FINANCIAL PROSPECTS AND BUDGET STRATEGY 2013/14 AND BEYOND

Performance & Governance Committee – 18 September 2012

Report of the:	Deputy Chief Executive and Director of Corporate Resources
Status:	For Decision
Also considered by:	Cabinet - 13 September 2012
Key Decision:	No

Executive Summary: This report sets out the major financial pressures the Council is likely to face over the next four years, together with a proposed strategy for setting a balanced and sustainable budget for 2013/14 and beyond. 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 two years ago, for 2011/12 the Council produced a 10-year budget together with a four-year savings plan for the first time. This will be the third year this method has been used and provides the Council with a stable basis for future years, which addresses the reduction in Government funding as well as reducing its reliance on reserves.

Building on the considerable progress made over recent years, this report updates Members on significant risk areas as well as setting out the way forward for service prioritisation, business and financial planning, financial strategy and the budget setting process.

The overall emphasis is on building on the strong framework provided by the 10-year budget, whilst taking into account any new financial burdens and changes in the economy that have an impact on budget assumptions. This report also provides Members with the proposed timetable for the budget setting process.

It is suggested that a further review of the 10-year budget be carried out once the government grant settlement has been finalised and a full review of the 4-years savings plan has been undertaken. Officers will report back to Cabinet with a revised 10-year budget, highlighting any significant variations.

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder	Cllr. Ramsay
Head of Service	Group Manager – Financial Services – Adrian Rowbotham

Recommendation to Cabinet:

(a) endorse the ten-year financial planning approach and principles set out in this report and request officers to carry out a further review and update once the government grant settlement has been finalised and a review of the 4-year savings plan has been undertaken and report back to Cabinet on 10 January 2013;

(b) note the budget timetable set out in Appendix A.

Recommendation to the Performance & Governance Committee: That the report be noted.

Introduction

1 The Council's financial strategy over the past eight 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 through the Community Plan. In financial terms, the adoption of this strategy has to date allowed the Council to move away from its reliance on general fund reserves which has ensured that the general fund reserves have remained largely unchanged.

3 Due to the level of funding and other potential changes and uncertainties, it is still difficult to anticipate with sufficient accuracy even at this stage in the budget process what the level of Government settlement is likely to be. However, using the data sources available to the Council, officers have attempted to identify a budget deficit figure over the 10-year period but recognise that this is a constantly changing situation and more accurate data will not be available for some months yet.

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 The intention of this report is to enable Members to give early 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 6 December 2012 will provide

the 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 select committees on proposed service plans for 2013/14 onwards.

Financial Pressures 2013/14 to 2022/23

Overall Summary

6 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.

7 The potential to increase income levels over the next few years is very limited. In some cases the Government controls the level of increase and in other areas current economic conditions make it challenging for the Council to meet current targets. However, taking a holistic view the Council should achieve a balanced budget at the year end.

8 Looking at expenditure, inflation is running at 2.6% (CPI). At this early stage we are anticipating the Council is likely to receive a reduction of 9% in Government Support in 2013/14 and further 10% reduction in 2014/15.

9 The 10-year budget attached at Appendix B shows a surplus of £930,000, however, the financial challenge and uncertainty ahead, along with the need to deliver the 4-year budget savings plan, are likely to leave little flexibility over the period.

10 The paragraphs below set out the position in more detail and assess the impact on the current Financial Plan.

Income

11 *Government Support* (£4.2m in 2012/12) – The basis for allocating Government Support from 2013/14 is changing 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 initially each local authority is not significantly affected by this change. Other adjustments will also be made.

12 In this year, the level of complexity and uncertainty has been more significant than in previous years, therefore projections and forecasts are having to be made with minimal data where assumptions are constantly changing.

13 Draft Government Support figures are expected in December with final figures being produced in the new year. It is expected that these figures will only be for two years so the effect on the later years of the 10-year budget will remain uncertain.

14 The current assumptions for Government Support are a reduction of 9% in 2013/14 and 10% in 2014/15. This would mean that the Council would have seen a 4-year grant reduction of around 43%.

15 *New Homes Bonus* – 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. This was not included in the last 10-year budget as it was uncertain if other Government Support would be reduced to fund it resulting in a nil overall effect. There is now more assurance that this is a separate funding

stream for the initial six years, therefore it has now been included in the 10-year budget for this period only (up to 2016/17).

16 *Council Tax* (£9.3m) – The change from Council Tax Benefit to Council Tax Support will reduce the Council Tax base and therefore reduce Council Tax income. The proposed scheme will result in this reduction being offset by a new Government grant, funding from the major preceptors (Kent County Council, Fire and Police) and changes to other Council Tax discounts. There is a high risk that the new scheme will have an adverse effect on collection rates.

17 The current assumptions for Council Tax which were approved by Council on 21 February 2012 are for an increase of 3% in 2013/14 and 2014/15 and 4% in later years. Government capping which was set at 3.5% in 2012/13 may continue to limit future increases. 1% change equals £93,000.

18 *Investment income* (£0.2m) – returns are continuing to be significantly lower than they were a few years ago due to low interest rates and the revision of the Council's current Investment Strategy towards a low risk approach. It is certain that the Council's reserves will continue to fall due to their use in the 10-year budget, so as a consequence, investment income will continue to reduce. The latest assumption is for the following returns: 0.8% in 2013/14, 0.9% in 2014/15 and 1.3% in later years based on the Bank Rate estimates provided by our treasury advisors.

19 *Variable income sources* – The Council receives income in fees and charges from a number of sources. This includes (income figures are shown gross):

- Land Charges (£0.2m);
- Development Control (£0.7m);
- Building Control (£0.5m); and
- Car parks (£2.1m);
- On-street parking (£0.7m).

20 The first three are linked to some extent to activity in the housing market and remain vulnerable, with some adverse variances against budget in the current year. However, at this stage, these variations are being managed within the current budget.

21 Despite the current economic conditions on-street parking income is at budgeted levels but off-street parking income is currently below budget.

22 *External Funding* (£0.5m) - 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, often in partnership with other agencies, to local residents. 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 is expected to reduce.

23 *Discretionary Charging* This area is regularly reviewed and will be further developed. The budget already assumes that in 2012/13 additional income of £150,000 will be generated from discretionary charging.

24 *Partnership working* - Various services have included savings from partnership working in recent years budgets and this continues to be an area that is being investigated. The Council successfully works in partnership with other authorities in a number of areas, including Revenues, Benefits, Internal Audit and Anti Fraud, Finance, IT, Licensing and Environmental Health. A programme of more extensive partnership working with other authorities continues to be investigated to generate further efficiencies for the Council however, opportunities are becoming limited. Savings based on shared services are already included in the four-year savings plan, so successful partnership working would secure these savings.

25 *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 funded by surpluses achieved on the revenue budget since 2009/10. The surpluses were mainly due to over £2.7m being received for VAT refunds.

Expenditure

26 *Pay* costs total £12.9m and form about half the Council's gross expenditure (excluding Benefits payments). The 10-year budget assumes the pay award for 2013/14 will be 1%, however, employers are suggesting a 0% increase. Therefore, this may have to be revised later in the year. The Financial Plan assumes a pay increase of 1.5% in 2014/15 and 2% in later years. These percentages are below current inflation rates. Every one percent change equals £129,000.

27 *Non-pay costs* – the budget assumes non-pay costs will increase by an average of 3.5% in 2013/14, 3% in 2014/15 and 1.75% in later years. In practice, items such as rates and energy costs have risen at a higher rate, so other non-pay items have been allowed a much lower inflation increase. Inflation is currently at 2.6%. It will be challenging to contain the inflation on current services within these levels.

28 *Welfare reform changes* - the changes affecting Housing Benefits regarding Universal Credit are currently being looked at by a Member Scrutiny Group. It is uncertain how the final scheme will operate, the timescales involved and whether this Council will need to provide additional resources to support our residents. The change to the Local Council Tax Support Scheme is seen by many as one of the biggest changes to local government since the community charge. In an economic climate that shows no real signs of recovery, the cost of benefits will continue to increase and the impact on district councils both financially and from a social wellbeing perspective is likely to be significant and unsustainable. The full effect of both of these changes will potentially have a financial impact.

29 *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 in dealing with these. The model does not allow for unavoidable service pressures, therefore these will need to be met from within existing budgets. These have not yet been identified to be included in the revised Plan, but they could be significant.

30 Based on previous experience, growth items totalling up to £0.5m a year could occur although, having the 4-year savings plan and the 10-year budget in place it is likely the figure will be less than £200,000. Officers are still identifying the likely service pressures for 2013/14, particularly in relation to external income. These will be presented to Members later in the budget process once the review of the 4-year savings plan has been undertaken and further information is available.

31 *Progress on the 4 year savings plan* – 2013/14 will be the third year of using the 10-year budget. The savings plan includes 63 items and some of those contain a significant element of risk. Together with Portfolio Holders, Management Team and Heads of Service are closely monitoring progress in delivering the savings, but it is inevitable that some savings will either be delayed or not achieved. The main risk items are those which rely on third parties or the generation of additional income. The savings plan is currently being reviewed and any shortfalls could initially be addressed through the stabilisation Reserve but in the medium to longer term will require a revenue budget based solution.

32 The following table shows the differences between the 10-year budget agreed by Council on 21 February 2012 and the latest version set out in Appendix B.

10-Year Budget	£000
Previous 10-year Budget (surplus)	(191)
Changes:	
Reduction in Government support	2,870
Reduction in Council tax base due to Council tax localisation	8,905
Council tax localisation support	(8,117)
Reduction in Investment income	2,449
Other adjustments	170
Budget gap: deficit	6,086
Proposed solution:	
Short-term use of New Homes Bonus	(3,328)
Use of Budget Stabilisation Reserve	(2,758)
Revised budget gap	0

Proposed Business and Financial Planning Strategy

33 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;
- The review and tighter management of inflationary pressures; and

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

Audit Commission

35 Our external auditor made the following comment in the Value for Money section of his most recent Annual Audit Letter.

"Sevenoaks District Council continues to have strong governance, a highly effective financial planning framework and very good financial management. It took early action to address financial pressures and has strong arrangements in place to secure financial resilience. The Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity. It has embraced partnership working and moves rapidly to adopt new joint arrangements working with staff and empowering decision making."

Process and timetable

36 Members will note from the timetable set out in the appendix that this report will also be considered by the Performance and Governance Committee at its meeting on 18 September 2012 and any comments will be considered by Cabinet at its meeting on 6 December 2012. It is proposed that Cabinet will agree its draft budget on 6 December 2012 along with its proposed areas for savings, Cabinet will agree its final budget on 7 February 2013 and full Council will consider the budget on 19 February 2013.

Consultation

37 In consultation with the Portfolio Holder, officers are in the process of agreeing a consultation strategy for the budget albeit that it will be limited as the Council has a 10-year budget in place and is not at this stage required to make any further savings or service reductions.

Key Implications

Financial

38 All financial implications are covered elsewhere in this report.

<u>Community Impact and Outcomes</u>

39 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.

<u>Legal, Human Rights etc.</u>

40 None.

Conclusions

41 There is no doubt that there are a number of risks associated with this approach, including significant cost pressures that may destabilise the ten-year budget. However, by adopting this approach, many of these will be predictable and more importantly, the Council will be better placed to react to such events. This solution also allows the Council a little more stability and sustainability in delivering its services and dealing with its finances.

42 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 which 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.

43 Looking at the medium term, although the Council has made considerable savings in previous years and already plans to make further savings over future years, it is likely that additional savings will be required to meet the expected pressures. Changes in grant distribution methodology and localisation of council tax support are two major factors that are likely to have a significant impact on the Council

44 This budget process, although presenting a balanced outcome, 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.

Risk Assessment Statement

45 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.

46 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 grant

settlements. The risk will be mitigated by continuing to review assumptions and estimates and by updating Members throughout the process.

Appendices	Appendix A – Budget Timetable
	Appendix B – 10-year Budget
Background Papers:	
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