

BUDGET UPDATE 2020/21

Cabinet - 5 December 2019

Report of Chief Officer Finance and Trading

Status For Decision

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 nine 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 tenth 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 2020/21 budget and updates Members on key financial information.

Included in the last report was an assumption that £93,000 of net savings /additional income per annum were included for this budget cycle. The SCIA's listed in Appendix D show that savings exceeding this amount are being proposed but that there are also growth items proposed. If all of these proposals are accepted by Cabinet together with the changes to assumptions, further savings / additional income of £99,000 will still be required to produce a balanced 10-year budget.

There are however still some uncertainties as the Provisional Local Government Finance Settlement is not expected to be announced until January 2020. This may include changes to the current assumptions such as increasing the Council Tax referendum limit.

The Cabinet will make its final recommendation on the budget at its meeting on 6 February 2020, after taking into account any updated information available at that date.

Portfolio Holder Cllr. Matthew Dickins

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Recommendation to Cabinet:

- (a) Consider and respond to comments and recommendations of the Advisory Committees regarding the savings proposals listed in Appendix D.
- (b) Look at the further growth and savings suggestions put forward by the Advisory Committees listed in Appendix F and decide one of the following options for each suggestion:
 - (i) Consider for this budget cycle and ask for SCIAs to be presented to Cabinet in January.
 - (ii) Do not take any further
- (c) Request that officers identify further savings options to be included in the Budget Update report to Cabinet on 9 January 2019.

Reason for recommendation: It is important that the views of the Advisory Committees are taken into account in the budget process to ensure that the Council's resources are used in the most suitable manner.

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.
- 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 up to date 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 financial strategy that is focused on local solutions. These solutions include:
 - continuing to deliver financial savings and service efficiencies;
 - growing the council tax and business rate base; and
 - generating more income.
- 6 At the Cabinet meeting on 12 September 2019, Members considered a report setting out the Council's financial prospects for 2020/21 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 2020/21 and beyond.
- 7 As part of the budget process officers put forward their Service Dashboards to the Advisory Committees between October and November, which set out a summary of current and future challenges and risks. The Advisory Committees recommended new growth and savings items which will be considered at this meeting.

Financial Self-Sufficiency

- 8 The Council's Corporate Plan, introduced in 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.
- 9 This approach was adopted in response to the financial challenges the Country was 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.
- 10 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.
- 11 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'.

- 12 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 an income yield of 3%+ above the Council's average treasury management return (currently 0.9%) when not borrowing or internally borrowing, and 3%+ above the borrowing rate (currently 2.8% for 30 years). Therefore, using funding for this purpose will result in additional year on year income that is not impacted by Government decisions.
- 13 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.

Updates to the Financial Prospects Report

- 14 The following sections provide the latest information on the major income and expenditure streams together with details of the assumptions included in the attached 10-year budget.
- 15 The Government announced its one-year Spending Round on 4 September 2019 which provided some high-level updates but due to the upcoming General Election on 12 December 2019, an Autumn Budget has not been announced.
- 16 This has had a knock-on effect on the Provisional Local Government Finance Settlement which was due to be announced in December. This is now unlikely to take place until January which results in uncertainty in the budget setting process.

Income

- 17 **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.
- 18 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. It was announced in the Spending Round that there would not be negative RSG in 2020/21 but this remains a threat going forward.

- 19 ***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).
- 20 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.
- 21 It is likely that NHB will soon be replaced by a different method to incentivise housing growth.
- 22 ***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.
- 23 It is possible that the Government will amend the referendum limit for the Council Tax increase for district council's again in 2020/21.
- 24 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.
- 25 ***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.
- 26 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. A request has been made to MHCLG to continue with the Kent and Medway Pool for 2020/21.

- 27 Due to the large number of business rates appeals being outstanding with the Valuation Office Agency (VOA) and the limited opportunities to increase the number of businesses in the district, the assumption in the 10-year budget remains at the safety-net level, which is the amount of business rates the council is assured of retaining in the current scheme if it were not in a pool.
- 28 Any increased Business Rates retained in 2020/21 due to being in the Kent and Medway Pool will be transferred to the Budget Stabilisation Reserve.
- 29 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.
- 30 **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.
- 31 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.
- 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 Six assets have been purchased or built to date, including the Sennocke Hotel, at a cost of £25m.
- 34 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

- 35 A Property Investment Strategy Update report will be presented to Finance Advisory Committee in January and Cabinet on 6 February 2020.
- 36 **Variable fees and charges** - the Council receives income in fees and charges from a number of sources.
- 37 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.
- 38 **External Funding** - the Council has been very successful in securing external funding across a number 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.
- 39 **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.
- 40 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.
- 41 **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

- 42 **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 ongoing.

- 43 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.
- 44 Members previously agreed that a budget would be set aside to address the Council's recruitment and retention difficulties and challenges going forward.
- 45 **Superannuation fund** - the latest pension fund triennial valuation, which was the forth by the actuaries Barnett Waddingham, has recently taken place but only high-level information has been received to date.
- 46 The funding level has increased from 77% to 86% since the previous valuation in 2016 and the deficit recovery period for the fund has reduced from 17 years to 14 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. The 10-year budget will be updated when the detailed triennial valuation figures are received.
- 47 **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 1.5% (CPI) and 2.1% RPI (as at October 2019).
- 48 **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 which resulted in the budget being increased by £100,000. This resulted in the average yearly liability covered increasing from 54% to 67%.
- 49 **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.
- 50 **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. These are identified in the Service Change Impact Assessments (SCIAs) that can be reported to the Advisory Committees between October and November or to Cabinet in later budget reports.

- 51 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.
- 52 ***Progress on the savings plan*** - 2020/21 will be the tenth year of using the 10-year budget. During this period, 164 savings items have been identified totalling £7.6m. 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.
- 53 ***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

- 54 **Appendix C** sets out a summary of the savings and growth items approved by Council since the 10-year budget strategy was first used in 2011/12. This has allowed the Council to deliver a 10-year balanced budget.
- 55 ***Additional growth and savings*** - The attached 10-year budget (**Appendix B**) assumes new net savings / additional income of £93,000 in 2020/21 and £100,000 in later years.
- 56 Savings proposals were presented to the Advisory Committees between September and November. These proposals are listed in Appendix D and further details supporting each proposal are contained in the Service Change Impact Assessments (SCIAs) in **Appendix E**.

Feedback from the Advisory Committees

- 57 To assist the Advisory Committees in making additional suggestions for growth or savings for Cabinet to consider, Members were given a Service

Dashboard and budget details for the services within their terms of reference.

- 58 Each Committee then decided which suggestions would be passed to Cabinet.
- 59 Provided at **Appendix F** is a list of the growth and savings suggestions from the Advisory Committees.
- 60 A training session on the budget process aimed at new Members took place on 24 September 2019 to ensure that they have an understanding of the process and relevant issues to allow them to play an active part in the budget setting process.

Current Budget Position

- 61 The following table shows the differences between the 10-year budget agreed by Council on 26 February 2019 and the latest version set out in **Appendix B**.

10-Year Budget (total changes for the 10-year period)	£000
Base changes:	
Base figures updated to 19/20 budget	(11)
Assumption changes:	
None	-
Total 10-year budget change gap/(surplus)	(11)

- 62 The 10-year budget includes an assumption that £93,000 of new net savings will be achieved. The current growth and savings proposals are listed in **Appendix D** and a Service Change Impact Assessment (SCIA) for each proposal is included in **Appendix E**.

- 63 If all of the proposed SCIA's are agreed, a further £99,000 of savings / additional income is required to achieve a balanced 10-year budget position.

10-Year Budget if SCIA's agreed (total changes for the 10-year period)	£000
Total 10-year budget change gap/(surplus)	(11)
Net savings assumption	930
SCIA's proposed:	
Savings	(1,076)
Growth	1,150
Total 10-year budget change gap/(surplus)	993
	i.e. £99,000 per annum

- 64 The further suggestions made by the Advisory Committees are listed at **Appendix F**. Service Change Impact Assessments (SCIA's) will be produced for any of these suggestions that Cabinet wish to support and will be included in the Budget Update report to Cabinet on 9 January 2020.
- 65 During the budget process last year, each Advisory Committee was asked to provide further growth and savings suggestions to Cabinet. Some suggestions were approved as part of the 2019/20 budget, but Cabinet indicated that some other suggestions might be worth keeping on a list for future investigation. The suggestions for future investigation are included in **Appendix G** and Members may wish to consider these ideas when proposing growth and savings suggestions.
- 66 Due to the General Election, the Government is not expected to announce the 2020/21 Local Government Finance Settlement until January 2020. Even though this Council no longer relies on direct government funding for its revenue budget, it is still important to analysis any potential impact of the settlement.
- 67 The Cabinet will make its final recommendation on the 2020/21 budget at its meeting on 6 February 2020, after taking account of the latest information available at that date.

Collection Fund and Tax Base

- 68 The 2020/21 tax base will be agreed at Cabinet on 9 January 2020. At the same time, Members will be presented with an estimate of the Collection Fund balance at 31 March 2020.

Capital

- 69 A separate report on the capital programme will be presented later in the budget process recommending future capital schemes and changes to ongoing schemes.

2019/20 Outturn

- 70 Supported by the Finance Advisory Committee, tight financial monitoring and control has been in place for a number of years and again for 2019/20. Given the constraints being placed on all budgets, and the savings planned for 2019/20 and future years, it will be essential to continue this basis.
- 71 The latest 2019/20 monitoring report shows a favourable forecast position of £103,000. This is largely due to additional interest being received from loans to Quercus 7. A separate report is being presented at this meeting.

Consultation

- 72 An article on the Council's budget was included in the Autumn and Winter editions of In Shape which included asking for views on the Council's spending priorities. Details will be included in the January Budget Update report.

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.

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 continues to 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

Appendix C - Summary of the Council's agreed savings and growth items

Appendix D - New savings proposals presented to the Advisory Committees

Appendix E - Service Change Impact Assessment forms (SCIAs) for the new growth and savings proposals in Appendix D

Appendix F - Further growth and savings suggestions from the Advisory Committees

Appendix G - Growth and savings suggestions made last year that were agreed by Cabinet to be kept on the list for possible future investigation

Background Papers

[Report to Cabinet 14 February 2019 - Budget and Council Tax Setting 2019/20](#)

[Report to Cabinet 12 September 2019 - Financial Prospects and Budget Strategy 2020/21 and Beyond](#)

[Report to People and Places Advisory Committee 1 October 2019, Improvement and Innovation Advisory Committee 3 October 2019, Housing and Health Advisory Committee 8 October 2019, Development and Conservation Advisory Committee 15 October 2019, Cleaner and Greener Advisory Committee 29 October 2019, Finance and Investment Advisory Committee 21 November 2019 - Budget 2020/21: Service Dashboards and Service Change Impact Assessments \(SCIAs\)](#)

<https://cds.sevenoaks.gov.uk/ieDocHome.aspx?bcr=1>

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