

FINANCIAL PROSPECTS AND BUDGET STRATEGY 2019/20 AND BEYOND

Finance Advisory Committee - 4 September 2018

Report of	Chief Finance Officer
Status	For Decision
Also considered by	Cabinet - 13 September 2018
Key Decision	No

Executive Summary:

This Financial Prospects Report is the first report of the Council's budget setting process for 2019/20 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 that 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 net savings requirement of £100,000 per annum is currently included. This will need to be achieved by new savings and additional income whilst also having to offset any new growth items. 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 6 December 2018.

Portfolio Holder Cllr. John Scholey

Contact Officer(s) Adrian Rowbotham, Ext. 7153
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Recommendation to Finance Advisory Committee:

Advise Cabinet with views on the ten-year financial planning approach and principles set out in the report.

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 6 December 2018.

Introduction and Background

- 1 The Council's financial strategy over the past fourteen 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 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.
- 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 6 December 2018 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 2019/20 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 receiving 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 Association's 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 support for 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.

Financial Pressures 2019/20 to 2028/29

Overall Summary

- 13 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.
- 14 Looking at expenditure, inflation is running at 2.5% (CPI at July 2018).
- 15 The Local Government Finance Settlement for 2017/18 confirmed that this council was one of the 97% of councils that accepted the multi-year settlement that was offered. The grants included in this offer were:
- Revenue Support Grant - nil in 2017/18 to 2019/20.
 - Transitional Grant - £123,000 in 2017/18, nil in 2018/19 to 2019/20.
 - Rural Services Delivery Grant - nil in 2017/18 to 2019/20.
- 16 The Provisional Local Government Finance Settlement for 2019/20 is not likely to be announced by Government until late December. The grants listed above should not change in the settlement. The Ministry of Housing, Communities and Local Government (HMCLG) is currently undertaking a technical consultation which may lead to changes to New Homes Bonus and Business Rates Retention. New Homes Bonus is no longer used to fund the revenue budget so any change should not have an impact on the budget setting process. Any change to Business Rates Retention may impact on the budget setting process.
- 17 The 10-year budget attached at Appendix B shows a net savings requirement of £100,000 per annum to deliver a long term sustainable budget.
- 18 The paragraphs below set out the position in more detail and assess the impact on the current 10-year budget.

Income

- 19 Each year in the 10 year budget there is about a £4m gap between net service expenditure and Council Tax revenue. While it is reasonable to assume that inflation rates for these two items will generally be similar, inflationary changes of the items which we rely on to bridge the gap may be very different. In particular the council's receipts from Business Rates could be very variable. Members should be aware that significant changes to income assumptions may result in higher levels of savings being required.

- 20 **Government Support: Revenue Support Grant (RSG)** (nil received in 2018/19) - 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.
- 21 **New Homes Bonus (NHB)** (£1.3m received in 2018/19 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. The basis of NHB was changed with effect from 2017/18. Previously it was based on cumulative figures for 6 years but this was 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 (known as the deadweight).
- 22 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.

New Homes Bonus (estimated amounts based on 2018/19 settlement)

2018/19	£1.320m
2019/20	£1.152m

- 23 The MHCLG technical consultation suggests that the current 0.4% deadweight figure will increase resulting in less NHB being received and it is possible that NHB will be replaced by a different method to incentivise housing growth.
- 24 **Council Tax** (£10.4m) - The Government referendum limit has initially been set at 2% in recent years although it has been changed later in the process. In 2018/19 the referendum limit was increased to 3% (or £5 if higher) in line with inflation. Council agreed to increase Council Tax by 2.97% in 2018/19 but to retain the assumption in the 10-year budget at 2% for all later years.
- 25 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.
- 26 Officers will be reviewing the tax base for the 10-year period taking into account the latest information including the Local Plan.

- 27 **Business Rates Retention** (£2.7m) - 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.
- 28 There has been a commitment from Government to introduce 100% Business Rates Retention since before the 2015 General Election. The MHCLG invited local authorities to participate in a pilot of Business Rates Retention in 2018/19 only. A Kent and Medway pilot bid was submitted including Sevenoaks, which was agreed by Cabinet on 12 October 2017.
- 29 The Kent and Medway pilot bid was one of ten successful bids. The assumption in the 10-year budget is that this Council retains £2.7m in 2018/19 (if the pilot bid had not been successful, only £2.1m would have been retained as the safety net level). The actual amount retained will depend on Business Rates collections levels across the county during the year.
- 30 The pilot is for one year only and MHCLG have now requested pilot bids for 2019/20 with a deadline of 25 September 2018. Kent and Medway are currently working on completing a bid for 2019/20 and Members will be updated as this progresses.
- 31 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.
- 32 The 2018/19 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. The MHCLG are currently carrying out a consultation including asking for comments on the ‘tariff adjustment’ which the Council will be responding to.
- 33 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 from 2019/20 remains at the safety-net level, which is the amount of business rates the council is assured of retaining in the current scheme.

Business Rates Retention

2018/19	£2.700m (pilot assumption)
2019/20	£2.096m (safety net i.e. minimum amount)

- 34 Due to the uncertainty around Business Rates Retention, the increased amount in 2018/19 will be transferred to the Budget Stabilisation Reserve.
- 35 **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.
- 36 The interest receipts assumptions are currently £130,000 for 2018/19 and £250,000 for later years. The Bank of England Base Rate has recently increased from 0.5% to 0.75%, therefore the assumptions will be reviewed based on advice from our treasury advisors.
- 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 Five assets have been purchased to date at a cost of £18m and on 25 April 2017, Council agreed to set aside a further £25m for the Property Investment Strategy.

Property Investment Strategy income assumptions

2018/19	£0.735m
2019/20 - 2022/23	£1.185m per annum (includes hotel income)
2023/24	£1.285m
2024/25 - 2025/26	£1.329m per annum
2026/27 - 2027/28	£1.529m per annum

- 39 **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 (£0.9m);
 - Building Control (£0.5m);
 - Car parks (£2.3m); and
 - On-street parking (£1.0m)
- 40 The first three are linked to some extent to activity in the housing market and remain variable.
- 41 The assumption is currently for a 2.5% increase for all years except for off-street car parking which is 3.5% for five years (2019/20 - 2023/24). The

additional 1% for car parks is one of the funding streams for the development of Buckhurst 2 Car Park as agreed by Council on 22 November 2016.

- 42 **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 may reduce.
- 43 There remains some uncertainty regarding the LEADER Programme following the outcome of the EU Referendum however, LEADER groups have been advised that they still have the same budget as originally awarded but should aim to have all of their funds committed by March 2019 instead of December 2020. Government has also given a commitment to maintain cash support for farming at the same levels until the end of the current Parliament and intend to consult on their plans later in 2018.
- 44 **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. The viability of continuing to share these services takes place in conjunction with our partners and 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.
- 45 **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

- 46 **Pay** costs total £15m. The national pay award for 2019/20 has been set at 2%.
- 47 The assumption in the attached 10-year budget is a 2% increase in all years.
- 48 Members previously agreed that a budget would be set aside to address the Council's recruitment and retention difficulties and challenges going forward.

- 49 **Superannuation fund** - the last pension fund triennial valuation, which was the third by the actuaries Barnett Waddingham, took place in November 2016.
- 50 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 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.
- 51 **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 2.5% (CPI - July 2018).
- 52 **Asset Maintenance** - Any asset maintenance expenditure is funded by the revenue budget each year. Asset maintenance expenditure can fluctuate as the demand for programmed and ad hoc work varies across sites. It is recognised that expenditure is likely to increase over the next 10 years if the Council wishes to keep all of its properties open as they age.
- 53 Officers are currently carrying out a review of the asset maintenance requirements for council owned properties. The financial implications from this review will be included in this budget cycle and it is likely that costs will increase and therefore a growth item is expected to be presented during this budget process.
- 54 **Welfare reform changes** - Universal Credit commenced within the district in October 2015 but only in a very small way. The introduction of Full Service Universal Credit (FSUC) will commence in the district on 21 November 2018 will, as experienced in other FSUC areas, bring a number of challenges to both the administration of Council Tax Reduction and also the collection of Council Tax. On 12 July 2018 Cabinet agreed to consult on a new Council Tax Reduction scheme for 2019/20 that will aim to address these challenges.
- 55 **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 that 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.
- 56 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.

- 57 ***Progress on the savings plan*** - 2019/20 will be the ninth year of using the 10-year budget. During this period, 157 savings items have been identified totalling £7.4m. 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.
- 58 The following table shows the differences between the 10-year budget agreed by Council on 20 February 2018 and the latest version set out in Appendix B.

10-Year Budget (total changes for the 10-year period)	£000
Base changes:	
Rolled on to 28/29 and base figures updated to 18/19 budget	475
Assumption changes:	
None	-
Total 10-year budget change gap/(surplus)	475

- 59 The above table shows increased costs of £475,000 over the 10-year period (or £47,000 on average per annum). However, the 2017/18 outturn surplus of £856,000 has been transferred to the Budget Stabilisation Reserve. At this stage, it is not proposed to change the £100,000 net savings/ additional income target for 2019/20 as further changes and additional growth are likely to be included within the assumptions as the budget setting process progresses.
- 60 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

- 61 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.

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

Process and timetable

63 Members will note from the timetable set out in Appendix A that this report is being considered by the Finance Advisory Committee on 4 September 2018 and any comments will be considered along with this report at Cabinet on 13 September 2018.

64 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.

65 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. If Members require refresher training, please contact Adrian Rowbotham, Chief Finance Officer.

66 Cabinet will receive a Budget Update report on 6 December 2018 taking into account any updated information and feedback from the Advisory Committees. Cabinet will agree its draft budget on 14 February 2019 and Full Council will consider the budget on 26 February 2019.

Consultation

67 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.

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.

