

BOROUGH OF KETTERING

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| Committee | EXECUTIVE | Item 10 | Page 1 |
| Report Originator | Strategic Management Team | Fwd Plan Ref A17/007 | |
| Wards Affected | All | 6 th December 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) Illustrate the latest budget model, the delivery of efficiency savings for 2017/18 and the estimated level of budget savings that may be required over the next few years;
- c) Request an increase in the Capital Programme for Commercial Investment Schemes.
- d) Provide an update following the Governments Budget Announcements.

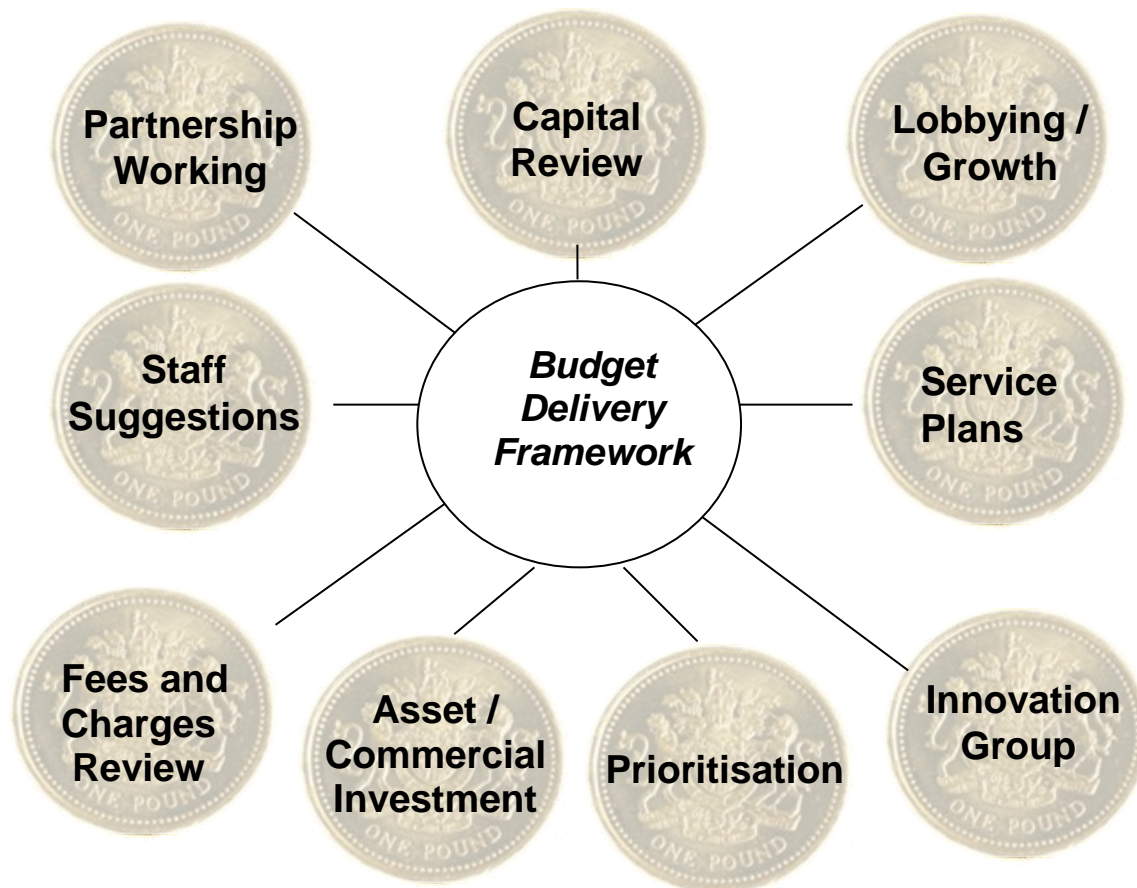
2. BACKGROUND

- 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.
- 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. 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:

Financial Golden Rules;

- a. The General Fund Working Balance should not fall below £1m or 10% of net revenue expenditure (whichever is the greater);

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- 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
 - ◆ 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';

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

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) | (960) | 0 | 0 | 0 | 0 |
| 5 | Savings - To be Identified | 0 | (104) | (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) |

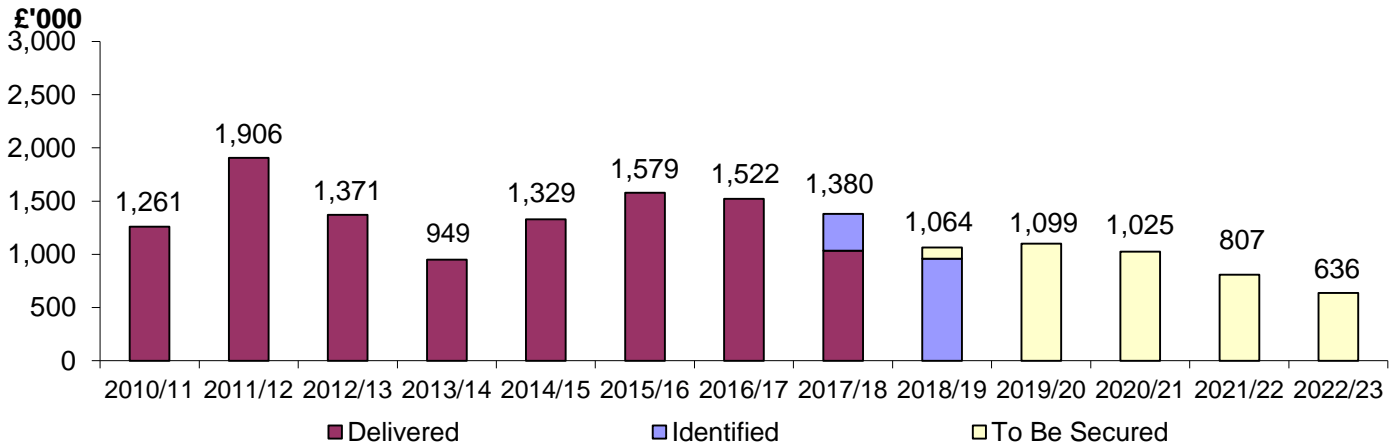
3.4 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing savings targets going forward are at least of a similar scale to those already met, the following chart shows:

- 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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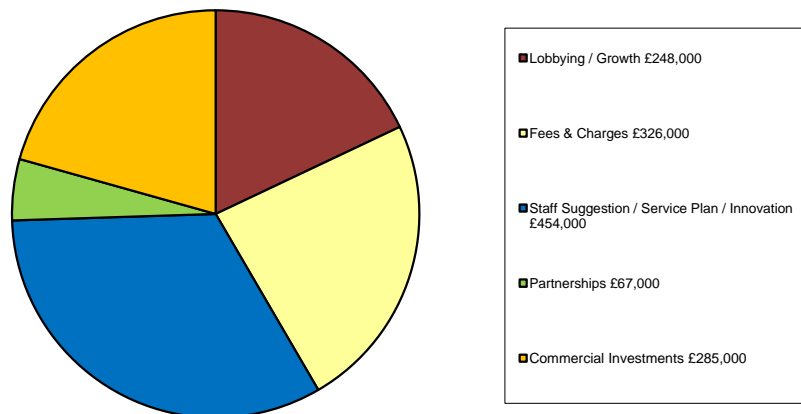
Efficiency Savings



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 are summarised in Table 3.

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| Table 3 – Budget Variances 2017/18 | | |
|---|---------------------------|--|
| | 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 than budgeted for. |
| Business Rates | £225,000 (favourable) | Estimated growth from the Business Rates Retention Scheme. |
| Fee Income | £400,000 (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. |
| 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. |
| 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. |
| Other Items | £175,000 (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 and 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

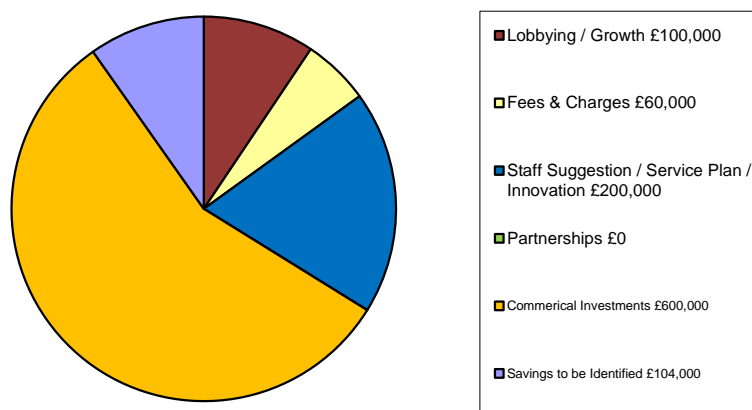
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the current Medium Term Financial Forecast requires an additional £1.064m of savings to balance the budget in 2018/19.

- 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 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 Savings of £460,000 had been previously identified (as reported to the Nov Executive) and a further £500,000 has been identified, therefore the identified savings total £960,000. A further £104,000 is 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 90% of the savings have been identified.

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



- 3.14 Table 4 illustrates how the savings identified to date are to be delivered – to date all the identified savings are to be delivered through generating additional income. With a significant emphasis on commercial investments.

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| Table 4 – Framework Savings 2018/19 | | | |
|--|------------------------------------|--------------------------------------|------------------------|
| Framework | Additional Income £'000 | Reduced Expenditure £'000 | Total £'000 |
| Lobbying / Growth | 100 | 0 | 100 |
| Fees & Charges | 60 | 0 | 60 |
| Staff Suggestion / Service Plan / Innovation | 200 | 0 | 200 |
| Commercial Investments | 600 | 0 | 600 |
| Total | 960 | 0 | 960 |

3.15 It is important that the Council considers all frameworks and all income streams the Council continues to explore how further efficiency savings of around £104,000 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 There are a number of national announcements that will be made over the coming weeks, these include both Government Grant and New Homes Bonus – these are summarised below:

Government Grant

3.17 The Local Government Finance Settlement is expected during December, Members will recall that the Council along with 97% of other authorities agreed a four year settlement and 2018/19 will be the third year of this agreement. It is not expected that the grant settlement differs to that being modelled in the Council's Medium Term Financial Strategy (Table 1).

New Homes Bonus

3.18 The Council has previously stressed the importance that local authorities that have successfully delivered housing growth should receive the 'bonus' funding that was previously promised. Following a national consultation exercise last year, as part of the provisional finance settlement the Government introduced the following changes to the New Homes Bonus Scheme: -

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- ♦ A baseline was introduced from 2017/18 whereby housing growth below 0.4% did not receive any New Homes Bonus funding - the Government have retained the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth. More details on NHB funding may be included in the Local Government Finance Settlement.
- ♦ Funding was reduced from 6 years to 5 years' worth of payments in 2017/18 and then reduces to 4 years' worth of payments from 2018/19 onwards.

3.19 The government recently consulted on withholding NHB payments for homes that are built following an appeal – we are still awaiting the outcome of this consultation.

3.20 The Executive at the June meeting approved a revised New Homes Bonus Strategy. It was reported to members that at this stage this reflects how the scheme is working going forward and that the assumptions will be kept under constant review. Any changes in NHB will be reported to a future Executive report.

Business Rates

3.21 Members will recall that the Council in October submitted a bid along with all the other Northamptonshire authorities to become a pilot for the possible implementation of 100% business rates. Members were advised that the bids for Pilots are a competitive process and it would be likely that there would be significant interest from two-tier areas to become pilots. The outcomes of the bids are expected to be announced in December.

GENERAL FUND – 2020/21 to 2022/23

3.22 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'.

3.23 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.

HOUSING REVENUE ACCOUNT 2017/18 – CURRENT FINANCIAL YEAR

3.24 A summary of HRA monitoring at 31st October 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. This is an area of work that will continue to be closely monitored.

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| 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 |

CAPITAL 2017/18 – CURRENT FINANCIAL YEAR

3.25 A summary of the Capital Programme monitoring statement as at 31st October 2017 is shown in Table 6

| Table 6 - Capital | Current Budget | Projected Outturn | Variance |
|--------------------------|----------------|-------------------|----------|
| | £'000 | £'000 | £'000 |
| Expenditure | | | |
| HRA Schemes | 4,443 | 3,973 | (470) |
| General Fund Schemes | 24,493 | 24,491 | (2) |
| | 28,936 | 28,464 | (472) |
| Financing | | | |
| Capital Receipts | 1,334 | 1,334 | 0 |
| Prudential Borrowing | 23,745 | 23,723 | (22) |
| Revenue Contribution | 3,233 | 2,763 | (470) |
| Grants and Contributions | 624 | 644 | 20 |
| | 28,936 | 28,464 | (472) |
| Net Expenditure | 0 | 0 | 0 |

3.26 The main variance on the Capital programme relates to the refurbishment of Hampden Crescent. The projected underspend of £454,000 is a timing variance with the scheme estimating to complete early in 2018/19.

3.27 It was reported to the November Executive meeting that there may be a need for the capital budget for commercial investments to be significantly increased. The 2017/18 budget for commercial investments is £22.3m. Sections 3.28 – 3.31 provides a reminder on the background for commercial investments together with an update on the current budgetary provision.

3.28 An Asset Management Board (AMB) was established to help shape the Council's new asset management arrangements. The AMB had the responsibility for overseeing the development of the Property Investment Strategy and this strategy incorporated all the parameters that were agreed by the AMB. The Strategy was reported to and approved by the Executive at the April 2017 meeting.

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- 3.29 The Property Investment Strategy has been designed to provide a framework for the Council to compete in the property market on an equal footing enabling the acquisition of properties for investment at pace whilst ensuring that governance processes are in place, full assessments are made and risks are minimised.
- 3.30 The Council has a number of live investment opportunities that have been reported to and agreed by the AMB. If all of these are to be delivered this would require an increase to the 2017/18 capital programme for commercial investments of £15m. These investments would contribute towards meeting the challenging savings targets set out in the Council's Medium Term Financial Strategy (Table 1).
- 3.31 It is important that the Council maintains its capacity to deliver on future commercial investments. If members were minded to increase the capital programme by a further sum in this financial year, this would enable us to pursue additional investment opportunities that are currently available. Bringing forward £20m into this financial year from 2018/19 would give us the necessary freedom of movement. It would require the approval of the full Council at its next meeting. This would mean that the total budget for capital investments would increase in this year from £22.3m to £42.3m.

4 BUDGET STATEMENT

- 4.1 The Chancellor made his formal Budget announcement on 22nd November the headlines that are relevant to local government are set out in this section:

Housing

- 4.2 As widely predicted, the budget including a number of announcements which are intended to boost the supply of new houses. The details about how such new measures will work (eg, infrastructure funding / land supply / construction industry changes) will be the subject of a further statement by the Secretary of State in due course.
- 4.3 The Chancellor also announced that HRA borrowing caps will be lifted for councils in areas of 'high demand' – at this stage it is not clear what this means but no doubt it will be clarified in due course.

Planning Reform

- 4.4 The Chancellor announced that there would be an urgent review looking at why the country had so many planning permissions that were currently not being built out. This is something that KBC and the District Council Network have been asking for and is welcome news.

Business Rates

- 4.5 The Government had previously stated that annual increases in Business Rates from April 2020 would switch from the retail price index (RPI) to the consumer price index (CPI). Today the Chancellor announced that this switch would be brought forward by

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two years, to April 2018 – the move is likely to cost the public sector around £2.3bn over the next five years.

- 4.6 The Chancellor has said that Local Government will be fully compensated for the loss of income as a result of this change, although it is less clear if the compensation arrangements would continue from 2020.
- 4.7 The Government will continue to pilot 100% Business Rates retention across England and have agreed a pilot of 100% Business Rates retention in London in 2018/19 – further pilots will be announced following DCLG's assessment of recent applications.

Council Tax

- 4.8 Local authorities will be given the legal power to increase the Council Tax premium on Empty Homes from 50% to 100% (if they choose). This would benefit the General Fund but would be an additional cost to the Housing Revenue Account.
- 4.9 There is no mention in the Autumn Statement on government's expectations on council tax increases, or if there will be a special council tax increase for adult social care as was the case last year. It is assumed these announcements will be made by CLG over the coming weeks.
- 4.10 Members may care to note that in respect of last year's statement, both the expected general council tax increase and additional social care council tax increase were set at 2% - i.e. 4% for a County Council and 2% for a District (relatively low charging districts such as Kettering had the option of increasing by 2% or £5 per annum, whichever was the greater).

Disabled Facilities Grants (DFG's)

- 4.11 The budget also provides additional funding of £42m for DFG's in 2017/18 which increases funding nationally from £431m to £473m. It is anticipated that further announcements will be made over the coming weeks which will provide funding allocations to individual authorities.

Homelessness

- 4.12 In addition to announcing a number of pilot schemes, the Chancellor also announced that there would be a national Homelessness Taskforce established – with the aim of ending rough sleeping in the medium term.

Universal Credit

- 4.13 The Government will provide more support to Universal Credit Claimants – from January 2018 there will be the opportunity for those that need it to be able to access up to a month's worth of Universal Credit within five days via an interest-free advance.

National Living Wage

- 4.14 The National Living Wage will increase by 4.4% from £7.50 to £7.83 from April 2018 – this is in line with what we had expected and planned for.

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4.15 The LGA as in previous years have produced a briefing regarding the link to the Budget Briefing is <https://www.local.gov.uk/parliament/briefings-and-responses/lga-autumn-budget-2017-day-briefing> Although the Council may not endorse all of the comments in the LGA briefing, it is nevertheless a useful reference document.

5 CONSULTATION AND CUSTOMER IMPACT

5.1 None as a direct consequence of this report. However members are reminded that the formal budget consultation period is from 17th January 2018 to 28th February 2018 when the Council sets its Council Tax for 2018/19. Comments from the consultation process will be reported to the Executive for consideration at its meeting on 14th February 2018.

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. 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 key updates made in the Autumn Statement and the uncertainty in relation New Homes Bonus.

8.2 Recommend to December Council an increase of £20m to the 2017/18 Capital Budget for commercial investments as set out in Section 3.31.

Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports