savings items were considered at that meeting.
- 8 The adoption of the 10-year budget over the last seven years has resulted in a much more stable budget position than had previously been achieved.
- 9 The Council's successful approach to its finances was recognised nationally during 2017 by being crowned 'Innovator of the Year' and also the overall winner at the CIPFA Public Finance Innovation Awards.
- 10 This report includes a number of attachments:
- Appendix A - Budget timetable
 - Appendix B - 10-year budget;
 - Appendix C - Summary of the Council's agreed savings and growth items;
 - Appendix D - Summary of Changes to the 10-year Budget
 - 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 2018-21
 - 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

- 11 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.
- 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 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.
- 14 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.
- 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 2018/19 was announced on 19 December 2017. The two most relevant elements for this Council were that the Council Tax increase referendum limit for district councils for 2018/19 has been increased from 2% (or £5 if higher) to 3% (or £5 if higher) and that the Kent and Medway Business Rates Retention Bid for 2018/19 was successful.
- 17 **Government Support: Revenue Support Grant (RSG)** (£nil received in 2017/18) - As previously assumed, this council no longer receives Revenue Support Grant from 2017/18.
- 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.

New Homes Bonus (estimated amounts)

| | |
|---------|---------|
| 2018/19 | £1.320m |
| 2019/20 | £1.152m |

- 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) - In the Local Government Finance Settlement it was announced that the referendum limit for 2018/19 was being increased to 3% (or £5 if higher) in line with current inflation. At the Cabinet meeting on 11 January 2018 Members recommended to increase the Council Tax increase assumption for 2018/19 to 2.97% but for it to remain at 2% for later years.

| Council Tax Increase Assumptions | Original Assumptions | Proposed Assumptions |
|----------------------------------|----------------------|----------------------|
| 2018/19 % increase | 2.00% | 2.97% |
| 2018/19 £ (Band D pa) | £206.83 | £208.80 |
| 2018/19 £ (Band D increase pa) | £4.06 | £6.03 |

- 21 This proposal would result in Band D Council Tax increasing from £202.77 in 2017/18 to £208.80 in 2018/19.
- 22 Due to the uncertainty of future Council Tax increase referendum limits, if maximum increases are not taken there will be an ongoing detrimental impact on the ability to increase Council Tax in future years.
- 23 The 2017/18 Council Tax Base has increased from 49,680.5 to 49,902.9 Band D equivalent properties. That is an increase of 523.6 (1.05%) which is below the assumed increase of 580 (1.17%).
- 24 This is the lowest increase in Kent for 2018/19 and this council also has the lowest cumulative increase over the last five years. If increases continue to be low, there will be an on-going pressure on services to make compensating savings.

| Council Tax Base Increases | 2018/19 | 2014/15 - 2018/19 |
|----------------------------|---------|----------------------|
| Sevenoaks DC | 1.05% | 4.77% |
| Kent average | 2.16% | 8.62% |
| Kent highest | 3.82% | 13.40% |

- 25 **Business Rates Retention** (£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.
- 26 There has been a commitment from 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 Business Rates Retention in 2018/19. A Kent and Medway pilot bid was submitted including Sevenoaks, which was agreed by Cabinet on 12 October 2017.
- 27 It was announced in the Provisional Local Government Finance Settlement that the Kent and Medway pilot bid was one of ten successful bids. Latest calculations included in the bid suggest that this council could retain £2.7m. This is an amended figure from that included in the Budget Update report to Cabinet on 11 January 2018. However, adjustments are still being made to the Government calculations and further work will be completed to provide a more accurate estimate. The actual amount retained will depend on Business Rates collections levels across the county during the year.
- 28 The pilot is for one year only and it is uncertain what will happen in 2019/20 as the Government has announced that 75% Business Rates Retention (rather than 100%) will not fully commence until 2020/21 when amounts will also be re-based.

- 29 Revised ‘safety-net’ amounts were included in the settlement which have been included in the attached 10-year budget. The 2018/19 figure is £95,000 higher than the amount announced last year but the 2019/20 figure is £32,000 lower.

Business Rates Safety-Net

| | |
|---------|---------|
| 2018/19 | £2.150m |
| 2019/20 | £2.096m |

- 30 The settlement continued to include an indicative ‘tariff adjustment’ amount of £1.083m in 2019/20. This is in effect a negative Revenue Support Grant. 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.
- 31 Due to the uncertainty around Business Rates Retention, the following changes to the 10-year budget have been made that have no overall impact with the balance being transferred to the Budget Stabilisation Reserve.

| Business Rates Retention changes to the 10-year Budget | 2018/19 Impact £000 | 10-year Budget Impact £000 |
|--|------------------------|-------------------------------|
| Revised Safety-Net | (95) | 211 |
| Business Rates Retention pilot 2018/19 | (550) | (550) |
| Transfer to Budget Stabilisation Reserve | 339 | 339 |
| Total | (306) | 0 |

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.
- 33 The estimated balance on the collection fund at 16 January 2017 was zero whilst the actual surplus balance at 31 March 2017 was £507,500. The balance is relatively small in the context of the gross council tax collectible during 2016/17 of just over £80m. It came about following a review of the bad debt provision.
- 34 The calculation at 15 January 2018 estimates a likely surplus or deficit balance on the collection fund at 31 March 2018. This is based on the tax

bills issued for the year, current collection performance and the level of bad debt provision held.

- 35 The overall estimated surplus at 31 March 2018 is £1,519,500, of which the Council's share is £254,772. This has come about as a result of greater than expected council tax income plus a further review of the bad debt provision during 2017/18.

Other Changes to the 10-Year Budget agreed by Council in February 2017

- 36 **Pay costs** (£15m) - The 'National Employers for Local Government Services' have announced their final pay offer to the unions of a 2% increase in both 2018/19 and 2019/20. The unions have not accepted this offer so the actual increase is not yet known. The previous assumption in the 10-year budget was for a 1% increase in both years based on the previous Government announcement, and a 2% increase in later years. The attached 10-year budget has been amended to reflect a 2% increase in both 2018/19 and 2019/20.
- 37 **Council Tax** - There was an announcement in the Government's Autumn Budget regarding giving councils the ability to reduce empty property discounts from 2019/20. A separate report will be presented to Members prior to any changes to discounts being made but the attached 10-year budget assumes that an additional £65,000 of Council Tax will be received from 2019/20.
- 38 **Superannuation Fund** - Following the last triennial valuation of the superannuation fund for 2017/18, a £200,000 increase was included in the 10-year budget from 2020/21, the year of the next valuation. Recent information suggests that funds are performing better than previously expected, therefore the increase has been reduced to £100,000 in the attached 10-year budget.

Current Budget Position

- 39 There are two changes to the budget since the report to Cabinet on 11 January 2018.
- 40 The first is regarding the Business Rates Retention pilot which is explained above and has no net impact on the 10-year budget position.
- 41 The second is the Collection Fund surplus where the additional one-off income in 2018/19 for this council has increased by £11,000 to £254,772.
- 42 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 now remains for nine years up to and including 2026/27.
- 43 It is recognised that the recruitment and retention of staff continues to be a challenge. Officers are working to address these issues and it is anticipated that the cost of any changes will be met within approved budgets.

- 44 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.
- 45 Appendix D shows that the overall change in the 10-year Budget since it was last approved by Council in February 2017 is a very small improved position of £47,000 (i.e. £4,700 per annum).

2018/19 Budget and Council Tax

- 46 After allowing for the growth and savings agreed and the key changes made during this budget process, the resulting net expenditure for 2018/19 is £14.687m. As shown in Appendix E this results in Council Tax income of £10.42m, meaning that the District element of the Band D charge will be £208.80.
- 47 When the other preceptors announce their increases, details will be included in Appendix K.

Capital Programme

- 48 A report setting out the proposed 2018/21 Capital Programme, with supporting documentation in a standard format for individual scheme bids was presented to the Finance Advisory Committee on 30 January 2018 and Cabinet on 6 February 2018.
- 49 Scheme bid documents were received for all new schemes which included the proposed funding methods.
- 50 Unspent budgets in the current year's programme (2017/18) can be carried forward to 2018/19, subject to Cabinet approval, when the outturn is known.
- 51 Appendix H summarises the position if all schemes are approved, and indicates the funding method proposed.
- 52 Council will be informed at the meeting of any changes recommended by Cabinet.

Integration with other budget reports on the Cabinet Agenda

- 53 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)

- 54 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.
- 55 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 2018/19 budget.
 - The Financial Strategy, including a 10-year Budget, clear financial objectives and sensitivity analysis.
 - 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.
- 56 As is the case every year, inevitably there are a number of risk factors within the 2018/19 budget proposals; these are set out in some detail in Appendix J. This Appendix was also considered by the Finance Advisory Committee on 30 January 2018. Some of the more significant items are set out below.
- a) Pay costs
- Pay costs are budgeted on 100% basis, with a 2% inflationary pay award assumption in 2018/19 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 2017/18 and are not expected to increase significantly 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 2018/19 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.

- 57 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

- 58 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.
- 59 This Council aims to continue to look for better ways to operate and therefore improve the service to our customers. This has been shown by the success in 2017 of winning the CIPFA Public Finance Innovation Award.

- 60 A Corporate Project Support Reserve is a crucial funding source to allow innovations to develop and for new capital and revenue projects to be investigated, assessed and implemented. It is recommended that further funds are moved to this reserve. One major project that has recently commenced is Customer Redesign which aims to improve the customer experience and make Sevenoaks a “Seriously Different Council”. This will allow the customer to be dealt with more quickly and where possible at the first point of contact.
- 61 It is recommended that the Council hold a minimum General Fund reserve balance of 10% of its net Revenue Budget, for emergencies.
- 62 The strong formal advice of the Section 151 officer to the Council is that every effort must be made to achieve the agreed savings 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 2018/19 this equates to £1.47m).

Referendums relating to council tax increases

- 63 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.
- 64 The Secretary of State has published draft thresholds in relation to 2018/19 council tax levels. District councils will be allowed a Band D council tax increase of the higher of 3% or £5. This council is therefore able to increase Band D council tax by up to 3% 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 2018/19 reports to Cabinet on 7 December 2017 and 11 January 2018.

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 remain 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 £208.80.

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 changes to the 10-year Budget

Appendix E - Summary of Council Expenditure and Council Tax (*this is an updated version of this appendix since the printing of the Cabinet agenda*)

Appendix F - Summary of service analysis in budget book format

Appendix G - Analysis of pay costs

Appendix H - Capital Programme 2018-21 (also being considered by Finance Advisory Committee on 30 January 2018)

Appendix I - Reserves

Appendix J - Risk analysis (also being considered by Finance Advisory Committee on 30 January 2018)

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 Council 21 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)

[Report to Cabinet 7 December 2017 - Budget Update 2018/19](#)

[Report to Cabinet 11 January 2018 - Budget Update 2018/19](#)

Adrian Rowbotham
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