

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	Fwd Plan Ref A17/007	
Wards Affected	All	18 th October 2017	
Title	MAINTAINING A DURABLE BUDGET		

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) 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 the Council Tax Support Consultation process, following the decision taken by the Executive Committee at its previous meeting;
- d) Provide a mid-year update on Treasury Management;
- e) Provide an update on Business Rates Pilots for 100% Business Rates Retention for 2018/19 and seek delegated authority to submit a Countywide Northamptonshire Bid.

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.

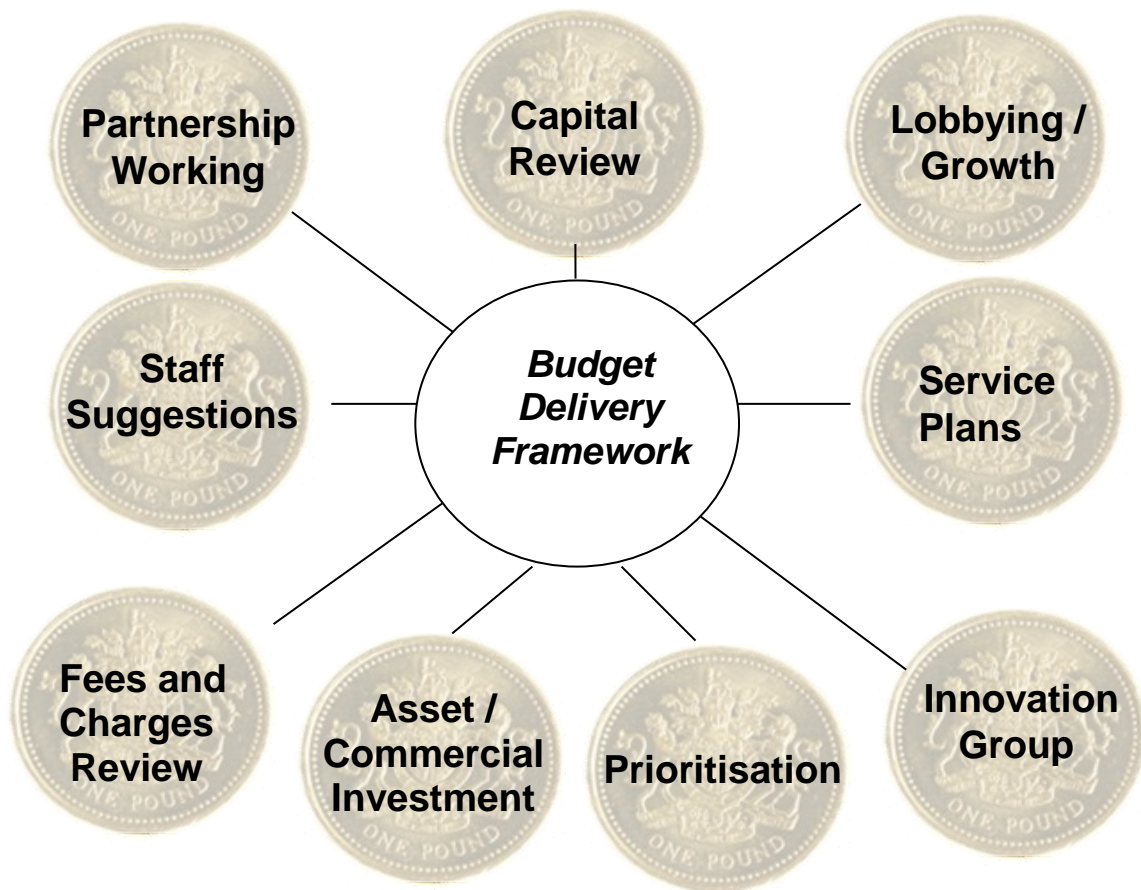
2.2. Members will appreciate that the strategies the Council has adopted over the past few years have generally kept the authority in a good position from which to move forward. In Kettering, the council's approach has ensured that we are able to pro-actively deal with the challenges faced through: -

- ♦ Anticipating and trying to influence major 'Big Ticket' items;
- ♦ Having a well-motivated and flexible workforce that is pro-active in helping to deliver services.

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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 at the September meeting considered and approved the rationalisation of the guiding principles from four sets into two distinct groupings – one that is 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) – for ease of reference these are reproduced below:

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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.
- 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

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◆ 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.

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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 "Predictability"	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)	(100)	0	0	0	0
5	Savings - To be Identified	0	(964)	(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)

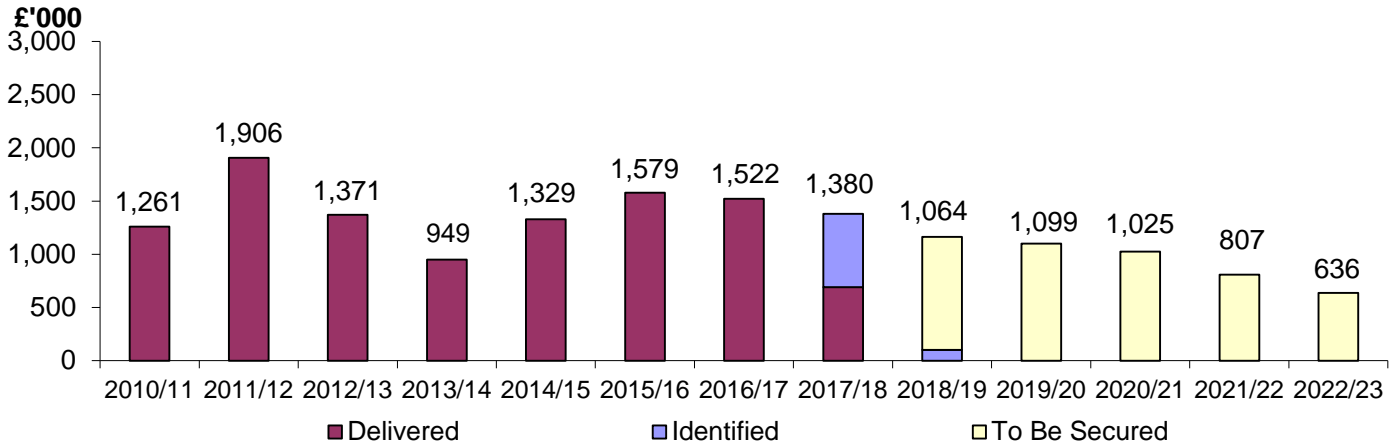
3.4 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing savings targets going forward are at least of a similar scale to those already met, the following chart shows:

- 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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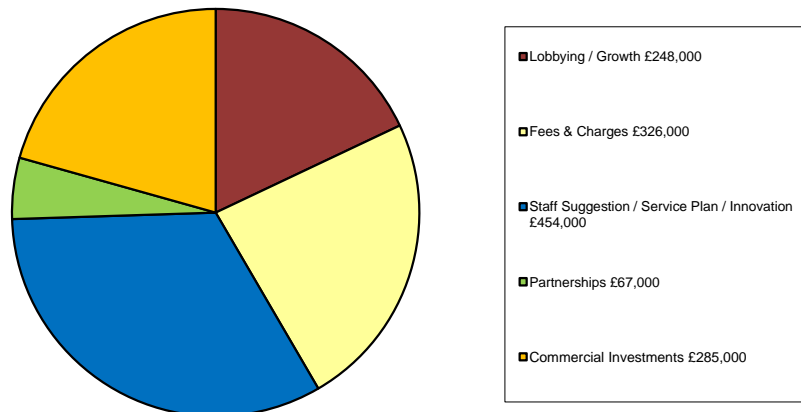
Efficiency Savings



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 remains broadly 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.
Other Items	£200,000 (favourable)	The General Fund budget consists of many budgets to which there is some degree of variation – overall current projections show this as a favourable variance.

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 current Medium Term Financial Forecast requires an additional £1.064m of savings to balance the budget in 2018/19.

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

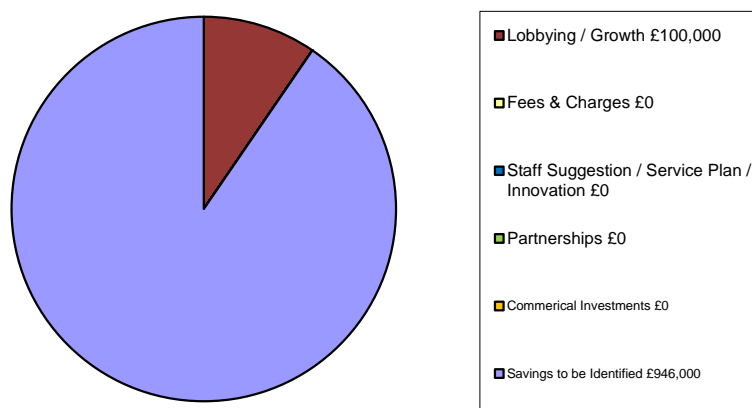
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this magnitude are going to be difficult to maintain and this is emphasised by the 2018/19 budget process which will be more challenging than previous years.

- 3.13 The Government will present the Autumn Budget on 22 November 2017. The funding landscape may start to become a little clearer although it is unlikely to provide any details of what this may mean at an individual authority level – it will nonetheless hopefully provide a clearer national picture.
- 3.14 To date savings of £100,000 have been identified for 2018/19, this relates to additional funding from Central Government for homelessness. Further savings of £964,000 are required in order to deliver a balanced budget for 2018/19. Chart 2 illustrates how the identified savings are to be delivered and the levels of savings that are required to deliver a balanced budget – to date around 10% of the savings have been identified.

Chart 2
Framework Savings for the next Year (2018/19)



- 3.15 It is important that the Council considers all frameworks and all income streams the Council continues to explore how efficiency savings of around £1m can be delivered to meet the estimated savings target for 2018/19. As further savings are identified and resilience tested these will be reported to future Executive meetings.
- 3.16 It has previously been reported that work is ongoing on car park charges it is intended that options will be included in a future report to this Committee, for member consideration. Given the overall financial position of the Council it is important that the quantum of money collected through car parking charges is preserved.

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GENERAL FUND – 2020/21 – 2022/23

- 3.17 Given the work that the Government are undertaking about the future of Local Government funding – it is more difficult to look this far ahead with any degree of certainty. 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, together with the national ‘fairer funding review’.
- 3.18 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.
- 3.19 Section 4 of the report considers key issues surrounding Business Rates

HOUSING REVENUE ACCOUNT 2017/18 – CURRENT FINANCIAL YEAR

- 3.20 A summary of HRA monitoring at 30th September 2017 is shown in Table 3. 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. This is an area of work that will continue to be closely monitored.

Table 3 - 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

- 3.21 A revised set of golden rules and guiding principles for the General Fund were approved at the September meeting – work is progressing on developing a set of golden rules and guiding principles for the HRA and these will be reported to a future meeting of the Executive, so they can be used in the forthcoming budget process

CAPITAL 2017/18 – CURRENT FINANCIAL YEAR

- 3.22 A summary of the projected Capital Programme outturn monitoring statement as at 30th September 2017 is shown in Table 4

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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

4 **BUSINESS RATES UPDATE**

100% Business Rates Retention Scheme

- 4.1 It was reported to Members at the September Executive meeting that the government at the beginning of September issued a 'prospectus' that invited local authorities particularly those from two tier areas to bid to become pilot authorities for the possible implementation of 100% business rates. Bids need to be submitted by the 27th October.
- 4.2 The current Business Rates Retention Scheme took effect from 1 April 2013 and allowed authorities that experience a growth in business rates income (above treasury targets) to retain some of the money. The growth would be subject to a levy payment to the Government.
- 4.3 Members will recall that Kettering administers the Pool on behalf of the Northamptonshire authorities. The Northamptonshire pool has been successful in that it has allowed the pool members to retain more funding because the 'levy' that has to be paid to the Government (on business rates growth) is lower in such an aggregate pool position.
- 4.4 Over recent weeks officers across the County have been compiling a joint bid submission to become a Pilot in 2018/19 for 100% Business Rates Retention which will enable more of the growth to be retained locally. The bid has the agreement of all local authorities within the county area (Districts and the County Council).
- 4.5 There are potential significant financial benefits from being a Pilot authority as the additional growth in retained revenues under the pilot arrangement being the former national share will now be retained locally.
- 4.6 The Pilot bid requires authorities to;

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- ◆ Accept or decline a 'No Detriment' clause
- ◆ Propose a split for sharing additional growth
- ◆ Applications must outline what pooling arrangements they wish to see if the Pilot bid were unsuccessful.

- 4.7 For the 2017/18 pilots the Government agreed a 'no detriment' clause guaranteeing that these areas will not be worse off as a result of participating in the pilot. Applications for 2018/19 have to make it clear whether or not they would be willing to become a 100% Business Rates Pilot if the pilots were expected to operate without the benefit of 'no detriment' clause. Northamptonshire has and continues to experience significant growth all authorities are in agreement to not having the 'no detriment' clause as part of their bid submission – which is likely to be received positively by the Government.
- 4.8 Part of the bid requires having an agreed position on what happens to any 'additional business rate growth income' – ie, who gets what and what can it be used for.
- 4.9 The distribution mechanism is likely to contain two distinct elements, firstly it is intended that Growth will be divided 80% to districts and 20% to Counties as it would have been had the pilot not come into being (as per current local rate retention scheme).
- 4.10 Secondly discussions are ongoing with the other authorities regarding how the dividend of the additional 50% growth will be shared.
- 4.11 A further requirement of the bid is that all applications must outline what pooling arrangements would be in place in 2018/19 should the bid be unsuccessful – if the bid were unsuccessful it would be the intention that the current pooling arrangements in 2017/18 continue in 2018/19.
- 4.12 Pilot bids need to be submitted by 27th October owing to the short time frame Members are asked to delegate the submission of the Pilot bid be delegated to the Council's S151 Officer in conjunction with the Finance Portfolio Holder.
- 4.13 Members are advised that the bids for Pilots is a competitive process, we would be surprised if there was not significant interest from two-tier areas to become pilots. It is likely that not all applications will be successful.
- 4.14 Given the original pooling decision was taken here at Executive it is appropriate to bring a report here regarding the Pilot submission bid and to clarify the pooling position for 2018/19 if the bid were unsuccessful.

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5 LOCAL COUNCIL TAX SUPPORT SCHEME

Background

- 5.1 A report on the options for a Local Council Tax Support scheme for 2018/19 was considered at the September Executive meeting. The report provided members with a reminder to the background of the Local Council Tax Support Scheme and outlined the estimated financial position for 2018/19.
- 5.2 Having considered the information the Committee agreed to continue the scheme that has operated in 2017/18 for 2018/19 (i.e. a taper of 45%). The Committee agreed to undertake a formal consultation process on whether the taper of 45% be agreed for one (2018/19) or two years (2019/20).
- 5.3 Following the decision of the Executive a formal consultation process has now commenced and runs from 25th September – 20th November 2017.
- 5.4 The results from the consultation (together with a commentary of associated issues and risks) will be reported to the Executive on 6th December and a final decision on the operation of the scheme will be made by Council on 13th December 2017.

6 TREASURY MANAGEMENT – MID YEAR UPDATE

- 6.1 The Treasury Management Policy Statement is a high level document, which defines the Council's policies and objectives of its Treasury Management activities.
- 6.2 To comply with the requirements of best practice, the Treasury Management Strategy is reported to members in advance of the forthcoming financial year, (this was approved by the Executive and Council at the February and March meetings) and a mid-year report that covers the following:
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy (6.3).
 - The Council's capital expenditure (prudential indicators) (6.4);
 - A review of the Council's investment portfolio, borrowing strategy and compliance with Treasury and Prudential Limits for 2017/18 (6.5 – 6.7).
- 6.3 The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for 2017/18 were approved by Council on 1 March 2017. There have been no policy changes to either of these strategies.
- 6.4 The current estimates for capital expenditure and financing arrangements since the capital programme was approved by Council in March 2017 have all previously been reported to the Executive.

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- 6.5 The Council's current investment and borrowing portfolios (as at 30 September 2017) are detailed in Table 5. These are in line with the Council's Treasury Management Strategy.

Table 5	
Investment Portfolio	£000
Nationwide	4,000
Santander	11,995
Lloyds	3,542
Bank of Scotland	6,476
Other	12
Total	26,025

Borrowing Portfolio	£000
PWLB	68,903

- 6.6 The Council's projected closing capital financing requirement (CFR) for 2017/18 is £99.957m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.
- 6.7 Table 6 shows the Council has estimated external borrowings of £75.574m at the 31st March 2018 and has partly utilised cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

Table 6	2017/18 Original Budget £000	2017/18 Current Projection £000
Gross Borrowing	75,797	75,574
Other Long Term Liabilities	4,276	4,276
Less Investments	10,693	16,722
Net Borrowing	69,380	63,128
CFR (year end position)	99,957	99,957
Operational Boundary (External Debt)	105,000	105,000
Authorised Limit	110,000	110,000

7 CONSULTATION AND CUSTOMER IMPACT

- 7.1 As outlined in the report.

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8 POLICY IMPLICATIONS

8.1 As outlined in the report.

9 USE OF RESOURCES

9.1 As outlined in the report.

10. RECOMMENDATIONS

10.1 That the Executive

Delegate responsibility to the Council's Section 151 Officer in conjunction with the Finance Portfolio Holder to submit the Northamptonshire Pilot Bid for 100% Business Rates Retention for 2018/19.

10.2 Note the following

- a. The Council's Medium Term Financial Strategy and associated guiding principles;
- b. The Council's current Medium Term Financial Forecast and the progress being made for the delivery of efficiency savings for 2018/19 and future years;
- c. The Council Tax Support Consultation period will run from 25th September to 20th November 2017;
- d. The Treasury Management performance for the period 1st April – 30th September.

Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports