

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	Fwd Plan Ref A17/007	
Wards Affected	All	20 th September 2017	
Title	DURABLE BUDGET REPORT		

Portfolio Holder – Cllr L Thurland

1. PURPOSE OF REPORT

The purpose of the report is to:

- a) Remind Members of the context / background to the council's budget and medium term financial strategy;
- b) Consider some updates / amendments to the council's suite of budget guiding principles;
- c) 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;
- d) Formally approve some budget virements (in accordance with the requirements of the Council's Constitution);
- e) Provide an update on the national funding position re: business rates and associated issues.

2. BACKGROUND

2.1. The Council's 2017/18 budget was approved by Council at its meeting on 1st March 2017. In terms of setting a balanced budget, the Council's strategy to date has been successful, although it remains a significant challenge in the medium term. The budgets for 2017/18 are being closely monitored throughout the year and significant variances are being reported to the Executive as part of these monthly reports.

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, the council's approach has ensured that we are able to pro-actively deal with the challenges faced through: -

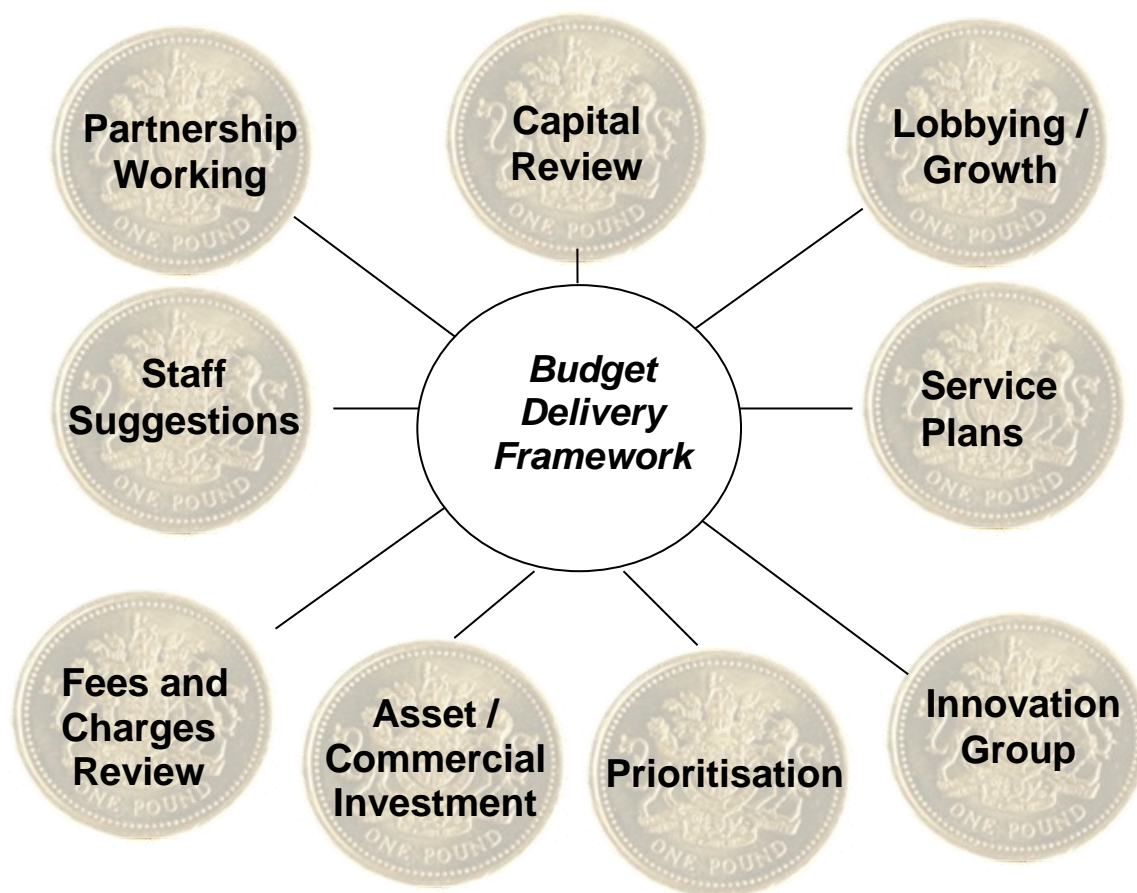
- ◆ Anticipating and trying to influence major 'Big Ticket' items;

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- ♦ 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 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. Since 2010, the Council has delivered around £10m of 'efficiency savings' – this has been a challenging task. 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 Executive has previously agreed that it would consider refreshing the suite of 'guiding principles' that it has used in recent years prior to the start of the next budget process. The following paragraphs of this report consider how these may be amended to be more relevant to the financial and service landscape that we currently face. However, prior to the consideration of the possible updates, the existing suite of guiding principles is re-produced for members information;

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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);*
- 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,*

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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.*
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. The four sets of guiding principles / golden rules have been developed at different times over the past few years – primarily in response to certain economic or financial circumstances. Together they have formed a solid and clear foundation for the council's financial strategy and have served the authority well. They have however remained unchanged for some time and now is considered an appropriate time to consider refreshing / rationalising them. The financial landscape remains very tight moving forward, as such any changes need to remain mindful of that fact.

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2.7. Members may wish to consider rationalising the current guiding principles from the four sets that currently exist into two distinct groupings – one that is specifically referred to as the council's financial 'golden rules' and one that is known as the council's financial 'guiding principles'. Both of these are specifically for the Council's General Fund budgets (revenue and capital) - the following is a suggestion about what each could contain;

Financial Golden Rules;

- a. The General Fund Working Balance should not fall below £1m or 10% of net revenue expenditure (whichever is the greater);
- b. When setting the level of council tax, members should always consider the medium term outlook to ensure that a sustainable budget position is maintained;
- c. The Council must always ensure that adequate funding is provided to cover all of its statutory and regulatory responsibilities;
- d. Should the Council decide to allocate significant additional / new funding to a specific service – it should identify where the required funding is coming from (or compensating savings are to be made);
- e. When setting the Capital Programme, in addition to meeting statutory responsibilities, priority will be given to schemes that are beneficial to the council's overall revenue budget position;
- f. The council must ensure that it has an overall level of revenue reserves that are appropriate for the overall level of risks that the organisation faces – including potential national funding changes.
- g. In line with the council's investment strategy, the council will look to invest in schemes that will have a positive impact over the medium term on its budget position including taking out long-term debt financing (where there is an appropriate business case);

Financial Guiding Principles;

- i. When funding for a specific service is reduced / withdrawn (from national government or another provider) the council should not substitute itself as a provider or funder of the service – unless there are exceptional circumstances.
- ii. When considering the Capital Programme, due regard is given to ensure that existing council assets are properly maintained.

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- iii. Where decisions are required about the priority of funding for services, the following is followed;

Priority 1 - Statutory Requirements

Priority 2 – Fit to Council Objectives of;

- ◆ Better Town Centres
- ◆ Better Jobs
- ◆ Better Education Offer

- iv. Continue to seek strategic partnerships with other public sector providers to help protect services for our residents – especially those that help promote economies of ‘scope’ rather than ‘scale’;

- v. To maximise the resources that are available to the authority, the council will continue to actively lobby the Government on relevant issues.

2.8. Members of the Executive may also want to consider developing some similar golden rules / guiding principles for the stewardship of the council’s Housing Revenue Account – these could be the subject of a future report.

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3. UPDATE OF KEY ISSUES AND BUDGET PROJECTIONS

3.1 This section provides an update on the budget position / financial projections for the following;

- General Fund
- Housing Revenue Account
- Capital Programme

General Fund Updates

3.2 The Council's General Fund Medium Term Financial Strategy is reproduced in Table 1 – notes to the Medium Term Financial Forecast are included at Appendix A.

3.3 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).
- ♦ **Zone of 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.

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

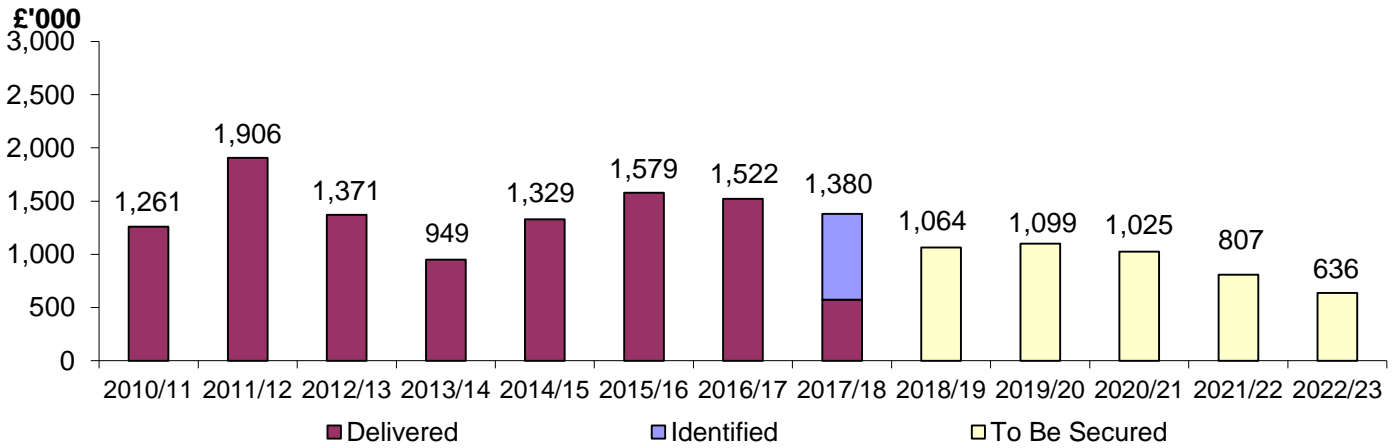
3.4 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing savings targets going forward are at least of a similar scale to those already met, the following chart shows:

- 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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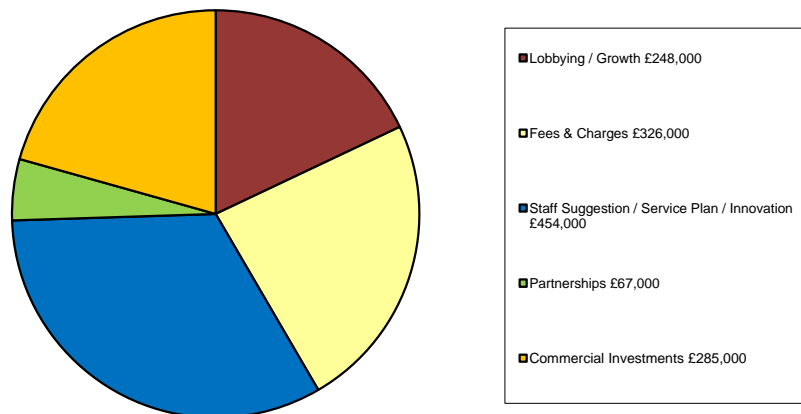
Efficiency Savings



GENERAL FUND 2017/18

3.5 From Table 1 it can be seen that the Council’s budget delivery framework need’s 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)**



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

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Table 2 – Framework Savings 2017/18			
Framework	Additional Income £'000	Reduced Expenditure £'000	Total £'000
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
Total	865	515	1,380

- 3.7 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 B.
- 3.8 The General Fund broadly remains on target to be delivered within budget for 2017/18 however there continues to be some key areas of volatility – the most significant of these being;

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	Projected Variance	Reason
Borrowing Costs	£300,000 (favourable)	The Council continues to use internal reserves as a means of borrowing and has recently borrowed externally to finance commercial investments. The variance reflects lower borrowing costs.
Fee Income	£200,000 (adverse)	A number of the Council's main income streams (eg, Planning Fees and Crematorium Income) are generating less income than budgeted at the present time. The medium term implications of this will be reviewed through the forthcoming budget process.
Homelessness	£100,000 (adverse)	There has been an increase in the number of homeless applications this is reflective of the picture across the country in relation to this issue.
Recycling	£200,000 (adverse)	Increased cost for the disposal of co-mingled waste arising from a temporary change in gate fees owing to operational changes with the current provider.

3.9 These areas will be closely monitored and reviewed as part of the forthcoming budget process – some of these (such as homelessness) are essentially demand led and reflective of national economic issues.

GENERAL FUND – 2018/19 – 2019/20

3.10 Members should be aware that the indicative savings levels for the period 2018/19 onwards are subject to a number of high level assumptions as part of the 'four year settlement' indicative levels of grant funding were provided for 2018/19 and 2019/20 and these are reflected in Table 1.

3.11 As well as monitoring framework savings identified for 2017/18 work continues on identifying savings for the following year – 2018/19. Members are reminded that the original savings target was £1.339m the savings target was reduced by £275,000 following the Executive approving an amended New Homes Bonus Strategy at the June meeting, the current Medium Term Financial Forecast requires an additional £1.064m of savings to balance the budget in 2018/19.

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- 3.12 Members are reminded that significant efficiency savings have been delivered in recent years as shown in Chart 1. It has been previously reported that savings of this magnitude are going to be difficult to maintain and this is emphasised by the 2018/19 budget process which is very different to previous years. Typically at this stage of the financial year in previous years savings of around 40% have been identified.
- 3.13 It is important that the Council considers all frameworks and all income streams the Council continues to explore how efficiency savings of over £1m can be delivered to meet the estimated savings target for 2018/19. As savings are identified and resilience tested these will be reported to future Executive meetings.
- 3.14 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 to the November Executive meeting to link into the budget process.

GENERAL FUND – 2020/21 – 2022/23

- 3.15 The future levels of grant from 2020/21 are much more uncertain and are a best estimate. 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.
- 3.16 Considerable work is needed before 2020/21 if the Council is to continue to deliver a balanced budget and have a sustainable Medium Term Financial Forecast.
- 3.17 Section 4 of the report considers key issues surrounding Business Rates

HOUSING REVENUE ACCOUNT 2017/18 – CURRENT FINANCIAL YEAR

- 3.18 A summary of HRA monitoring at 31st August 2017 is shown in Table 5. The Housing Revenue Account is currently projected to come in around £100,000 over budget. The main variance relates to income being around £150,000 less than budget this results from void times being higher than budgeted, resulting in lower income levels.

Table 5 - HRA	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,586	15,536	(50)
Gross Income	(15,586)	(15,436)	150
Net Expenditure	0	100	100

- 3.19 From 4th September the management of the Council's Housing stock will all fall under Housing Services – previously the property element formed part of Environmental Services. One of the key areas of work going forward will be to

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reduce the void times as a reduction in void times will improve income levels. This is an area of work that will continue to be closely monitored.

CAPITAL 2017/18 – CURRENT FINANCIAL YEAR

3.20 A summary of the projected Capital Programme outturn monitoring statement as at 31st August 2017 is shown in Table 4

Table 4 - Capital	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Expenditure			
HRA Schemes	4,443	4,443	0
General Fund Schemes	24,493	24,493	0
	28,936	28,936	0
Financing			
Capital Receipts	1,334	1,334	0
Prudential Borrowing	23,745	23,745	0
Revenue Contribution	3,233	3,233	0
Grants and Contributions	624	624	0
	28,936	28,936	0
Net Expenditure	0	0	0

3.21 The profile of the Capital Programme requires amending, due to a number of one-off pressures, in accordance with the Council's Financial Regulations – the Executive can approve Budget Virements between Capital Projects up to £250,000, the Virements requiring Executive approval are set out in Table 5 below:

Table 5 – Budget Virements				
Capital Scheme	Current Budget £'000	Virement £'000	Working Budget £'000	Comments
Housing Revenue Account				
Voids	507	79	586	Additional pressures on Window Renewals, Voids and disabled adaptations projects have resulted in the deferral of a number of other schemes.
Window Renewal	50	15	65	
External Wall Finish	42	(42)	0	
External Insulation	152	(152)	0	
Roof Renewals	147	(40)	107	
Improving access for disabled people	230	40	270	
1-4-1 Homes	178	100	278	Additional budget relates to 70% of the funding of a 141 property purchase
Total HRA	1,306	0	1,306	
General Fund				

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Swimming Pool	0	80	80	Unforeseen repairs to the Pool roof.
Invest to Save	200	(80)	120	
Total General Fund	200	0	200	

4 **BUSINESS RATES UPDATE**

100% Business Rates Retention Scheme

- 4.1 Members will be aware from previous reports that the legislative requirements that were needed for the government to move forward with '100% business rates retention' did not make it into the Queen's speech earlier this year. As a result of this it was widely accepted that little progress of this issue could be made in the next two parliamentary cycles.
- 4.2 In recent weeks it has become clear that although the government is restricted in what it can do to move this initiative forward (because some of the changes require a change in primary legislation), they have indicated that they will be looking at ways that they can move some of this forward through the use of secondary legislation. It is not currently clear what is possible but officials in CLG are presently working their way through this.
- 4.3 To supplement the above, the government at the beginning of September issued a 'prospectus' that invited local authorities to bid to become pilot schemes for the possible implementation of 100% business rates. Bids need to be submitted by the 27th October.
- 4.4 On initial reading there could be significant benefits from being a 'pilot' therefore the local authorities within the county are currently considering the prospectus and will be putting together a draft bid document for each local authority to consider endorsing. Any bid will need the agreement of all local authorities within the county area (Districts and the County Council) and part of the bid will be require having an agreed position on what happens to any 'additional business rate growth income' – ie, who get what and what can it be used for.
- 4.5 It is too early in this report to ask members to endorse a bid to become a 'pilot' – the bid needs to be worked up and then will come back to members for consideration prior to the October deadline. However our initial thoughts are that it is likely to be beneficial to become a 'pilot' and therefore a draft bid should be worked up. Officers from KBC will be fronting up the bid at both the local and national level.

Fair Funding Review

- 4.6 Although there are doubts about whether (and in what form) any move to 100% Business Rates Retention will take, the government have been very clear about their intention to continue to undertake a comprehensive review of 'fair funding'.

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- 4.7 In effect, the review will look at what factors should initially drive the allocation of government core funding to each local authority – principally looking at factors which drive ‘need’.
- 4.8 This will be a very important review for all sectors of local government. To that end KBC continues to be represented on a number of the national working groups either through its own right or through our role in the District Council Network.

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 Approve

- a. The revised Guiding Principles as set out in 2.7
- b. the Capital Virements as set out in Table 5.

8.2 Note the following:

- a. The updated Medium Term Financial Strategy and the estimated level of savings required in the medium-term.
- b. The recent developments regarding Business Rates and the development of a draft ‘pilot’ proposal.

Background Papers:

Title of Document: Estimate Working Papers
Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports