

## BUDGET UPDATE 2020/21

Cabinet - 9 January 2020

Report of Chief Officer Finance and Trading

Status For Consideration

Key Decision No

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### 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.

Based on the changes to the budget made so far in the process and the further changes proposed in this report, **this Council can once again have a balanced 10-year budget.**

The Provisional Local Government Finance Settlement has not yet been announced so there may be further changes to the position later in the budget process.

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.

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### Recommendation to Cabinet:

- (a) Members give consideration to the growth and savings/additional income proposals in Appendix D and recommend including them in the budget.
  - (b) Recommend a Council Tax increase level for 2020/21.
  - (c) Depending on the budget position following the recommendations above, provide officers with any further instructions.
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## **Introduction and Background**

- 1 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.
- 2 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 were considered at the Cabinet meeting on 5 December 2019.
- 3 The report to Cabinet on 5 December 2019 also contained updates to the Financial Prospects report.
- 4 This report sets out the current position for the 2020/21 budget and updates Members on key financial information received since the last report. However, it should be noted that the Provisional Local Government Finance Settlement had not been announced when this report was written.

## **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. 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.
- 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 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.

- 10 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

- 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*** has not yet been announced at the time of writing this report. Changes that could be contained within the settlement include:
  - The Council Tax increase referendum limit.
  - Business Rates Retention.
  - New Homes Bonus.
- 13 ***Government Support: Revenue Support Grant (RSG)*** (£nil received in 2019/20) - As previously assumed, this council no longer receives Revenue Support Grant from 2017/18.
- 14 ***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 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 is only 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.

16 **Council Tax** (£10.9m) - in the Local Government Finance Settlement is expected to include the referendum limit for 2020/21. In 2019/20 it was 3% (or £5 for Band D if higher).

17 Band D Council Tax in 2019/20 is £215.01 and the following table shows the potential changes if the same referendum limit is set.

2020/21 Council Tax	Original Assumption	Possible Referendum Limit
% increase	2.00%	2.97%
£ increase (Band D pa)	£4.30	£6.39
£ (Band D pa)	£219.31	£221.40

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 50,772.3 to 51,207.9 Band D equivalent properties. That is an increase of 435.6 (0.86%) which is below the assumed increase of 580 (1.14%).

20 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.

21 **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.

22 There has been a commitment from Government to introduce Business Rates Retention since before the 2015 General Election.

23 There is a Kent and Medway Business Rates Pool in 2019/20. This Council and Dover Borough Council are not part of the pool but following negotiations it was agreed that Sevenoaks and Dover would benefit as if they were in the pool. It is not yet known whether there will be a pool in 2020/21.

24 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 if there is a pool agreement.

25 The previous Local Government Finance Settlement continued to include an indicative 'tariff adjustment' (known as negative RSG) amount of £1.083m in

2019/20. The Local Government Finance Settlement is not expected to include negative RSG for 2020/21 but this remains a threat going forward.

- 26 **Interest receipts** (£0.2m) - 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.
- 27 The Treasury Management Strategy is currently being reviewed with a different risk approach anticipated. This is expected to result in the interest receipt assumptions increasing from £250,000 to £300,000 per annum.
- 28 **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.
- 29 To date six assets have been purchased or built by the Council and three by Quercus 7 at a cost of £29.2m. Therefore £21.1m of the £50.3m approved by Council remains unspent.
- 30 The income assumptions are proposed to be updated as follows:

Property Investment Strategy Income		
	Previous Assumption	Proposed Assumption
2019/20	£1.258m	£1.258m
2020/21	£1.311m	£1.428m
2021/22	£1.311m	£1.468m
2022/23	£1.311m	£1.508m
2023/24	£1.411m	£1.558m
2024/25 - 2025/26	£1.455m	£1.558m
2026/27 - 2028/29	£1.655m	£1.655m
2029/30	£1.696m	£1.696m

- 31 These assumptions result in an increase of £300,000 from 2019/20 to 2023/24.
- 32 A Property Investment Strategy Update report will be presented to the Finance and Investment Advisory Committee on 23 January 2020 and Cabinet on 6 February 2020.
- 33 **Pay costs** (£16m) - Discussions between the National Employers for Local Government Services and the unions regarding the national pay award for 2020/21 are ongoing.

- 34 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.
- 35 Members previously agreed that a budget would be set aside to address the Council's recruitment and retention difficulties and challenges going forward.
- 36 The Council's latest Council Plan was launched in 2018. 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.
- 37 In order to achieve this, the Customer Solutions Centre is in operation. 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 will continue to be met within approved budgets and therefore a SCIA will not be required.
- 38 **Superannuation fund** - the last pension fund triennial valuation, which was the fourth by the actuaries Barnett Waddingham, took place in November 2019.
- 39 The funding level has increased from 75.5% to 86.6% 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 2020/21 to 2022/23 and includes an additional £100,000 from 2023/24 when the next triennial valuation will come in to effect. The contributions for the primary rate (current staff) have increased and reduced for the secondary rate (funding deficit). There is a nil overall impact on the 10-year budget.
- 40 **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).
- 41 **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%.
- 42 **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.

- 43 **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.
- 44 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.
- 45 **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.
- 46 **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.
- 47 **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

## Current Budget Position

- 48 The following table shows the differences between the 10-year budget agreed by Council on 26 February 2019 and the version included in the Budget Update report to Cabinet on 5 December 2019.

<b>10-Year Budget (total changes for the 10-year period)</b>	<b>£000</b>
<b>Base changes:</b>	
Base figures updated to 19/20 budget	(11)
<b>Assumption changes:</b>	
None	-
<b>Savings / Growth:</b>	
Net savings assumption	930
SCIAs 1-10:	
Savings/additional income	(1,076)
Growth	1,150
<b>Total 10-year budget change gap/(surplus)</b>	<b>993</b>
	<b>i.e. £99,000 per annum</b>

- 49 Changes made to the 10-year budget (**Appendix B**) since Cabinet on 5 December 2019 are shown in the following table:

<b>10-Year Budget (total changes for the 10-year period)</b>	<b>£000</b>
<b>Total 10-year budget change gap/(surplus) see above</b>	<b>993</b>
Council Tax Base (actual figures)	337
Property Investment Strategy (revised assumptions)	(824)
<b>Total 10-year budget change gap/(surplus)</b>	<b>506</b>
	<b>i.e. £51,000 per annum</b>

- 50 The Advisory Committees made a number of further growth and savings/additional income suggestions which were discussed by Cabinet on 5 December 2019. Cabinet resolved that the following items be considered for



this budget cycle and for Service Change Impact Assessments (SCIAs) to be presented to this Cabinet where appropriate. Those suggestions with comments are listed below:

51 Growth:

- i) **Extending the contract for the Urban Design Officer** (Development and Conservation) - This 1-year post was to be funded from Planning Performance Agreement (PPA) Payments, however, the cost has been met by an overachievement on application fee income and an underspend on salaries. As such the PPAs can be drawn against to fund a second year.
- ii) **Reviewing Enforcement resources to maintain recent improvements to the service** (Development and Conservation) - The temporary contracts of the senior investigation officer and the compliance officer have been funded from the overachievement of application fee income and the underspend on salaries - as above. The Housing & Planning Delivery grant (reserve) that was to be used can therefore be drawn against to fund extensions to both contracts, to maintain the recent improvements in the planning enforcement function.
- iii) **Establishing a programme of suitable tree planting** (Cleaner and Greener) - SCIA11.

52 Savings/Additional income:

- i) **Maximising the potential of leisure facilities in Edenbridge** (People and Places) - The Council is investigating whether it is possible to build an enabling development to fund improvements. As this is at an early stage it would not be prudent to build a financial assumption into the budget.
- ii) **Reducing paper and print** (Improvement and Innovation) - SCIA12.
- iii) **Electric Car Project** (Improvement and Innovation) - SCIA13.
- iv) **Reviewing Treasury Management Strategy constraints** (Finance and Investment). A Treasury Management Strategy 2020/21 report will be presented to the Finance & Investment Advisory Committee and Cabinet.
- v) **Reviewing Property Investment Strategy constraints** (Finance and Investment) - a Property Investment Strategy Update report will be presented to the Finance & Investment Advisory Committee and Cabinet.
- vi) **Advertising income opportunities** including at Sevenoaks Bus Station (Finance and Investment) - SCIA14.

53 Members are asked to give consideration to the growth and savings/additional income proposals (SCIAs) in **Appendix D** and decide if they wish them to be included in the budget.

54 The Treasury Management Strategy is currently being reviewed with the aim of increasing average returns. It is therefore proposed that Interest Receipts assumptions are increased by £50,000 per annum from £250,000 to £300,000.

<b>10-Year Budget (total changes for the 10-year period)</b>	<b>£000</b>
<b>Total 10-year budget change gap/(surplus) see above</b>	<b>506</b>
SCIA's 11-14:	
Savings/additional income	(100)
Growth	55
Treasury Management Strategy (revised assumptions)	(500)
<b>Total 10-year budget change gap/(surplus)</b>	<b>(39)</b>
	<b>i.e. (£4,000) per annum</b>

55 Therefore, if all of these changes are approved, **this Council will once again have a balanced 10-year budget.**

### Consultation

56 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 provided at the meeting.

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

## **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 \(SCIAs\)](#)

[Report to Cabinet 5 December 2019 - Budget Update 2020/21](#)

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