

FINANCIAL PROSPECTS AND BUDGET STRATEGY 2025/26 AND BEYOND

Finance and Investment Advisory Committee – 3 September 2024

Report of: Deputy Chief Executive and Chief Officer – Finance and Trading

Status: For Decision

Also considered by:

- Cabinet – 19 September 2024

Key Decision: No

Executive Summary:

This Financial Prospects Report is the first report of the Council's budget setting process for 2025/26 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 traditional Revenue Support Grant or New Homes Bonus. This will result in the Council continuing to aim to be financially self-sufficient.

To achieve this aim and to ensure a balanced budget position over the next 10-year period will continue to be challenging partly due to the recent election of a new Government.

No changes have been made to future assumptions at the stage but this will be reviewed during the budget process, as usual.

The 2024/25 budget process was very challenging, but it resulted in the council being in a better financial position. There are expected to be further challenges this year but the scale is currently uncertain. The approach of the new Government is unclear and the key cost drivers continue to be pressure on service demand, the pay award and the cost of goods and services. The items listed in **Appendix D** report a current annual budget gap of £297,000.

Growth and savings proposals will be presented to the Advisory Committees and Cabinet when Members will also be asked for their support and ideas. The resulting recommendations will be considered as part of the process to remove any gap.

By continuing to address these issues, this Council will once again be in a strong financial position that other councils would aspire to.

Portfolio Holder: Cllr. Kevin Maskell

Contact Officer(s): Adrian Rowbotham, Ext. 7153

Alan Mitchell, Ext. 7483

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, and adopt the financial strategy.
- (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 consider options to address the budget gap and report back to Cabinet on 12 December 2024.

Introduction and Background

Financial Strategy

- 1 The Council's financial strategy continues to aim for long-term financial health and continues to work towards improving financial sustainability. It has been successful through the use of a number of actions 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.
 - an emphasis on statutory rather than non-statutory services.

- 2 A summary of the Financial Strategy can be found at **Appendix B**.
- 3 The Council has focused on delivering high quality services based on Members' priorities and consultation with residents and stakeholders.
- 4 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 and current assumptions may need to be updated.

10-year Budget

- 5 In setting its budget for 2011/12 onwards, the Council recognised the need to address both the immediate 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, which ensured the Council's finances were placed on a stable footing but that also allowed for flexibility between budget years.
- 6 It should not be forgotten that £10.2m of savings have been made since 2011/12.

Financial Self-Sufficiency

- 7 With the Revenue Support Grant provided by Government having ceased 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.
 - generating more income.
- 8 This Council's approach to budgeting has been recognised by the sector as being exceptional which resulted in it being the winner of the CIPFA Public Finance Innovator of the Year Award in 2017.
- 9 The Local Government Association's Corporate Peer Challenge in December 2021 commented that 'Sevenoaks District Council takes a long-term view of financial planning with a focus on self-sufficiency. The council's 10-year budget is innovative, an example for the sector and supports long-term decision making.

Current Budget Gap

- 10 The current budget gap as set out in **Appendix D** is £297,000.
- 11 This is an early stage of the budget process and with a new government in place, there are many uncertainties that are likely to impact the gap as the process progresses.

- 12 There are also other issues such as the staff pay award, new leisure contract and potential changes to domestic waste and recycling collection.

The Way Forward

- 13 The intention of this report is to enable Members to give consideration to the pressures likely to be faced by the Council and the strategy they wish to adopt in response to them. This report sets out the high-level approach and principles but later reports in the budget setting process will provide further details to assist in balancing the budget.
- 14 Growth and savings proposals will be presented to the Advisory Committees and Cabinet when Members will also be asked for their ideas.

Financial Self-Sufficiency

- 15 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 does not rely on direct funding from Government, through Revenue Support Grant or New Homes Bonus, to deliver its services.
- 16 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 traditional Revenue Support Grant from 2017/18.
- 17 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.
- 18 The Local Government Association's Corporate Peer Challenge in December 2021 also commented that 'This extended financial framework provides an excellent platform which has supported effective budget management and planned, long-term, decision making.'
- 19 With the Council receiving no traditional 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 additional Revenue Support Grant funding or New Homes Bonus. Any funding received from New Homes Bonus will be put into the Financial Plan Reserve which can be used to support the 10-year budget.
- 20 In 2023/24 the government rolled two grants into the Revenue Support Grant which are shown as 'Govt Support: Rolled in grants' on the attached 10-year budget. This Council continues to receive no traditional Revenue Support Grant through the Government formula.

- 21 Cabinet are keen to remain financially self-sufficient which has served the Council well and ensured it is one of the most financially stable local authorities in the country. 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 2025/26 to 2034/35

Overall Summary

- 22 The approach of the new Government is unclear and the key cost drivers continue to be pressure on service demand, the pay award and the cost of goods and services. These issues continue to make forecasting for the next 10-year period difficult.
- 23 As ever the Council will have to continue to deliver efficiencies, savings and additional income to maintain tighter control and deliver a balanced 10-year budget.
- 24 The 10-year budget set out in **Appendix C** has been updated from the version agreed by Council on 20 February 2024.
- 25 The current budget gap of £297,000 is detailed in **Appendix D**.
- 26 Looking at expenditure, inflation is running at 2.2% for CPI (as at July 2024).
- 27 The Provisional Local Government Finance Settlement (LGFS) for 2025/26 is likely to be announced in December.
- 28 The paragraphs that follow set out the position in more detail and assess the impact on the current 10-year budget.

Income

- 29 Each year in the 10-year budget there is about a £5-7m difference between net service expenditure and Council Tax revenue. Previously it was reasonable to assume that inflation rates for these two items would generally be similar, but Members should be aware that if inflation remains volatile and varied, then this approach may need to be reviewed.
- 30 **Government Support: Revenue Support Grant (RSG)** (nil received via the formula in 2023/24) – 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 since 2017 and is not expected to receive any in future years.
- 31 The Local Government Finance Settlement (LGFS) for 2024/25 included RSG of £198,000 but it is important to highlight that this is not new or additional funding. The reason for this is that a number of previously separate grants

have been rolled into RSG. For this Council they are Local Council Tax Support Subsidy and Family Annexe Council Tax Discount Grant.

- 32 Due to the way RSG is calculated, there is a danger that this amount will disappear in later years.
- 33 Negative RSG (i.e. where council's pay government) has previously been proposed by government. It has not been implemented but remains a threat going forward.
- 34 Local Government Funding reform was due to take place in 2019/20 but has been delayed for a number of reasons and remains uncertain.
- 35 Two one-off grants were included in the Local Government Finance Settlement for 2024/25 as follows:
- Funding Guarantee (£1.548m) - This grant is intended to provide a funding floor for all local authorities, so that no local authority would see an increase in 'core spending power' that is lower than 3%, before taking into account (i) council tax level decisions and (ii) changes to funding from rolled in grants.
 - Services Grant (£16,000) – This grant is determined based upon the resources DLUHC (now MHCLG) has left after decisions on all other grants.
- 36 It has not been assumed that these will continue.
- 37 **New Homes Bonus (NHB)** (£0.014m received in 2024/25 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 is only received on tax base growth above 0.4% instead of on all growth (known as the deadweight). Legacy payments relating to previous years are no longer included therefore the amount for 2024/25 reduced to £14,000.
- 38 It is likely that NHB will soon be ended.
- 39 **Council Tax** (£12.8m) – The Government referendum limit has initially been set at 2% in recent years although it has been changed later in the process. The referendum limit in 2024/25 for district councils was increased to the higher of 3% or £5. An increase of 2.97% (£7.02 for a Band D property) was agreed for 2024/25. The assumption remains at 2% for future years.
- 40 The new Government has not yet given any clues as to whether the referendum limit will change, therefore the assumption remains at 2% for all years.

2025/26 Council Tax	Current Assumption
2024/25 £ (Band D pa)	£243.72
% increase	2%
£ increase (Band D pa)	£4.87
£ (Band D pa)	£248.59

- 41 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.
- 42 **Council Tax Base** - 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 change in the number of Council Tax discounts awarded.
- 43 The assumption going forward is currently an increase of 730 Band D equivalent properties per annum. This is based on the pre-existing housing needs assessment. 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 will also affect future tax base assumptions.
- 44 **Business Rates Retention** (£3.2m) - 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 then applied. The council is due to collect £40m of Business Rates in 2024/25.
- 45 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. There is an optimum level of pool membership, so this council and some others are not currently part of the pool but do benefit as if they were in the pool. The Government has not yet announced whether similar arrangements will continue in 2025/26 and it is therefore not included in the assumptions.
- 46 It was announced, as part of the Autumn Statement 2023, that the small business rates multiplier for 2023/24 would remain frozen at 49.9p and there would be an increase to the standard rate multiplier of 6.7% (from 51.2p to 54.6p). This approach to applying inflation requires authorities to be compensated for the inflation increase lost to the small business rates multiplier element of their taxbase. This is called 'Safety Net and Under indexing Compensation'. It has been assumed that this will continue until 2025/26 when a Business Rates Reset may take place.
- 47 A reset could alter the distribution of Business Rates and it is hoped that transitional arrangements would be included so that any financial impact is

minimised in the short term but there remains 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.

- 48 **Interest receipts** (£0.5m) – following the investment in Multi-Asset Income Funds (MAIF) in 2022, interest receipts have been higher than previously budgeted. The intention is to hold the MAIF investments for a five year period.
- 49 It should also be noted that funds lent to Quercus 7 are reported under Property Investment Strategy income rather than Interest Receipts.
- 50 The assumptions for interest receipts were increased in the last budget process based on current income levels but recognising expected reduced interest rates and available balances in future years.
- 51 The Bank of England Base Rate is currently 5.00% (as at August 2024). Assumptions will continue to be reviewed based on advice from our treasury advisors and discussions with the Finance and Investment Advisory Committee during the budget process.
- 52 **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.
- 53 Six assets have been purchased or built to date, including the Sevenoaks Premier Inn Hotel, at a cost of £25m.
- 54 As well as the £25m above, £10m has been spent by Quercus 7 Ltd on five assets. The budgeted figures include an assumed dividend of £60,000 per annum from Quercus 7.
- 55 Members should be aware that the Government and CIPFA have implemented ways to limit a Council's ability to make commercial property investments. This has stopped the Council's ability to borrow for investments made purely for yield which was the principal purpose of the Property Investment Strategy.
- 56 To enable other capital schemes to progress, the Property Investment Strategy was removed from the capital programme as agreed by Council on 16 November 2021. Therefore, currently no further investments within the strategy are able to take place.
- 57 A Property Investment Strategy Update report will be produced later in the budget cycle.
- 58 **Fees and charges** – the Council receives income in fees and charges from a number of sources.

- 59 The assumption is currently for a 2.5% increase for all years. In addition, it was forecast that car parking income would be 25% below pre-Covid budgeted levels in 2021/22 with the position improving by 5% each year. Therefore, the assumption for 2025/26 is 5% below pre-Covid levels. This will continue to be reviewed. A separate report on car parking fees will be presented to the Cleaner and Greener Advisory Committee and also Cabinet.
- 60 It is recognised that fees and charges will need to play a major part in reducing any budget gap. The Finance Team in conjunction with service managers will once again be completing a significant exercise during this budget process by reviewing all fees and charges across the council. Existing income budgets will be challenged and by using non-financial information, this should result in greater certainty that the budgets will be set at appropriate levels.
- 61 **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.
- 62 **Shared working** - various services have included savings from shared working in previous years budgets. The Council successfully works in partnership with other authorities in a number of areas, including Revenues, Benefits, Internal Audit, Counter Fraud, Finance, Licensing and CCTV.
- 63 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.
- 64 **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 the Budget Stabilisation Reserve was set up to manage the fluctuations between years to ensure that an overall balanced budget remained for the 10-year period.
- 65 A review of the reserves held is carried out each year as part of the budget process and that will take place again this year.
- 66 When the budget is set, the balance in the Budget Stabilisation Reserve must be sufficient to support the 10-year budget.

Expenditure

- 67 **Pay** costs total £21m. The 2024/25 pay award (from April 2024) has not yet been agreed. The National Employers for local government services offer was £1,290 per full time employee up to a certain pay point and 2.5% on higher pay points. This would cost £80,000 per annum less than the current assumption of 4%.

- 68 The unions have rejected the offer and will be balloting their members for strike action. The initial claim by the unions was the higher of £3,000 or 10%. This would cost £1.2m per annum more than the current assumption.
- 69 Negotiations regarding the 2025/26 pay award have not yet commenced. The assumption in the attached 10-year budget is a 2% increase.
- 70 **Superannuation fund** - the last pension fund triennial valuation by the actuaries Barnett Waddingham, took place in November 2022.
- 71 The funding level has increased from 86.6% to 93.1% since the previous valuation in 2019. The 10-year budget includes the contribution amounts set by the actuaries for 2023/24 to 2025/26 and includes an additional £50,000 from 2026/27 when the next triennial valuation will come into effect.
- 72 **Non-pay costs** – the budget assumes non-pay costs will increase by an average of 2.25% in all years. In practice, inflation has been higher than this in recent years therefore it is up to managers to manage within their overall cash limit. Growth items outside of this will be included as separate items in the budget process. Inflation is currently at 2.2% (CPI) (as at July 2024).
- 73 **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. The asset maintenance budgets are regularly reviewed, and the average yearly liability covered by the budget continues to be 64%.
- 74 **Annual Savings** - an annual Net Savings/Additional Income assumption of £100,000 is included for all years in the 10-year budget.
- 75 **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 will be identified in the Service Change Impact Assessments (SCIAs) that will be reported to the Advisory Committees between October and December or to Cabinet in later budget reports.
- 76 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 whereas other councils who only have single year budgets would have to make larger immediate savings.
- 77 **Progress on the savings plan** – 2025/26 will be the fifteenth year of using the 10-year budget. During this period, 227 savings/additional income items have been identified totalling £10.2m. 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.

- 78 **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 £2.6m (13%) in real terms.

Net Service Expenditure	£m
2010/11 (budget)	16.711
2024/25 (2010/11 budget +2% inflation per year)	22.050
2024/25 (budget)	19.445
Difference	2.605

Current Budget Gap

- 79 The 10-year budget set out in **Appendix B** has been updated from the version agreed by Council on 20 February 2024 by rolling it forward one year.
- 80 The current budget gap is £297,000 which is detailed in **Appendix D**.
- 81 The reasons for this gap are:

	10-year budget period annual impact £000
10-year budget rolled on to 2034/35	91
Savings target built into budget	100
2023/24 outturn: unfunded overspend	13
Business Rates increase for council owned properties	36
Members Allowances: increase in the number of members receiving Special Responsibility Allowances	17

Asset maintenance of council properties	40
Total 10-year budget period annual impact	297

82 As detailed elsewhere in this report, there are a number of factors that may alter the budget gap including as the budget process progresses:

- Pay awards.
- Local Government Finance Settlement.
- Council Tax referendum limit.
- New leisure contract.
- Potential domestic waste and recycling collection changes.
- Homelessness.
- Asset maintenance of council properties.

83 Officers are working on proposals to reduce the gap, and these will be presented to the Advisory Committees as part of the budget process.

84 As previously reported, the options are likely to cover a number of areas including:

- Service efficiencies.
- Additional income.
- Re-prioritisation of reserves including use of the Budget Stabilisation Reserve.
- Service reductions.

85 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 Financial Strategy

86 The proposed Financial Strategy is set out in **Appendix B**.

87 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 aims to continue to adopt a Financial Strategy that includes the following priorities:

- Remain financially self-sufficient.
- A balanced 10-year budget is delivered annually.
- A drive for better value and savings.
- Making best use of reserves and carefully managed borrowing.
- Maximise income from grants and other funding opportunities.

88 Our vision is for 'long-term financial health to deliver exceptional services and achieve the promises set out in the Council Plan'.

89 It is recommended that this strategy be adopted.

Process and timetable

90 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 2024 and any comments will be considered along with this report at Cabinet on 19 September 2023.

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

92 Following the member questionnaire on the last budget process which was issued in April, the following improvements will be made to this budget process:

- Members will be able to put forward their suggestions at the relevant Advisory Committees and engage in the debate even if they are not a member of that committee. They will also still be able to put forward suggestions which will also be considered by the relevant Advisory Committee.
- Suggestions not supported by Advisory Committees will be included in an additional appendix to Cabinet in December.
- All email suggestions will receive a response from the Finance Team.

93 Budget Update reports will be presented to Cabinet on 12 December 2024 and 16 January 2025 to provide details of progress, before the Budget Setting report is presented to Cabinet on 13 February 2025.

94 Three training sessions on the budget process were provided last year as it was the first time new members had been involved in the process. Following requests, similar training will be provided this year for Members who could not attend last year or wish to be reminded. If Members require any further training or have any questions about the process, they are asked to contact Adrian Rowbotham or Alan Mitchell.

Review of the 10-year Budget Process

95 An audit of the 10-year budget process was completed by Mazars (working for Internal Audit) in 2021 and their findings were that the Council has adequate, effective and reliable controls in place over budget setting and long-term financial planning.

Key Implications

Financial

All financial implications are covered elsewhere in this report.

Legal Implications and Risk Assessment Statement

It is a requirement for the Council to set a balanced budget, failure to be able to do so could result in a S.114 notice being issued by the S.151 Officer. There is currently no expectation that the Council would be required to be in that position. The 10-year budget approach provides adequate flexibility to manage most circumstances, subject to sufficient savings being identified and implemented, and the ongoing effective and prudent management of the Council's finances.

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 the Local Government Financial Settlement. 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.

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

Climate Change Implications

The decisions recommended through this paper have a remote or low relevance to the council's ambition to tackle the challenge of climate change. There is currently no perceived impact regarding either an increase or decrease in carbon emissions in the district, or supporting the resilience of the natural environment.

Individual climate change implication assessments will be completed for all Service Change Impact Assessments (SCIAs).

Conclusions

The Financial Strategy and 10-year budget process have ensured that the Council follows a logical and well considered process and approach in dealing with the many difficult challenges that it has faced. They have also helped to ensure that the Council is well placed in dealing with more immediate and longer-term 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 is aiming to continue to be financially stable going into the future with a level of assurance that any council would aspire to.

The Council aims to continue to provide value for money services to a high standard ensuring that the decisions made lead to an achievable 10-year budget. Members will need to consider the impact on service quality, staff and well-being.

Appendices

Appendix A – Budget Timetable

Appendix B – Financial Strategy

Appendix C – 10-year Budget

Appendix D – Reasons for budget gap

Background Papers

None.

Adrian Rowbotham

Deputy Chief Executive and Chief Officer – Finance & Trading