FINANCIAL PROSPECTS AND BUDGET STRATEGY 2020/21 AND BEYOND

Cabinet – 12 September 2019

Report of	Chief Finance Officer
Status	For Decision
Also considered by	2019 Finance and Investment Advisory Committee – 3 September 2019
Key Decision	No

Executive Summary:

This Financial Prospects Report is the first report of the Council's budget setting process for 2020/21 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.

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 5 December 2019.

Portfolio Holder	Cllr. Matthew Dickins
Contact Officer(s)	Adrian Rowbotham, Ext. 7153
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Recommendation to Finance and Investment 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 and Investment 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 5 December 2019.

Introduction and Background

1 The Council's financial strategy over the past fifteen 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 5 December 2019 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 2020/21 onwards.

Financial Self-Sufficiency

7 The Council's Corporate Plan 2013-2018 set out an ambition for the Council to become financially self-sufficient which was achieved in 2016/17. The current Council Plan aims to continue with this approach. 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 was faced with in bringing its public spending down to ensure it was 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 an income yield of 3%+ above the Council's average treasury management

return (currently 0.8%) when not borrowing or internally borrowing, and 3%+ above the borrowing rate (currently 2.2% for 30 years). 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 include a new target to replace reliance on Business Rates income over the coming years. 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 need into the future.

Financial Pressures 2020/21 to 2029/30

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 2.0% (CPI at July 2019).

15 The last government had previously stated its intention to hold a new Spending Review in 2019 covering the period 2020/21 to 2022/23. However, due to the focus on Brexit, the new government recently announced that a full Spending Review will now be held in 2020 and a one-year Spending Round will take place in September 2019. The Spending Round will allocate funding to government departments for 2020/21.

16 Based on previous years, the Provisional Local Government Finance Settlement for 2020/21 only will probably be announced in December.

17 Earlier in 2019 the government carried out consultations on the 'Fair Funding Review' and 'Business Rates Retention Reform' which this council responded to, but no findings have yet been released.

18 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. This has been reduced to £93,000 in 2020/21 as extra savings were identified in the 2019/20 budget process.

19 The paragraphs below set out the position in more detail and assess the impact on the current 10-year budget.

Income

20 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.

21 ***Government Support: Revenue Support Grant (RSG)*** (nil received in 2019/20) – This formula-based grant has significantly reduced since 2010/11 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.

22 Negative RSG (i.e. where council's pay government) has previously been proposed by government but was not actioned due to intense lobbying which this council was heavily involved in. This remains a threat going forward.

23 ***New Homes Bonus (NHB)*** (£1.2m received in 2019/20 but not used to fund the revenue budget) – the Government started this new funding stream in 2011/12 from funds top sliced from RSG 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 was only received on tax base growth above 0.4% instead of on all growth (known as the deadweight).

24 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.

25 It is likely that NHB will soon be replaced by a different method to incentivise housing growth.

26 ***Council Tax*** (£10.9m) – The Government referendum limit has initially been set at 2% in recent years although it has been changed later in the process. In 2019/20 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 2019/20 but to retain the assumption in the 10-year budget at 2% for all later years.

27 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 although it should be recognised that there are likely to be step changes in costs for some services in the future such as refuse collection. The Local Plan may also affect future Council Tax assumptions.

28 Officers will be reviewing the tax base for the 10-year period taking into account the latest information including the Local Plan.

29 ***Business Rates Retention*** (£2.1m) - 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. This council is due to collect £37m of Business Rates in 2019/20.

30 A Business Rates Pool operates in Kent and Medway which generally results in councils retaining more Business Rates than if they were not in the pool. This council and Dover Borough Council were not part of the pool in previous years, but it has been agreed that Sevenoaks and Dover will benefit as if they were in the pool going forward. This is the first year that this council has been in this position so the additional benefits are uncertain at this time but updated figures will be provided during the budget process.

31 Due to the large number of business rates appeals being outstanding (£2.5m is held in the Business Rates Appeals Provision) 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 if it were not in a pool.

32 Any increased Business Rates retained in 2019/20 due to being in the Kent and Medway Pool will be transferred to the Budget Stabilisation Reserve.

33 With the outcome of the Spending Review and the results of the 'Fair Funding Review' and 'Business Rates Retention Reform' remaining unknown, there is a risk that this council may no longer retain any Business Rates in the future. This would result in a funding gap that would need to be replaced by additional income or further savings.

34 ***Interest receipts*** (£0.25m) – 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. Whilst returns exceeded Budget last year, inflation continues to outpace investment returns, leading to the gradual erosion of capital in real terms.

35 The interest receipts assumptions are currently £250,000 for all years excluding interest received from Quercus 7 Ltd which is included in Property Investment Strategy Income. The Bank of England Base Rate is currently 0.75%. Assumptions will be reviewed based on advice from our treasury advisors and discussions with the Finance and Investment Advisory Committee during the budget process.

36 ***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.

37 Six assets have been purchased or built to date, including the Sennocke Hotel, at a cost of £25m. The annual income yields for completed schemes range from 6% to 9%.

38 A total of £50m has been approved by Council to be spent on the Property Investment Strategy. As well as the £25m above, £4m has been spent by Quercus 7 Ltd on three assets resulting in £21m of the approved amount remaining.

Property Investment Strategy income assumptions

2020/21 – 2022/23	£1.311m per annum
2023/24	£1.411m
2024/25 – 2025/26	£1.455m per annum
2026/27 – 2028/29	£1.655m per annum
2029/30	£1.696m

39 A Property Investment Strategy Update report will be produced later in the budget cycle.

- ***Variable fees and charges*** – The Council receives income in fees and charges from a number of sources.

40 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 parking is one of the funding streams for the development of Sevenoaks Town (formerly Buckhurst 2) Car Park as agreed by Council on 22 November 2016.

41 ***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.

42 ***Shared working*** - Various services have included savings from shared working in recent years budgets. The Council successfully works in partnership with other authorities in a number of areas, including Revenues, Benefits, Internal Audit, Counter Fraud, Finance, IT, Licensing, Building Control, CCTV and Environmental Health.

43 The largest savings were achieved when each shared service started, some of which were in 2010. The viability of continuing to share these services is

reviewed on a regular basis to ensure that this Council receives value for money and the service standards it requires.

44 ***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.

45 The balance in the Budget Stabilisation Reserve is sufficient to support to the attached 10-year budget.

Expenditure

46 ***Pay*** costs total £16m. Discussions between the National Employers for Local Government Services and the unions regarding the national pay award for 2020/21 are due to commence shortly.

47 The assumption in the attached 10-year budget is a 2% increase in all years. Work on a new workforce strategy may have an impact on assumptions and will be monitored as it progresses.

48 Members previously agreed that a budget would be set aside to address the Council’s recruitment and retention difficulties and challenges going forward. This remains in place and will be used as required.

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 increased from 72% to 77% since the previous valuation in 2013 and the deficit recovery period for the fund 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 £100,000 from 2020/21 when the next triennial valuation will come in to effect.

51 The next triennial valuation is due to take place later in 2019 and the implications will be included in the budget process at that stage.

52 One issue that is likely to adversely impact the valuation is the McCloud Judgement. In December 2018, the Court of Appeal ruled that there was age discrimination in the judges’ and firefighters’ pension schemes where transitional protections were given to scheme members. It has since been identified that this ruling is likely to affect Local Government Pension Schemes (LGPS) as well (of which Sevenoaks District Council is part, through the Kent County Pension Fund), although the impact had been uncertain due

to a potential appeal from Central Government against the ruling. However, the Supreme Court rejected permission to appeal the ruling on 27 June 2019.

53 ***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 2.0% (CPI – July 2019).

54 ***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. A review of the asset maintenance requirements for council owned properties was carried out last year with the budget being increased by £100,000. This resulted in the average yearly liability covered increasing from 54% to 67%. Asset maintenance budgets will be reviewed again as part of this budget cycle.

55 ***Welfare reform changes -*** The next phase of Universal Credit commenced in the district on 21 November 2018. This is known as 'Full Service' but mainly affects new working age customers. The rest of our working age customers still remain on Housing Benefit. The next step is currently being piloted by DWP who still intend to move all customers across to Universal Credit by 2023. The delays in Universal Credit and the phased approach continues to bring many challenges to the administration of Housing Benefit. However, the Council agreed a new working age Council Tax Reduction scheme which came into effect from 1 April 2019 which addresses challenges to both administration of Council Tax Reduction and also the collection of Council Tax.

56 ***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 October and November.

57 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. However, it should be recognised that by having a 10-year budget there is greater scope to deal with these pressures and therefore have less impact on current services where as other councils who only have single year budgets would have to make larger immediate savings.

58 ***Progress on the savings plan*** – 2020/21 will be the tenth year of using the 10-year budget. During this period, 164 savings/additional income items have been identified totalling £7.6m. The majority of these savings/additional income items have already been achieved and Portfolio

Holders, Chief Officers, Heads of Service and Service Managers have worked closely to deliver these savings.

59 ***Changes since the 10-year budget started*** **-** The table below shows how the Net Service Expenditure has changed since 2010/11. This shows that the budget has reduced by £4.7m (28%) in real terms.

Net Service Expenditure	**£000**
2010/11 (budget)	16,711
2019/20 (2010/11 budget +2% inflation per year)	19,971
2019/20 (budget)	15,251
Difference	4,720

60 ***Current 10-year budget position*** – The 10-year budget set out in Appendix B has been updated from the version agreed by Council on 26 February 2019 to reflect base budget changes.

61 These changes have had minimal impact on the overall budget position therefore at this stage, it is not proposed to change the £93,000 net savings/ additional income target for 2020/21 as further changes and additional growth are likely to be included within the assumptions as the budget setting process progresses.

62 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

63 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.

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

Process and timetable

65 Members will note from the timetable set out in Appendix A that this report is being considered by the Finance and Investment Advisory Committee on 3 September 2019 and any comments will be considered along with this report at Cabinet on 12 September 2019.

66 All Advisory Committees will be presented with their Service Dashboards and Service Change Impact Assessments (SCIAs) between October 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.

67 Training sessions on the budget process will be provided and aimed at new Members 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 any further training, please contact Adrian Rowbotham, Chief Finance Officer.

68 Cabinet will receive a Budget Update report on 5 December 2019 taking into account any updated information and feedback from the Advisory Committees. Cabinet will agree its draft budget on 6 February 2020 and Full Council will consider the budget on 25 February 2020.

Consultation

69 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 planning 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 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.

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 that 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.

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