

## BOROUGH OF KETTERING

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<b>Report Originator</b>	Strategic Management Team	Fwd Plan Ref A16/040	
<b>Wards Affected</b>	All	26 <sup>th</sup> July 2017	
<b>Title</b>	<b>MAINTAINING A DURABLE BUDGET</b>		

### Portfolio Holder – Councillor Lesley Thurland

#### 1. PURPOSE OF REPORT

The purpose of the report is to:

- a) Provide Members with a reminder of the Council's medium term financial strategy and associated guiding principles;
- b) Provide a revised medium term budget model illustrating the levels of savings that may be required over the coming years and highlight the significant financial challenges facing the Council;
- c) Provide an update on Business Rates.

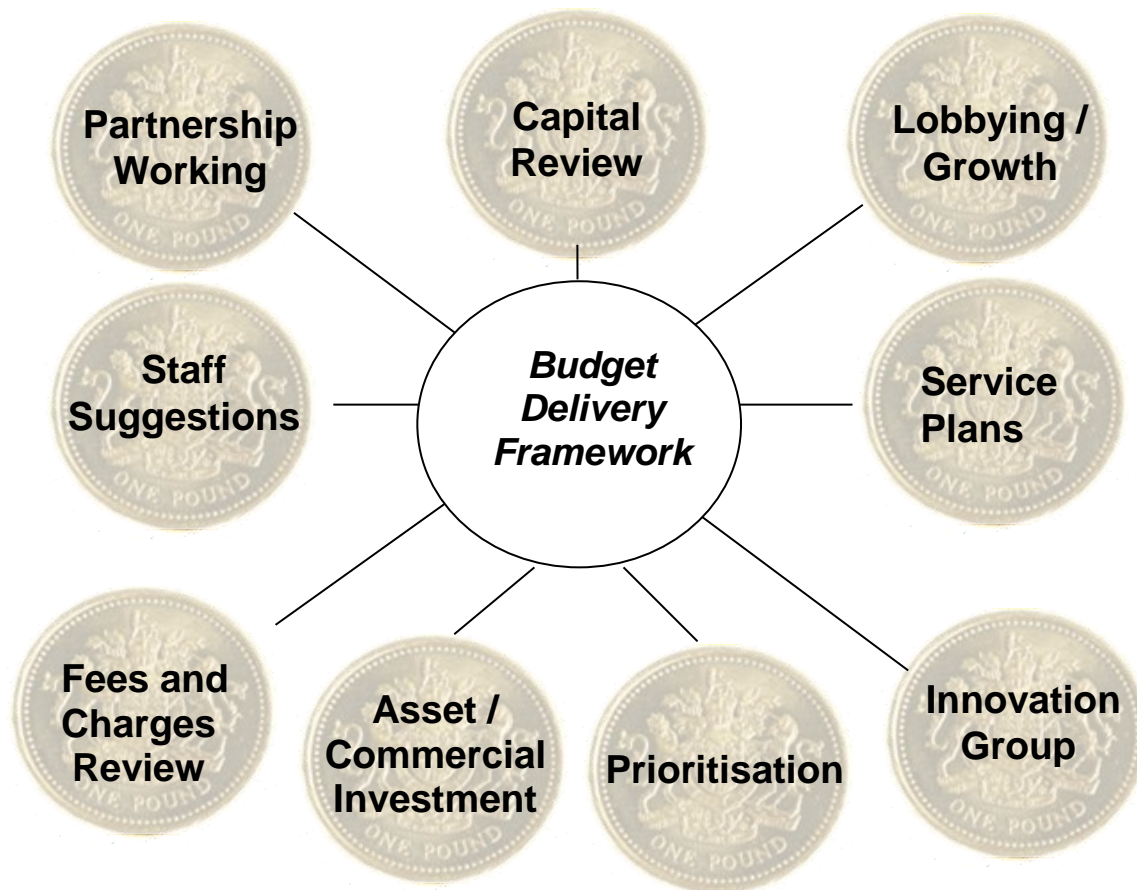
#### 2. BACKGROUND

- 2.1. The Council's 2017/18 budget was approved by Council at its meeting on 1<sup>st</sup> March 2017. In terms of setting a balanced budget, the Council's strategy to date has been successful, although it has to be stressed that the budget setting process is a paper exercise and all the changes being proposed have to be realised and delivered over the next year if we are to avoid additional strain being placed on the following years' budgets. The budgets for 2017/18 will be closely monitored throughout the year and any variances will be reported to the Executive as part of the Durable Budget report.
- 2.2. Members will appreciate that the strategies the Council has adopted over the past few years have generally kept the authority in a good position from which to move forward. In Kettering, our approach ensured that the Council was able to pro-actively deal with the challenges faced through: -
  - ◆ Anticipating and trying to influence major 'Big Ticket' items;
  - ◆ Having a well motivated and flexible workforce that is pro-active in helping to deliver services.
- 2.3. The Council's success in delivering a balanced budget over the past number of years has come from the Budget Delivery Framework however savings of this magnitude are becoming increasingly difficult to maintain. For the Council to remain in the best

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possible shape in the medium term it will need to ensure that it 'delivers' on all aspects of its budget framework as outlined below:



- 2.4. The Council has already done an impressive job of delivering around £10m of 'efficiency savings' to date. To have a realistic chance of continuing to balance its budget into the medium term, all of the above frameworks must continue to make a positive contribution – specifically Income and Commercial Investment Schemes. One of these sources alone will not provide the mechanism to set a balanced budget in the medium term, all of them must contribute.
- 2.5. The financial strategies key '*guiding principles*' supplemented by the '*Modelling for Recovery Principles*', the '*Budget Containment strategies*' and Prioritisation '*Golden Rules*' have provided a strong cornerstone for the Councils medium term financial strategy. For ease of reference, these are reproduced here;

### **Financial Strategy Guiding principles:**

- a. *Revenue balances should not fall below £1m and overall revenue reserves should not fall below 10% of net revenue expenditure;*
- b. *In setting the Council Tax, members should consider the medium term to ensure that a sustainable budgetary position is preserved (with due regard being given to any penalties that might apply);*

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- c. *The level of household Council Tax to increase each year in line with inflation at least, where the budget is in deficit, to ensure resources remain consistent with budgeted costs;*
- d. *When setting the Capital Programme, consideration is given to allocating capital resources to schemes that are beneficial to the Council's overall revenue budget position;*
- e. *To maximise the resources available to the Authority, the Council will actively lobby the Government on relevant issues (e.g. grant distribution/ planning fees).*

### **Modelling for Recovery principles:**

1. *Wherever possible, continue with all planned investments and programmes, to protect the local economy and lever in other investments;*
2. *Given the strength of our Treasury position we should consider debt funding as a means of programme delivery or stimulus – if this can be shown to be sustainable and have a wider economic benefit;*
3. *Organise our fiscal structures and business models to attract and retain the maximum amount of revenue within the local economy;*
4. *To ensure all possible avenues are used within procurement rules to source locally;*
5. *Protect the performance of Council services which come under particular strain;*
6. *Work closely with partners in the voluntary, public and private sectors, to ensure optimum efficiency*

### **Budget Containment Strategy:**

1. *Where a specific grant which funds a specific service is withdrawn, the service stops;*
2. *Where grant funding reduces, which Kettering Borough Council passports through to another organisation, the reduced sum continues to be passported, providing the end recipient organisation feels it can still provide a value-added service at that funding point.*
3. *Where a function is transferred to another provider, the Council leaves all service-provision discussions, including any top-up funding, with the new provider;*
4. *The Council would ordinarily neither seek to buffer nor profit from tax changes.*

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5. *The Council should not substitute itself as a provider / funder of services when another public provider cuts such a service.*

### **Prioritisation 'Golden Rules':**

1. *Revenue Impact – The item should have a positive **material and causal** impact on the Council's revenue budget over the medium term. The impact should be material in nature.*
  2. *Fit with Key Priorities - There should be a direct and causal impact upon the achievement of the Council key priorities of;*
    - *Better Town Centres*
    - *Better Jobs*
    - *Better Educational Offer*
  3. *Risk and Return Profile - The item / project should fit the Council's risk and return appetite and also complement the overall portfolio of investment / assets.*
  4. *Investment Leverage - The item / project should ideally act as either an 'invest to save' type project or one that 'pump primes' other significant investment into the borough.*
  5. *Self Sufficiency - Given the continuing trend of reduction in central government grants, priority will be given to projects that assist in the Council moving further towards financial self-sufficiency.*
  6. *Strategic Partnerships - The item should generally have a positive impact on the Council's strategic partnerships and the Council's long term strategic ambitions for the borough – eg, town centre development. In particular – items that support and help develop 'scope' rather than 'scale' will be prioritised.*
- 2.6. Whereas the above guiding principles have served the Council well over the past number of years, they have remained unchanged for some considerable time now. It was reported to the April Executive that it would make sense for the Council to either re-affirm or refresh these in sufficient time before the next budget process and that late summer would probably be an appropriate time for the Executive Committee to consider this.

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### 3. UPDATE OF KEY ISSUES AND BUDGET PROJECTIONS

3.1 The Council's Medium Term Financial Strategy is reproduced in Table 1. The forecast has been updated to reflect the fact that we have effectively 'closed' the 2016/17 financial year and now incorporates the financial year 2022/23. The MTFS reflects changes to the New Homes Bonus Strategy that were approved by the Executive at the June meeting – this is detailed in Section 3.9 - 3.11 of the report.

TABLE 1 - MEDIUM TERM FINANCIAL FORECAST							
		Zone of "Predict ability"	Zone of "Unpredictability "		Severe Unpredictability		
		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
		£000	£000	£000	£000	£000	£000
<b>1</b>	<b>Net Council Budget</b>	10,948	10,429	10,178	9,933	9,816	9,747
<b>2</b>	<b>Forecast Resources:</b>						
	<b>Government Grant</b>						
<b>2a</b>	Revenue Support Grant	(546)	(171)	250	0	0	0
<b>2b</b>	Business Rates	(2,357)	(2,433)	(2,520)	(2,000)	(2,000)	(2,000)
	<b>Total Government Grant</b>	<b>(2,903)</b>	<b>(2,604)</b>	<b>(2,270)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>
	Council Tax / Coll'n Fund	(250)	(250)	(200)	(200)	(200)	(200)
	Income From Council Tax	(6,415)	(6,511)	(6,609)	(6,708)	(6,809)	(6,911)
	<b>Total Resources</b>	<b>(9,568)</b>	<b>(9,365)</b>	<b>(9,079)</b>	<b>(8,908)</b>	<b>(9,009)</b>	<b>(9,111)</b>
<b>3</b>	<b>Budget (Surplus) / Deficit</b>	1,380	1,064	1,099	1,025	807	636
<b>4</b>	<b>Savings Identified</b>	(1,380)	0	0	0	0	0
<b>5</b>	<b>Savings - To be Identified</b>	0	(1,064)	(1,099)	(1,025)	(807)	(636)
<b>6</b>	<b>Budget (Surplus) / Deficit</b>	0	0	0	0	0	0
GENERAL FUND WORKING BALANCE							
		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		£000	£000	£000	£000	£000	£000
<b>7</b>	<b>Estimated Opening Balance</b>	(1,415)	(1,425)	(1,425)	(1,425)	(1,425)	(1,425)
<b>8a</b>	Town Centre Initiatives	40	0	0	0	0	0
<b>8b</b>	Transitional Grant	(50)	0	0	0	0	0
<b>9</b>	<b>Estimated Closing Balance</b>	(1,425)	(1,425)	(1,425)	(1,425)	(1,425)	(1,425)

3.2 The forecast comprises the following 'Zones'

- ♦ **Zone of Predictability** – covers the 2017/18 financial year - for which the level of government funding is known.
- ♦ **Zone of Unpredictability** – The future levels of government grant for the period 2018/19 – 2019/20 are based on indicative figures provided as part of the 2017/18 financial settlement which form part of the 'four year settlement' figures (that were previously reported to this Committee).

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- ♦ **Severe Unpredictability** – Based upon the figures in the MTFs, the Council would need to identify and deliver further savings of around
  - ♦ £1m in 2020/21,
  - ♦ £800,000 in 2021/22 and
  - ♦ £600,000 in 2022/23.

Of course, these can only be high level assumptions at the present time.

### Notes to Medium Term Financial Forecast

- 1 **Net Council Budget** – *This represents the net expenditure prior to the Budget Framework savings.*
- 2 **Forecast Resources** – *These are the Council's main funding streams (excluding fees and charges which are incorporated into Line 1). This illustrates the significant reduction in Central Government funding. To enable the total resources required to balance the budget to be identified, no assumptions have been made regarding future council tax increases. The small increase in revenue each year reflects anticipated housing growth in the borough.*

*The level of government grant is known for both 2016/17 and 2017/18.*

*The future levels of government grant for the period 2018/19 – 2019/20 are based on indicative figures provided as part of the 2017/18 financial settlement which form part of the 'four year settlement' figures*

*The financial landscape is expected to change significantly from 2020/21 when the new Business Rates Retention Scheme is implemented by the Government. The Government had initially brought the implementation forward from 2020/21 to 2019/20 – however the General Election may force this back to the original implementation date of 2020/21.*

- 2a / 2b **Revenue Support Grant / Business Rates** - *Following the introduction of the Business Rates Retention Scheme the local share of business rates will be uplifted by RPI each year until the system is reset in 2020 this is shown in line 2b. The full reduction in grant is therefore applied to the element that is provided through the Revenue Support Grant, which is detailed in Line 2a. This Council's Revenue Support Grant reduces to nil in 2019/20. The Government made a further adjustment in 2019/20 whereby the Council rather than receiving a grant is making a payment to the Government of £250,000 this is reflected in line 2a.*

- 3 **Budget (Surplus) / Deficit** – *This illustrates the gap between the budget and the total resources available before identifying budget framework savings.*

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**5**     **Savings to be identified** – This identifies the total resources that are required to balance the budget in future years after 2017/18.

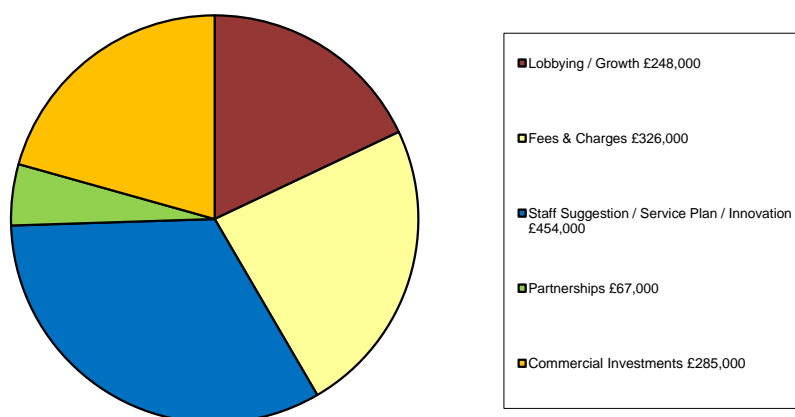
**8a**    **Town Centre Initiatives** – This relates to parking incentives and / or other town centre related items. Due to the short term nature this is being funded from the General Fund working balance rather than forming part of the base budget.

**8b**    **Transitional Grant** – This relates to additional funding that has been made available in the form of a transitional grant from Government to ease the pace of reductions during the first 2 years of the settlement for councils with the sharpest reductions in Revenue Support Grant.

3.3 Members should be aware that the indicative savings levels for the period 2018/19 onwards are subject to a number of high level assumptions. Whilst as part of the ‘four year settlement’ indicative levels of grant funding have been provided for 2018/19 and 2019/20. The future levels of grant from 2020/21 are much more uncertain and are a best estimate as the Business Rates Retention Scheme will have completely changed by 2020/21 (if not before). The scale of the financial challenges from this point onwards will be highly dependent on how the Business Rates Retention Scheme operates over the next five years.

3.4 From Table 1 it can be seen that the Council’s budget delivery framework will need to deliver £1,380,000 of savings in 2017/18 to maintain a balanced budget. The assumptions will need to be kept under close review during 2017/18. The identified savings are summarised in Chart 1:

**Chart 1  
Framework Savings for the Current Year (2017/18)**



3.5 Table 2 illustrates how the 2017/18 savings are to be delivered - around 1/3 of the total savings target is to be delivered through reduced expenditure and around 2/3 is to be delivered through increased income.

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<b>Table 2 – Framework Savings 2017/18</b>			
<b>Framework</b>	<b>Additional Income £'000</b>	<b>Reduced Expenditure £'000</b>	<b>Total £'000</b>
Lobbying / Growth	248	0	248
Fees & Charges	326	0	326
Staff Suggestion / Service Plan / Innovation	0	454	454
Partnerships	6	61	67
Commercial Investments	285	0	285
<b>Total</b>	<b>865</b>	<b>515</b>	<b>1,380</b>

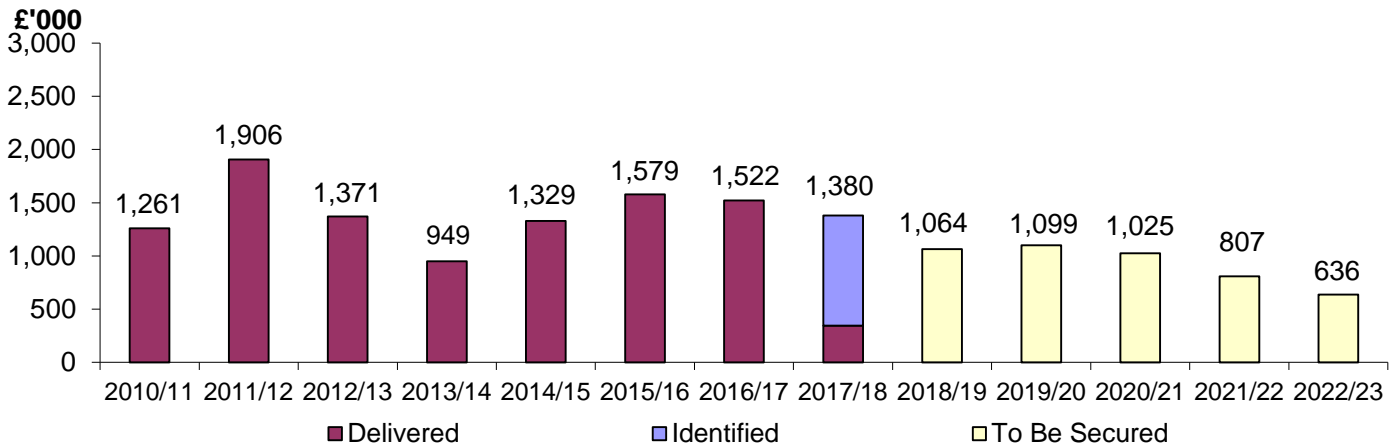
- 3.6 During the budget process, members were informed of a number of 'big ticket' items. These are typically items of large value that could have a disproportionate impact on the Council's budget if they moved in an adverse fashion. Consequently these are monitored very closely and members and officers may occasionally try to influence (through lobbying) any changes that may take place especially when such changes are triggered through changes in national policy. These items are included in the Council's Swing – o – meter as detailed at Appendix A.
- 3.7 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing savings targets going forward are at least of a similar scale to those already met, the following chart shows:
- Savings of £9.8m have been identified and delivered between 2010/11 – 2016/17;
  - Savings of £1.380m have been identified and are being delivered in 2017/18;
  - Savings of around £4.6m need to be identified and delivered over the next five years (2018/19 – 2022/23).



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### Efficiency Savings



### GENERAL FUND – 2018/19

- 3.8 As well as monitoring framework savings identified for 2017/18 work continues on identifying savings for the following year – 2018/19.
- 3.9 Members at the June Executive meeting approved an amended New Homes Bonus Strategy – for ease of reference the strategy is reproduced in Table 3.

<b>Table 3. - Proposed New Homes Bonus Strategy</b>				
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
2015/16	69%	0%	0%	0%
2016/17	80%	80%	0%	0%
2017/18	82%	74%	73%	0%
2018/19	100%	100%	100%	100%
2019/20	0%	100%	100%	100%
2020/21	0%	0%	100%	100%
2021/22	0%	0%	0%	100%
<b>Amount incorporated into GF Budget</b>	£1,555,000	£1,500,000	£1,450,000	£1,400,000
<b>% of NHB included in the budget</b>	81%	86%	91%	100%

- 3.10 The new strategy has reduced the savings targets that was previously being modelled in the Councils MTFs by £395,000. The impact in each year is as follows and the MTFs (Table 1) has been remodelled to reflect this change.

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- 2018/19 - Reduce Savings Target from £1.339m to £1.064m (£275,000)
- 2019/20 - Reduce Savings Target from £1.319m to £1.099m (£220,000)
- 2020/21 - Increase Savings Target from £0.975m to £1.025m (£50,000)
- 2021/22 - Increase Savings Target from £0.757m to £0.807m (£50,000)

- 3.11 It is important for members to note that amending the figures that are being included in the Council's MTFS for NHB, is at this stage a simple reflection of how the scheme is working going forward. The assumptions will be kept under constant review, specifically as part of the new formal budget process.
- 3.12 Members will recall that a review on the future Car Parking Charging Strategy was to be undertaken. It is anticipated that a report will be presented in the autumn to link into the budget process.

### HOUSING REVENUE ACCOUNT 2017/18 – CURRENT FINANCIAL YEAR

- 3.13 A summary of HRA monitoring at 30<sup>th</sup> June 2017 is shown in Table 5. The Housing Revenue Account is currently projected to come in on budget.

<b>Table 5 - HRA</b>	<b>Current Budget</b>	<b>Projected Outturn</b>	<b>Variance</b>
	£'000	£'000	£'000
Gross Expenditure	15,586	15,586	0
Gross Income	(15,586)	(15,586)	0
Net Expenditure	0	0	0

### CAPITAL 2017/18 – CURRENT FINANCIAL YEAR

- 3.14 A summary of the projected Capital Programme outturn monitoring statement as at 30<sup>th</sup> June 2017 is shown in Table 4.

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Table 4 - Capital	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
<b>Expenditure</b>			
HRA Schemes	4,001	4,001	0
General Fund Schemes	21,772	21,772	0
	<b>25,773</b>	25,773	0
<b>Financing</b>			
Capital Receipts	1,006	1,006	0
Prudential Borrowing	21,007	21,007	0
Revenue Contribution	3,233	3,233	0
Grants and Contributions	527	527	0
	<b>25,773</b>	25,773	0
<b>Net Expenditure</b>	0	0	0

#### **4 BUSINESS RATES UPDATE**

- 4.1 It was reported to the April Executive that the consultation on the design of the reformed '100%' Business Rates Retention scheme' usefully included a high level timetable from the Government about their intended timeline to introduce the new 100% Business Rates Retention system.
- 4.2 The timeline was useful in helping to clarify a few issues – in particular that it was the Government's stated intention to have the new arrangements operational by April 2019. However following the Government's announcement on 18th April that a General Election will take place on 8th June the necessary legislation to make this happen did not make it through the parliamentary approval process. Accordingly, the timescale to make this happen would be determined by the new government after the General Election.
- 4.3 The Queen's Speech was made on 21 June the speech sets out the government's agenda for the coming session, outlining proposed policies and legislation. The headline for local government from the Queen's Speech is that there was no mention of the Local Government Finance Bill, or whether it will be reintroduced in this next parliamentary session. The Bill itself dealt mostly with the introduction of the 100% rate retention system, as well as other proposals around levies and Infrastructure Supplements.
- 4.4 Whilst this does not necessarily mean that the Bill has been dropped or that it will not be introduced later in the session as governments can and do introduce new legislation that was not in the Queen's Speech – it does bring added uncertainty to what the financial landscape will look like going forward

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## 5 CONSULTATION AND CUSTOMER IMPACT

5.1 As outlined in the report.

## 6 POLICY IMPLICATIONS

6.1 As outlined in the report.

## 7 USE OF RESOURCES

7.1 As outlined in the report.

## 8. RECOMMENDATIONS

That the Executive;

8.1 Note the following:

- a. Note the updated Medium Term Financial Strategy and the estimated level of savings required in the medium-term.
- b. Note the updates relating to Business Rates following the Queen's speech.

### Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

### Previous Reports/Minutes:

Monthly Durable Budget Reports