

BUDGET UPDATE 2019/20

Cabinet - 10 January 2019

Report of	Chief Finance Officer
Status	For Consideration
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 eight 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 ninth year this method has been used and provides the Council with a stable basis for future years.

This report sets out progress made in preparing the 2019/20 budget and updates Members on key financial information.

The Provisional Local Government Finance Settlement was announced on 13 December 2018. The two most relevant elements for this Council were that the Council Tax increase referendum limit for 2019/20 has been increased from 2% to 3% (or £5 if higher) and that the Kent and Medway Business Rates Retention Bid for 2019/20 was unsuccessful.

The current budget position is a £3,000 per annum gap over the 10-year budget period.

Cabinet will make its final recommendation on the budget at its meeting on 14 February 2019, after taking into account any updated information available at that date.

Portfolio Holder	Cllr. John Scholey
Contact Officer(s)	Adrian Rowbotham, Ext. 7153 Alan Mitchell, Ext. 7483

Recommendation to Cabinet:

- (a) Members give consideration to the growth and savings proposals in Appendix E and make one of the following recommendations for each:
 - i. Support the SCIA and include in the budget
 - ii. Investigate further and consider for the 2019/20 budget setting
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process.

- iii. Keep on the list for possible future investigation
- (b) Recommend the Council Tax increase for 2019/20.
- (c) Depending on the budget position following the recommendations above, provide officers with any further instructions.

Introduction and Background

- 1 At the Cabinet meeting on 13 September 2018, Members considered a report setting out the Council's financial prospects for 2019/20 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 2019/20 and beyond.
- 2 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 6 December 2018.
- 3 The report to Cabinet on 6 December 2018 also contained updates to the Financial Prospects report.
- 4 This report sets out the current position for the 2019/20 budget and updates Members on key financial information received since the last report, including the Provisional Local Government Finance Settlement announced on 13 December 2018.

Financial Self-Sufficiency

- 5 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.
- 6 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.
- 7 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.

- 8 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'.
- 9 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.
- 10 Cabinet are keen to remain financially self-sufficient and be ahead of the game. This will allow this Council to move ahead in the knowledge that this Council has the financial resources to provide the services that the district's residents want into the future.

Updates to the Financial Prospects Report

- 11 The Financial Prospects report considered in September raised a number of financial risk areas for the Council. These were updated in the December report but further information has been received since which is explained below.
- 12 ***The Provisional Local Government Finance Settlement*** for 2019/20 was announced on 13 December 2018 and was for 2019/20 only. The most relevant elements for this Council were as follows:
 - The Council Tax increase referendum limit for district councils for 2019/20 has been increased from 2% to 3% (or £5 if higher).
 - The Kent and Medway Business Rates Retention Bid for 2019/20 was not successful.
 - The Fair Funding Review consultation paper has been published.
 - The Business Rates Retention consultation paper has been published.
 - Commercialisation - The Secretary of State said that he shared the concerns of CIPFA regarding some councils' commercial investments and the potential "risks they are exposing" themselves and the public to and he would discuss with the Treasury "whether further intervention might be required"

- 13 **Government Support: Revenue Support Grant (RSG)** (£nil received in 2018/19) - As previously assumed, this council no longer receives Revenue Support Grant from 2017/18.
- 14 **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 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 (known as the deadweight).
- 15 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 amount)

2019/20	£1.220m
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- 16 **Council Tax** (£10.4m) - in the Local Government Finance Settlement it was announced that the referendum limit for 2019/20 was being increased to 3% (or £5 if higher) in line with current inflation.
- 17 Band D Council Tax in 2018/19 is £208.80 and the following table shows the potential changes.

2019/20 Council Tax	Original Assumptions	Referendum Limit
% increase	2.00%	2.97%
£ increase (Band D pa)	£4.18	£6.21
£ (Band D pa)	£212.98	£215.01

- 18 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.
- 19 The Council Tax Base has increased from 49,902.9 to 50,772.3 Band D equivalent properties. That is an increase of 869.4 (1.17%) which is below the assumed increase of 880.5 (1.18%).
- 20 Part of this increase is due to changes to the empty property discount. A year ago the Government announced that Council's would be able to make changes from 2019/20 but the details have only recently been published. As

part of the 2018/19 budget setting process, Members agreed that an estimated change for this would be included in the assumptions and a separate report on this is being presented at this meeting.

- 21 The Collection Fund position, which is where Council Tax and Business Rates income is initially held before being distributed, will be reviewed in January. It is currently estimated that there will be no impact in 2019/20.
- 22 **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.
- 23 There has been a commitment from Government to introduce 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 and was successful. This resulted in this Council retaining significantly more Business Rates in 2018/19 than had previously been assumed.
- 24 That pilot was for one year only and a further Kent and Medway pilot bid was submitted for 2019/20 but was not successful.
- 25 The situation in Kent and Medway is that Business Rates Retention for 2019/20 will revert back to the Business Rates Pool which operated in 2017/18. This Council and Dover Borough Council were not part of that pool but as part of the pilot negotiations it was agreed that Sevenoaks and Dover would benefit as if they were in the pool.
- 26 The assumption in the 10-year budget assumes Business Rates at the safety net level of £2.1m but it is expected that a higher amount will be retained due to the pool agreement.
- 27 The 'safety-net' amount in the Local Government Finance Settlement for 2019/20 is £1,000 higher than included in the previous year's settlement but there is also a one-off levy surplus distribution amount of £35,000.

Business Rates Safety-Net	
2019/20	£2.132m

- 28 The previous settlement continued to include an indicative 'tariff adjustment' (known as negative RSG) amount of £1.083m in 2019/20. It is pleasing to report that this has now been removed from the latest settlement.

- 29 **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.
- 30 The Bank of England Base Rate increased from 0.5% to 0.75% in August and recent investments have reflected this change. Link Asset Services, the Council's treasury advisors, are forecasting further increases over the next two years.
- 31 Based on the above information the interest receipts assumption for 2019/20 has been reduced from £250,000 to £200,000 but remains at £250,000 in later years.
- 32 **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.
- 33 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. The Sennocke Hotel is also now open.
- 34 The income assumptions are proposed to be updated based on the current income levels.

Property Investment Strategy Income	Previous Assumption	Proposed Assumption
2019/20	£1.185m	£1.258m
2020/21 - 2022/23	£1.185m	£1.311m
2023/24	£1.285m	£1.411m
2024/25 - 2025/26	£1.329m	£1.455m
2026/27 - 2028/29	£1.529m	£1.655m

- 35 A Property Investment Strategy Update report will be presented to Finance Advisory Committee on 29 January 2019 and Cabinet on 14 February 2019.
- 36 **Pay costs** (£15m) - The pay award assumption in the previous 10-year budget was 2% per annum. The national pay award for 2019/20 has been finalised with staff on Band D and above receiving a 2% increase with staff on Bands A-C receiving a greater increase (on average over 3%). This additional increase for lower paid staff will increase the cost of the 2019/20 pay award by £60,000.
- 37 Members previously agreed that a budget would be set aside to address the Council's recruitment and retention difficulties and challenges going forward.

- 38 The Council's new Council Plan was recently launched. In order to ensure the effective delivery of the Council Plan, some services are being redesigned so that they are better aligned to customer needs and with a much stronger emphasis on wrapping services around the customer.
- 39 In order to achieve this, the new Customer Solutions Centre has recently started operating. The Customer Solutions Centre is resourced with a wider skill set in order to deal with more interactions at first point of contact and in parallel more effective processing is being investigated. It is anticipated that the cost of these changes can be met within approved budgets and therefore a SCIA will not be required.
- 40 **Superannuation fund** - the last pension fund triennial valuation, which was the third by the actuaries Barnett Waddingham, took place in November 2016.
- 41 The funding level has increased from 72% to 77% since the previous valuation in 2013 and the deficit recovery period for the fund has reduced from 20 years to 17 years. The 10-year budget includes the contribution amounts set by the actuaries for 2017/18 to 2019/20 and includes an additional £100,000 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.
- 42 **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. Following detailed work on the non-pay costs budget, the actual amount allocated for 2019/20 is £12,000 less than previously assumed. Inflation is currently at 2.3% (CPI - November 2018).
- 43 **Use of Reserves** - Ensuring the adequacy and sustainability of the Council's reserves continues to be a key part of the budget process. A detailed review of reserves will be included in the February Cabinet report.

Current Budget Position

- 44 The table at **Appendix D** shows the differences between the 10-year budget agreed by Council on 20 February 2018 and the latest version set out in **Appendix B**. This shows that only a £3,000 budget gap remains.
- 45 The Advisory Committees made a number of further growth and savings suggestions which were discussed by Cabinet on 6 December 2018. Cabinet resolved that the following items be considered for this budget cycle and for SCIA's (**Appendix E**) to be presented to this Cabinet.

Growth

- Preventative asset maintenance in order to have it fully funded within five years. (SCIA16)

Savings

- The Parish Projects capital budget of £51,000 be investigated as a possible one off saving due to the now alternative option of Community Infrastructure Levy (CIL) funding. (SCIA17)
 - Responding to legislation. (SCIA18)
 - Review of the associated costs of agenda printing, delivery and Member postal arrangements. (SCIA19)
 - A taxi licensing training centre at the Council's offices. (SCIA20)
 - An increase in the publicity of the Council's MOT test centre. (SCIA21)
- 46 Members are asked to give consideration to the growth and savings proposals (SCIAs) in **Appendix E** and make one of the following recommendations:
- i. Support the SCIA and include in the budget.
 - ii. Investigate further and consider for the 2019/20 budget setting process.
 - iii. Keep on the list for possible future investigation.
- 47 The current budget gap of £3,000 per annum will be updated once views are obtained on the Council Tax increase for 2019/20 and the SCIAs listed above.

Key Implications

Financial

All financial implications are covered elsewhere in this report.

Legal Implications and Risk Assessment Statement.

There are no legal implications.

For the effective management of our resources and in order to achieve a sustainable budget it is essential that all service cost changes and risks are identified and considered.

Current and future challenges together with risks were included in the Service Dashboards presented to the Advisory Committees and each Service Change Impact Assessment (SCIA) includes the likely impacts including a risk analysis.

An effective integrated policy and priority driven long-term financial and business process is required for the Council to deliver on its priorities and maintain a sustainable budget. It is also essential that continuous improvements are identified and implemented in order to take account of the changing climate within which the Council operates and to meet the expectations of both Government and the public on the quality of service demanded from this Council.

The risks associated with the 10-year budget approach include uncertainty around the level of shortfall and the timing of key announcements such as future changes to Business Rates Retention. The risk will be mitigated by continuing to review assumptions and estimates and by updating Members throughout the process.

Equality Assessment

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to (i) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010, (ii) advance equality of opportunity between people from different groups, and (iii) foster good relations between people from different groups.

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

Community Impact and Outcomes

Members' early consideration of the issues raised in this report would be beneficial to residents in that a planned approach to achieving a balanced budget should produce the best outcome for the community in limiting the level in budget reductions.

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 - Service Change Impact Assessment forms (SCIAs) for new growth and savings proposals

Background Papers

Report to Cabinet 6 February 2018 - Budget and Council Tax Setting 2018/19

Report to Cabinet 13 September 2018 - Financial Prospects and Budget Strategy 2019/20 and Beyond

Report to Economic and Community Development
Advisory Committee 25 September 2018, Planning
Advisory Committee 2 October 2018, Legal and
Democratic Services Advisory Committee 4
October 2018, Direct and Trading Advisory
Committee 9 October 2018, Finance Advisory
Committee 15 November 2018, Housing and
Health Advisory Committee 27 November 2018,
Policy and Performance Advisory Committee 29
November 2018 - Budget 2019/20: Service
Dashboards and Service Change Impact
Assessments (SCIAs)

Report to Cabinet 6 December 2018 - Budget
Update 2019/20

Adrian Rowbotham
Chief Finance Officer