

## BOROUGH OF KETTERING

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<b>Report Originator</b>	Strategic Management Team	<i>Fwd Plan Ref No: A15/030</i>	
<b>Wards Affected</b>	All	17th January 2018	
<b>Title</b>	<b>DRAFT BUDGET PROPOSALS FOR 2018/19 AND MEDIUM TERM FINANCIAL STRATEGY</b>		

Portfolio Holder: Cllr L Thurland

### **1 PURPOSE OF REPORT**

The purpose of this report is to:

- a) outline the draft budget figures for the Council's three main accounts for 2018/19 and to start the formal budget consultation process.
- b) consider the main issues that are likely to impact on the Council's budgets in the medium term.
- c) provide an illustration of the Council's medium term financial projections.

### **2. SECTION A - INTRODUCTION**

- 2.1 This report introduces the draft budget figures for the Council's three main accounts, so that a period of formal consultation can commence.
- 2.2 At the same time, the report highlights some key budgetary issues and challenges (both national and local) and provides appropriate commentary.
- 2.3 The Council's budget strategy is firmly established in policy and regularly reported to members through the monthly 'maintaining a durable budget' reports to the Executive Committee.
- 2.4 Each and every month the Executive Committee receives a detailed report on the Council's budget position. This particular report brings together all the key messages and figures so that the Council can fulfil its statutory responsibilities to construct and formally consider (and ultimately approve) a number of budgets.
- 2.5 The Council operates three main accounts; each requires an annual budget to be considered and approved by members in accordance with statutory requirements. Table 1 outlines what each account is used for.

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<b>Table 1 – The Council’s Three Accounts</b>	
<b>Account</b>	<b>Description</b>
<b>General Fund Revenue Account</b>	All revenue expenditure and income (i.e. day to day running costs), financed from Council Tax, Government Grants and Fees and Charges (excluding those related to the provision of Council Housing).
<b>Housing Revenue Account</b>	All revenue expenditure and income on activities related to being a housing landlord.
<b>Capital</b>	All capital expenditure and income (i.e. acquisition, replacement and enhancement of assets) financed from Government Grants, external contributions, revenue contributions, capital receipts and borrowing.

2.6 The Council has an established policy position from which it considers its budget – this includes a number of guiding rules and principles which help to ensure that the Council’s medium term financial strategy remains robust. A reminder of the policy position is provided later in this report.

2.7 To help Members navigate this report, it contains six sections:

**Section A Introduction**

**Section B ‘Budget Strategy’ (pages 4 to 7)** – Provides specific reference to the Council’s:

Policy Position	Page 4
Financial Golden Rules / Principles	Page 6

**Section C ‘General Fund’ (pages 8 to 27)** – Provides the detail to the General Fund Budget position for the current year and the detail to the 2018/19 draft budget and Medium Term Financial Strategy.

**Section D ‘Housing Revenue Account’ (pages 28 to 31)** – Provides the detail to the Housing Revenue Account position for the current year and the detail to the 2018/19 draft budget.

**Section E ‘Capital Programme (pages 32 to 34)** – Provides the detail to the Capital Programme for both the General Fund and the Housing Revenue Account for the current year and the detail to the 2018/19 draft budget and the indicative programme from 2019/20 to 2022/23.

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**Section F 'Summary, Conclusions and Recommendation' (pages 35 to 38)**

The report contains the following appendices

- A – Draft Budget Booklet
- B – Budget Consultation Timetable

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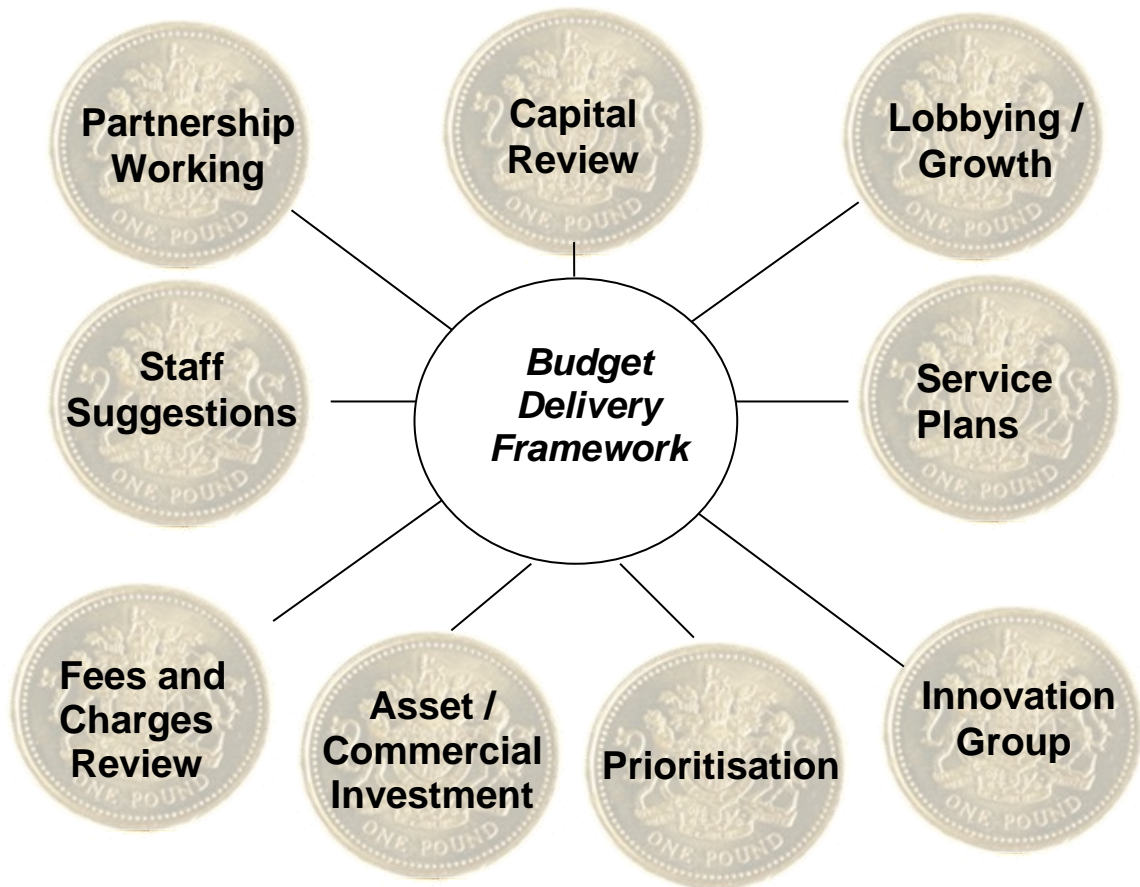
### 3. SECTION B: BUDGET STRATEGY

#### **POLICY POSITION**

- 3.1 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 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.
- 3.2 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.
- 3.3 The Council's success in delivering a balanced budget over the past number of years (without having to consider making any front line service reductions) has come from having a clear and well established policy position – in particular, the Council adhering to its budget guiding principles. From previous reports, Members will be aware that savings of this scale are becoming increasingly difficult to meet. 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:

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- 3.4 Since 2010, the Council has delivered around £11.3m of 'efficiencies' and income generation initiatives – 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 from 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.
- 3.5 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.

3.6 Whilst these principles provide a robust framework to work within, the Council’s success comes from an ability to deliver. The Budget Delivery Framework has provided the operational mechanism for delivering the measures required to balance the budget for the past seven years, this should also be the same for 2018/19.

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### 4 **SECTION C: GENERAL FUND**

#### **Background (General Fund)**

- 4.1 This Section firstly presents the Council's General Fund Medium Term Financial Forecast (Table 2). The notes to the Medium Term Financial Forecast are included at Appendix A.
- 4.2 This section then goes on to provide an update on the 2017/18 budget position and the detail to the 2018/19 draft budget and considers a number of key income streams, namely the National Grant Settlement, New Homes Bonus, Business Rates and Council Tax. This section also covers the medium term prospects for the General Fund.
- 4.3 The Medium Term Financial Strategy has been updated and comprises the following 'Zones'
- ♦ **Zone of Predictability** – covers the 2017/18 financial year - for which the level of government funding is known and 2018/19 and 2019/20 for which the provisional level of government funding is known. The 2019/20 figures are based on indicative figures provided as part of the 2018/19 financial settlement which form part of the 'four year settlement' figures.
  - ♦ **Zone of Unpredictability** – This covers the period from 2020/21 which is when it is anticipated that the fairer funding review and Business Rates will be reset. Based upon the figures in the MTFs, the Council would need to identify and deliver further efficiencies of around;
    - ♦ £965,000 in 2020/21,
    - ♦ £975,000 in 2021/22 and
    - ♦ £660,000 in 2022/23.



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**TABLE 2 - MEDIUM TERM FINANCIAL FORECAST**

		Zone of "Predictability"			Zone of "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	10,893	9,975	9,783	9,894	9,682
<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)	(2,428)	(2,484)	(2,000)	(2,000)	(2,000)
	<b>Total Government Grant</b>	<b>(2,903)</b>	<b>(2,599)</b>	<b>(2,234)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>
	Council Tax / Coll'n Fund	(250)	(300)	(100)	(100)	(100)	(100)
	Income From Council Tax	(6,415)	(6,521)	(6,620)	(6,718)	(6,819)	(6,922)
	<b>Total Resources</b>	<b>(9,568)</b>	<b>(9,420)</b>	<b>(8,954)</b>	<b>(8,818)</b>	<b>(8,919)</b>	<b>(9,022)</b>
<b>3</b>	<b>Budget (Surplus) / Deficit</b>	<b>1,380</b>	<b>1,473</b>	<b>1,021</b>	<b>965</b>	<b>975</b>	<b>660</b>
<b>4</b>	<b>Efficiencies Identified</b>	<b>(1,380)</b>	<b>(1,473)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>5</b>	<b>Efficiencies - To be Identified</b>	<b>0</b>	<b>0</b>	<b>(1,021)</b>	<b>(965)</b>	<b>(975)</b>	<b>(660)</b>
<b>6</b>	<b>Budget (Surplus) / Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>GENERAL FUND WORKING BALANCE</b>							
		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>	<b>(1,415)</b>	<b>(1,425)</b>	<b>(1,385)</b>	<b>(1,345)</b>	<b>(1,345)</b>	<b>(1,305)</b>
<b>8a</b>	Town Centre Initiatives	40	40	40	40	0	0
<b>8b</b>	Transitional Grant	(50)	0	0	0	0	0
<b>9</b>	<b>Estimated Closing Balance</b>	<b>(1,425)</b>	<b>(1,385)</b>	<b>(1,345)</b>	<b>(1,305)</b>	<b>(1,345)</b>	<b>(1,305)</b>

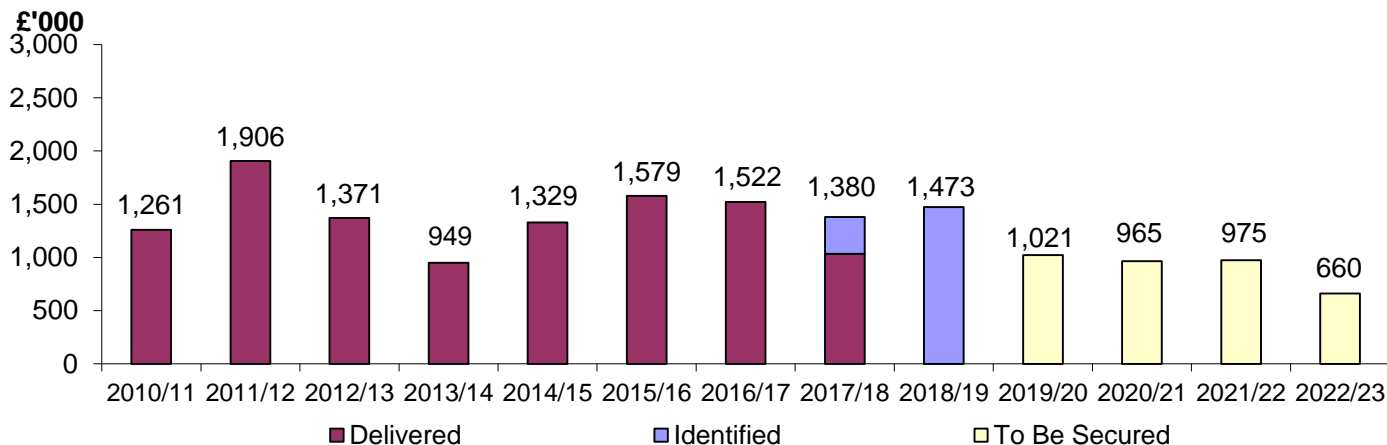
4.4 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing efficiency savings targets going forward are at least of a similar scale to those already met, Chart 1 shows:

- Efficiencies of £9.9m have been identified and delivered between 2010/11 – 2016/17;
- Efficiencies of £1.380m have been identified and are being delivered in 2017/18;
- Efficiencies of £1.473m have been identified and need to be delivered for 2018/19
- Efficiencies of around £3.6m need to be identified and delivered over the next four years (2019/20 – 2022/23).

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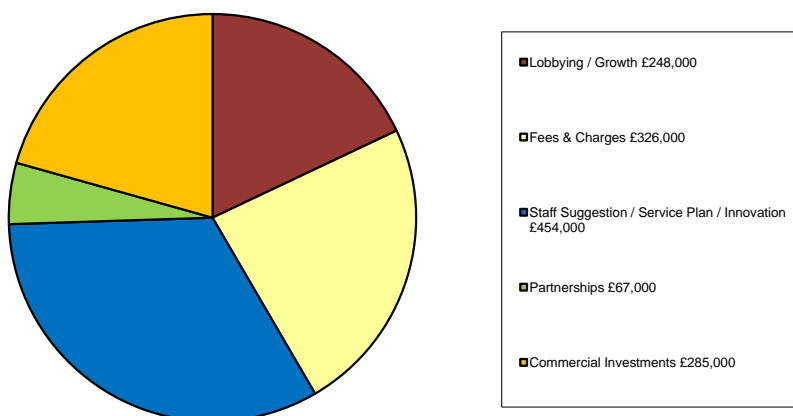
**Chart 1  
Annual Budget Efficiencies / Savings**



## 2017/18 Update (General Fund)

- 4.6 From when the 2017/18 budget was set, Members will recall that additional ongoing efficiency savings of £1,380,000 were required to set a balanced budget.
- 4.7 Those 'efficiency savings' were identified before the budget was formally set and are summarised in Chart 2:

**Chart 2  
Framework 'Savings' for the Current Year (2017/18)**



- 4.8 As explained in previous budget reports although we have traditionally referred to the term 'savings', in reality these are a combination of efficiency savings and additional income.

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4.9 Table 3 illustrates that around 2/3 of the total efficiency targets in 2017/18 are being delivered through additional income and around 1/3 are being delivered through reduced expenditure.

<b>Table 3 – 2017/18 Efficiencies</b>			
<b>Framework</b>	<b>Additional Income</b>	<b>Reduced Expenditure</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'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>

4.10 Members will recall that £285,000 of the identified framework efficiency savings for 2017/18 came from additional income through commercial investments. The Executive at the April 2017 meeting approved a Commercial Property Investment Strategy providing a framework for Kettering Borough Council to compete in the property market on an equal footing enabling the acquisition of properties for investment income.

4.11 The Council has worked hard on this workstream and is on target to meet the estimated income for 2017/18. The main activity that the Council has undertaken (to date) in 2017/18 in relation to commercial investments are:

- ◆ Purchase of Nene House (investment of £1.2m estimated gross return of 8%)
- ◆ Purchase of large warehousing facility in Corby (investment of £18.7m estimated gross return of 6.4%)\*

\*please note this investment was done jointly with Corby Borough Council to spread risk

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- 4.12 All the commercial investments that have been done to date have been done in accordance with the requirements of (1) the Council Constitution and (2) the Council's Investment Strategy. Work is ongoing on further commercial investments to ensure that the Council remains ahead of the curve in this regard.
- 4.13 The Council remains on target to deliver the majority of the 2017/18 framework efficiency savings shown in Table 3.
- 4.14 Table 4 provides further information – relating to the composition of the 2017/18 efficiency savings.

<b>Table 4 – Composition of 2017/18 Efficiencies</b>		
<b>Framework</b>	<b>Saving</b>	<b>£'000</b>
Fees & Charges	Additional Income	326
Commercial Investments	Income from Commercial Investments	285
Lobbying / Growth	New Homes Bonus	148
Lobbying / Growth	Business Rates	100
Staff / Innovation	Flexible Resourcing Review	225
Staff / Innovation	Vacancy Factor	150
Various	Other	146
<b>Total</b>		<b>1,380</b>

- 4.15 Overall the General Fund remains broadly on target to be delivered within budget for 2017/18 however there continues to be some areas of volatility. The main budgets showing volatility are summarised in Table 5 and have been reflected in the Council's revised budget and will continue to be closely monitored.

<b>Table 5 – Budget Variances 2017/18</b>		
	<b>Projected Variance</b>	<b>Reason</b>
Borrowing Costs	£350,000 (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	£210,000 (favourable)	Estimated growth from the Business Rates Retention Scheme.
Fee Income / Investment 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 this is partially offset by an increase in income from investments.
Recycling	£240,000 (adverse)	Increased cost for the disposal of co-mingled waste arising from a temporary change in gate

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		fees owing to operational changes with the current provider.
Homelessness	£190,000 (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	£270,000 (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.

4.16 During each budget process, members are 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. The monitoring of these items typically takes place through the monthly budget reports to the Executive.

4.17 The General Fund working balance is estimated to be £1.4m at 31<sup>st</sup> March 2018. This is in line with the original budget figures for the year.

### **2018/19 Draft Budget (General Fund)**

4.18 The provisional Local Government Financial Settlement and the New Homes Bonus figures for 2018/19 were announced by the Government on 19<sup>th</sup> December together with indicative grant figures for 2019/20. This enabled the Council’s Medium Term Financial Strategy (Table 2) to be updated reflecting these two key announcements which are considered in more detail later in this section.

4.19 The detailed work on the budget has now been completed and the total efficiency savings required to deliver a balanced budget has increased from £1,064,000 to £1,473,000. The increased target is reflected in the Medium Term Financial Strategy (Table 2). The main change results from the ongoing budgetary pressure where the crematorium is generating less income predominantly from an increase in competition.

4.20 The previous budget report to this Committee in December outlined that efficiency savings of £960,000 had already been identified – leaving £104,000 still to be identified. Following the completion of the detailed draft budget process this was further increased by £409,000 to £513,000 largely for the reasons outlined above.

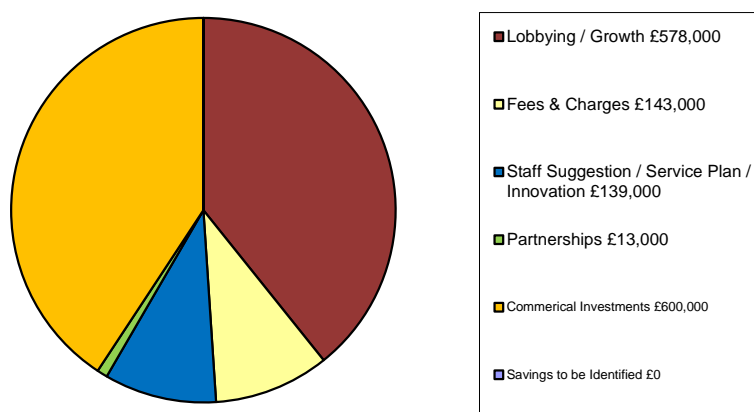
4.21 It is pleasing to report that additional on-going efficiency measures of £513,000 have been identified, these savings largely result from New Homes Bonus

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income being greater than modelled and in accordance with the Council's New Homes Bonus Strategy that was approved by the June Executive this has enabled an additional £343,000 of New Homes Bonus income to be included in the Council's budget. This means that the Council will be in a position to set a 'balanced budget' for 2018/19 – subject of course to successfully delivering the savings during the year and members not increasing the savings target during the budget process. The identified savings are summarised in Chart 3 and Table 6:

**Chart 3  
Framework Efficiency Savings for the next Year  
(2018/19)**



<b>Table 6 – 2018/19 Efficiencies</b>			
Framework	Additional Income £'000	Reduced Expenditure £'000	Total £'000
Lobbying / Growth	578	0	578
Fees & Charges	143	0	143
Staff Suggestion / Service Plan / Innovation	107	32	139
Partnerships	13	0	13
Commercial Investments	600	0	600
<b>Total</b>	<b>1,441</b>	<b>32</b>	<b>1,473</b>

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4.22 Table 7 provides further information – relating to the composition of the 2018/19 Framework efficiency savings.

<b>Table 7 – Composition of 2018/19 Efficiencies</b>		
<b>Framework</b>	<b>Saving</b>	<b>£'000</b>
Commercial Investments	Income from Commercial Investments	600
Lobbying / Growth	New Homes Bonus Income	343
Lobbying / Growth	Increase in Planning Fees	135
Lobbying / Growth	Homelessness Grant	100
Staff / Innovation	Treasury Management Income	100
Staff / Innovation	Other	39
Fees & Charges	Additional Income	77
Fees & Charges	Crematorium	66
Partnerships	Joint Working	13
<b>Total</b>		<b>1,473</b>

4.23 For information, Table 8 summarises and compares the composition of the 'savings' for 2017/18 and 2018/19.

<b>Table 8 – Identified Efficiency Savings</b>	<b>2017/18</b>		<b>2018/19</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Lobbying / Growth	(248)	18	(578)	39
Fees and Charges	(326)	24	(143)	10
Staff Suggestions / Service Plan / Innovation	(454)	33	(139)	9
Partnerships	(67)	5	(13)	1
Commercial Investments	(285)	20	(600)	41
<b>Total Identified Framework Savings</b>	<b>(1,380)</b>	<b>100</b>	<b>(1,473)</b>	<b>100</b>

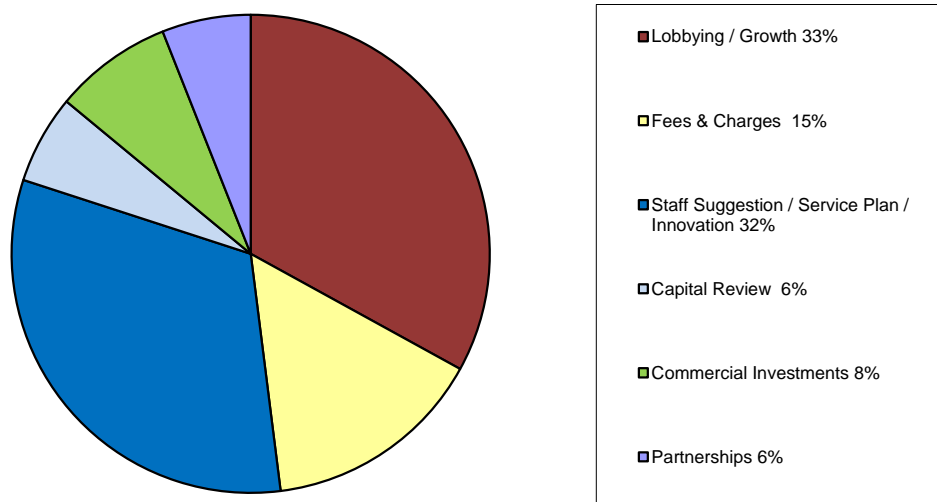
4.24 Around 80% of the efficiency savings identified for 2018/19 have been generated through a combination of Lobbying / Growth and Commercial Investments – it has previously been reported to the Executive that the Commercial Investments workstream is going to become increasingly important in helping to address the significant budget challenges, however it is important that all work streams contribute to the challenging targets.

4.25 Chart 4 details where the total framework efficiency savings have been identified since the frameworks were implemented back in 2010.

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**Chart 4 - Total Identified Framework Efficiency Savings**



### **Key Service Pressures (General Fund)**

4.26 The Council will need to continue to keep its key budget assumptions under review throughout 2018/19. These continue to be challenging times and the assumptions used are again likely to require amendment through the year to respond to changes in national policy, in particular: -

- ◆ Inflation
- ◆ Interest Rates
- ◆ Delivery of Growth (both economic and housing)
- ◆ Local, national and wider economic issues
- ◆ Impact from other public service providers (especially from the County Council budget considerations and wider Health service pressures).

4.27 Whilst most of the above may well be heavily influenced by the outcome of the Government's negotiation stance on the exit from the European Union, the budget and service pressures that could result from the action of other public sector partners are of more immediate concern.

4.28 The budgetary and service challenges that Northamptonshire County Council face are well documented, as are the capacity issues affecting our health sector colleagues. As a result it is possible that the Council will continue to come under pressure to take on new responsibilities or provide substitute funding as partners change their service levels.

4.29 It remains important the Council continues to adhere to the guiding principles which it has set and does not deviate from these, particularly with regard to the Financial Guiding Principles and in particular point i which is reproduced below:



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- 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.

4.30 There are a number of more specific service pressures the Council may face in both the short and the medium term. The key ones are summarised in the Swing-o-meter (within Appendix A) and include;

- ◆ Business Rates (appeals and volatility)
- ◆ Recycling
- ◆ Homelessness
- ◆ Commercial Investments

### Funding the General Fund

#### Provisional Grant Settlement

4.31 Members will recall that two years ago the Council (along with 97% of other authorities) agreed a four year grant settlement with the Government. 2018/19 will be the third year of this agreement.

4.32 The ability to plan with greater certainty can be better met when there are multi-year settlements – whilst the four year settlements agreed back in 2016/17 provided better foundations for medium term planning – the ability to plan for the medium term diminishes as we get closer to the end of the four year period. Medium Term planning is made more difficult as the financial landscape is much more uncertain from 2020/21.

4.33 The Government announced the Provisional Finance Settlement on 19th December and the figures are broadly in line with those the Council had been modelling. The level of core funding up to 2019/20 is summarised in Table 9:

<b>Year</b>	<b>Funding £'000</b>	<b>Annual Reduction £'000</b>	<b>Cumulative Reduction £'000</b>
2018/19	2,599	304	304
2019/20	2,232	367	671

It should be noted that the national funding reductions shown in Table 9 are in addition to those experienced before 2018/19. These were around £4.6m resulting in overall funding reductions totalling around £5.2m by 2019/20.

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### **New Homes Bonus**

4.34 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. It was therefore disappointing that following a national consultation in 2016 the Government introduced the following changes to the New Homes Bonus Scheme: -

- ◆ A baseline was introduced from 2017/18 whereby housing growth below 0.4% would not receive any New Homes Bonus funding - the Government retained the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth, but have left this unchanged for 2018/19. It is unclear what this means for the years thereafter.
- ◆ 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.

4.35 As a result of the above changes it was estimated that the amount of New Homes Bonus funding in cash terms could reduce by around 50% over the medium term compared to 2016/17.

4.36 As a result of these changes that were introduced nationally from 1 April 2017 – the Council's strategy for New Homes Bonus income was amended at the Executive meeting in June. That strategy remains valid and has been used to help construct the revenue budget for 2018/19.

4.37 The Council had estimated that it would receive £350,000 in NHB payments in 2018/19 – the actual amount of housing growth has exceeded the original estimates and together with the baseline being maintained at 0.4% has resulted in NHB payments in 2018/19 of £693,000 meaning more NHB income can be included into the 2018/19 draft budget. Table 10 reminds members of the Council's strategy in relation to the use of New Homes Bonus funding to support the Council's base budget and reflects the latest figures for 2018/19.

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<b>Table 10 - New Homes Bonus Strategy</b>					
	2018/19	2019/20	2020/21	2021/22	2022/23
	%	%	%	%	%
2015/16	69%	0%	0%	0%	0%
2016/17	80%	80%	0%	0%	0%
2017/18	82%	74%	73%	0%	0%
2018/19	100%	100%	100%	100%	0%
2019/20	0%	100%	100%	100%	100%
2020/21	0%	0%	100%	100%	100%
2021/22	0%	0%	0%	100%	100%
2022/23	0%	0%	0%	100%	100%
<b>Amount incorporated into GF Budget</b>	£1,899,000	£1,894,000	£1,894,000	£1,893,000	£1,600,000
<b>% of NHB included in</b>	84%	89%	93%	100%	100%

- 4.38 It was previously reported that when the Council's MTFS was updated for NHB, this was a simple reflection of how the scheme would work going forward and that the assumptions would be kept under constant review– this still remains the case.
- 4.39 In cash terms the level of reductions in both Core Grant and New Homes Bonus funding is significant – Table 11 shows the estimated cash reduction for these two funding streams over the period 2017/18 to 2022/23.

<b>Table 11 Annual Cash Reductions in Grant Funding</b>				
<b>Year</b>	<b>Estimated Annual Reduction in Government Grant</b>	<b>Estimated Annual Reduction in NHB</b>	<b>Estimated Reduction in Core Grant and NHB</b>	<b>Estimated Cumulative Reduction in Core Grant and NHB</b>
	£'000	£'000	£'000	£'000
2017/18	568	331	899	899
2018/19	304	28	332	1,231
2019/20	365	124	489	1,720
2020/21	234	93	327	2,047
2021/22	0	149	149	2,196
2022/23	0	293	293	2,489
<b>Total</b>	<b>1,471</b>	<b>1,018</b>	<b>2,489</b>	<b>N/A</b>

### Business Rates

- 4.40 The current Business Rates Retention Scheme took effect from 1 April 2013 and allowed authorities that experience a growth in business rates income

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(above treasury targets) to retain some of the money. The growth would be subject to a levy payment to the Government.

- 4.41 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.
- 4.42 It was reported to Members at the September Executive meeting that the government at the beginning of September 2017 had 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.
- 4.43 Officers across the County compiled a joint bid submission to become a Pilot in 2018/19 for 100% Business Rates Retention which would enable more of the growth to be retained locally. The bid had the agreement of all local authorities within the county area (Districts and the County Council).
- 4.44 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 would be retained locally.
- 4.45 Members were advised that the bids for Pilots would be a competitive process. There was significant interest from two-tier areas to become pilots and a total of 26 bids were received.
- 4.46 Unfortunately Northamptonshire was not selected as a pilot –those Pilot authorities for 2018/19 will be London, Berkshire, Derbyshire, Devon, Gloucestershire, Leeds, Lincolnshire, Suffolk and Surrey.
- 4.47 The Government have indicated that there will be further pilots in 2019/20 and the Government will announce details on this in due course – when these are announced they will be reported to a future Executive meeting.
- 4.48 The current composition of the Northamptonshire Pool for 2018/19 will therefore remain unchanged to the Pooling arrangements in place in 2017/18.
- 4.49 Further changes to Business Rates were announced as part of the Provisional Financial Settlement whereby the local share for Business rate retention is to increase from 50% to 75% by 2020/21 this will include a transfer of public health and other grants – when the detail of this is made available we can start to understand the impact that this will have on KBC. This does not have any immediate impact for the 2018/19 budget.
- 4.50 The announcement also made reference that there was likely to be a reset to the Business Rates baseline in 2020/21. From 2020 to 2021 business rates will be redistributed according to the outcome of the new needs assessment subject

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to suitable transitional measures. For those authorities who have business rate growth and are significantly above their funding baseline, this is unlikely to be good news.

- 4.51 The Government also issued a consultation paper on the Fair Funding Review in December 2017. The Council will be responding to this key consultation which was announced alongside the provisional settlement and closes on 12 March 2018. Updates on this will form part of future durable budget reports. 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’. This will be a very important review for all sectors of local government and will be the basis for determining the levels of Government Grant for authorities.
- 4.52 Authorities should not underestimate the potential ramifications of changes to baselines for measuring growth whilst moving to a 75% scheme appears that more growth will be retained locally this will be dependent on where the baseline is set as growth will only be paid above the baseline level and any increase to the baseline will reduce the amount of retained growth.
- 4.53 Both the resetting of the baseline and the review of the funding formula could have a significant impact on the Council’s Medium Term Financial Strategy.

### **Council Tax**

- 4.54 Between 2010 and 2016 the Government heavily encouraged local authorities to freeze their Council Tax each year. This resulted in the introduction of an annual referendum threshold (generally 2%) together with annual Council Tax Freeze grants as an incentive for those Councils that did not increase their Council Tax.
- 4.55 However, the 2016/17 the grant settlement signalled a major policy change by the Government in relation to Council Tax levels – where there was no longer an emphasis (or indeed any incentives) to freeze Council Tax from 2016/17. The same was true for 2017/18 and 2018/19.
- 4.56 When announcing the provisional Local Government Finance Settlement for 2018/19, the Government have changed the limits for Councils in relation to Council Tax setting. The referendum limit for Districts and Boroughs for 2018/19 is the higher of a 3% increase or £5 for a Band D property.
- 4.57 For Kettering Borough Council this means the referendum limit is a 3% increase which represents an annual increase of £6.16 per Band D property equivalent to an increase of 11p per week. The average Band in Kettering Borough is a Band B and this would represent an increase of 8p per week – such an increase would generate additional council tax income of around £195,000 during 2018/19.

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- 4.58 When calculating the core grant settlement, the Government assumes that all Shire Districts will increase their Council Tax by the threshold amount for 2018/19. The indicative grant levels for the period 2019/20 also assumes that all local authorities will increase their Council Tax levels up to the threshold each year.
- 4.59 Following the established practice of previous years, the Council's medium term financial strategy (shown in Table 2) is shown prior to the consideration of any Council Tax increases. Members will need to consider the medium term financial projections, the resultant savings that are required each year and the overall level of uncertainty and risks when considering Council Tax levels for 2018/19 (and subsequent years). The stronger the Council Tax yield – the greater the flexibility to deal with the future.
- 4.60 The Council has seen significant changes to how the New Homes Bonus scheme operates as outlined in Section 4.34 to 4.39 and there are likely to be further significant changes to Business Rates Retention as outlined in Section 4.40 to 4.53 both may adversely impact on the Council's budget in the medium term.
- 4.61 The assumptions used in the estimates and the key service pressures (4.26) and risks outlined in 4.30 of the report will also need to be closely monitored as will the key risks summarised in the Swing-o-meter.
- 4.62 Table 12 summarises the real terms impact of the Councils Council Tax freeze since 2011/12. If the current rate of inflation is used as a reference point, in effect local residents have experienced a real terms reduction in their local council tax for Kettering Borough Council of around 14% for the 7 year period.

<b>Table 12</b>	<b>Actual / Estimated Inflation Rate</b>	<b>Council Tax Increase</b>	<b>Cumulative Real Terms Reduction</b>
2011/12	4.80%	0.00%	4.80%
2012/13	2.70%	0.00%	7.50%
2013/14	2.10%	0.00%	9.60%
2014/15	1.00%	0.00%	10.60%
2015/16	0.10%	0.00%	10.70%
2016/17	1.50%	0.00%	12.20%
2017/18	2.80%	0.00%	14.00%

- 4.63 The overall scale of budget reduction continues to be very significant. Collectively the Council has coped well by delivering a balanced budget despite having no council tax increase, no cuts to front line services, and no reduction to overall funding for the voluntary sector since 2011/12. This has only been achievable by following the budget guiding principles and making sure that other income sources, such as fees and charges, are harvested in line with their

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previously agreed guiding principles – this will remain important moving forward, especially in relation to income generation and this is clearly evidenced by reference to Table 5 which shows that around 98% of the efficiency savings for 2018/19 are being delivered through additional income.

- 4.64 The reality of the Council being able to deliver a balanced budget in the medium term will continue to be more of a significant challenge – the Council will need to carefully consider its main sources of income (Council Tax, Fees and Charges) at the same time as delivering its commercial investment strategy whilst also starting to consider its priorities for services (and levels of services) if a balanced budget is to be achieved in the medium term.
- 4.65 As previously stated, Government Grant Allocations, assume that Councils will increase Council Tax to the referendum limit, for KBC this is 3% for a Band D property. This could have a significant impact when Government reviews the needs formula as the Government is likely to estimate Council Tax levels to be significantly greater than they actually are which is likely to see government funding being lower than what is needed.
- 4.66 Although through this budget process members will only be setting a level of council tax for 2018/19, this should be done by reference to the medium term and the risks faced. The Council's external auditors (KPMG) as part of their Value for Money opinion made the following comments:

*The financial pressure on the Authority is therefore likely to increase over the coming years and it is imperative that work continues to identify savings well in advance of the periods of unpredictability most especially savings which may require initial investment and a longer lead time to realise their benefits.*

*Furthermore, difficult decisions will need to be made in respect of other sources of funding such as Council Tax, as more Authorities begin to increase this in order to mitigate the financial pressures felt elsewhere and maintain the desired level of services to the public.*

- 4.67 It is fair to say that the Council is likely to have to make some difficult choices about service priorities and service levels as we progress through the latter years of the medium term financial strategy. Given the continued reductions in Government Grant, the medium term funding risks, and the increased income targets for commercial investments – the professional advice of officers, is that the Council should seriously consider increasing its Council Tax by the threshold level – this does however remain a political choice.

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### Medium Term Prospects

4.68 As part of the 2018/19 budget process the key underlying assumptions have been updated and remodelled. Overall the level of savings required over the four year period 2019/20 – 2022/23 has remained broadly the same (although their profile has changed). This is illustrated in Table 13.

<b>Table 13 – Medium Term Financial Savings</b>	<b>December Executive £000</b>	<b>Current MTFs £000</b>	<b>Difference £000</b>
2019/20	1,099	1,021	(78)
2020/21	1,025	965	(60)
2021/22	807	975	168
2022/23	636	660	24
<b>Total Efficiencies – to be secured</b>	<b>3,567</b>	<b>3,621</b>	<b>54</b>

4.69 Whilst Table 13 illustrates that the projected efficiencies required over the four year period (2019/20 – 2022/23) are around £3.6m. Members are reminded that since 2010/11 the Council **has delivered efficiency savings of £11.3m and have identified further efficiency savings of £1.5m in 2018/19.**

4.70 There remains significant uncertainty from the period 2020/21 onwards. It is fair to say that the potential changes to the local government funding are unprecedented and whilst the ramifications of them cannot be quantified, what is clear is that they are likely to be significant. The potential ramifications of changes to the Business Rates scheme should not be understated – there have been very few (if any) major changes in funding mechanisms over recent years that have actually resulted in local authorities being better off financially in the medium term – housing finance being one very good example. It would be prudent to assume the same in relation to Business Rates and the fair funding review.

4.71 As previously outlined in this report, the significant pressures and risks over the medium term are in relation to the following:

- ◆ **Business Rates Review**

Further changes to Business Rates whereby the local share for Business rate retention increases from 50% to 75% by 2020/21 this will include a transfer of public health and other grants and will include either a full or partial reset to the Business Rates baseline in 2020/21.

- ◆ **Government Funding**

The Governments consultation on the Fair Funding Formula 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’. This will be a very important review for all sectors of local government and



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will be the basis for determining the levels of Government Grant for authorities.

- ♦ **Commercial Investments** – Developing a balanced portfolio of revenue generating assets that produce the levels of income required to deliver a balanced budget. Any changes in national policies in this area (about what investments are to be permitted in the future) will need to be reflected in the Council's investment policies.
- ♦ **New Homes Bonus Funding** – the reduction in the number of years NHB is paid and the potential to change the baseline creates uncertainty.

4.72 The Council tax level for 2018/19 will be considered by the Executive in February but can only be set by full Council at its meeting on 28<sup>th</sup> February 2018, once the budget consultation has been completed and the officers' report has been fully and properly considered. When discharging their statutory duties, Members will need to give due regard to the issues facing the authority in the medium term, especially in relation to the changing financial landscape in relation to those issues outlined in this report.

### **Public Service Delivery**

4.73 Members will recall that in April 2016, a motion was considered at a special meeting of Full Council about the future of public service delivery in Northamptonshire.

4.74 A Link to the Council resolution from that meeting can be found below;-

[http://www.kettering.gov.uk/download/meetings/id/11941/download\\_the\\_minutes](http://www.kettering.gov.uk/download/meetings/id/11941/download_the_minutes)

4.75 Since that resolution, the Council along with all the other 7 District and Borough Councils in the County, has jointly commissioned a report looking at the options that may be available for the medium / long term. The procurement of the study was led by Northampton Borough Council and the winning 'bidder' to undertake the work was Deloitte's.

4.76 The terms of reference for the study are largely based on the criteria included in the Council resolution.

4.77 The study is currently being prepared, it is anticipated that it will conclude shortly.

4.78 Given the difficult financial position that Northamptonshire County Council is in, the findings of the study will no doubt become of significant importance should a rationalisation of Local Government be required as part of wider public service delivery reform.

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### 5. Section D: HOUSING REVENUE ACCOUNT

#### Background

- 5.1 The Housing Revenue Account (HRA) includes all the income and expenditure items associated with maintaining a landlord account for the Council's housing stock. The Council has a statutory obligation to produce a balanced "ring-fenced" HRA. The account must operate in a surplus position and this is achieved by adopting the principle that an agreed minimum balance of £300,000 should be the HRA's primary strategic aim over the medium to long term. The level of the minimum balance is risk assessed and takes account of the limited nature of the service, the fact that budgets are less volatile than in the General Fund and transactions tend to be high in number but low in value.
- 5.2 Members are reminded that in 2012/13 the housing subsidy system was replaced with a new 'self-financing' system of housing finance that was introduced across the Country. The Executive Committee at its meeting of 15<sup>th</sup> February 2012 approved the following strategy for financing the housing debt;

The amount to borrow	£72.9m
Who to borrow from	Public Works Loan Board (preferential rates)
A fixed or variable rate loan	Fixed rates
What type of loan(s)	Maturity loans
What period of loan(s)	A number of fixed term loans at different maturity dates (to provide the Council with the flexibility required)

- 5.3 It was previously reported to Members that by using 'maturity loans', the Council has retained the maximum flexibility that it can. In essence, maturity loans are serviced annually (throughout the duration of the loan) by paying interest to the Public Works Loan Board (PWLB). No principal repayment of the loan takes place throughout the duration of the loan. The Council will however each year make a provision for principal repayment and can then decide at the maturity of each loan whether it wishes to fully repay the outstanding principle or re-finance the loan.
- 5.4 The Council has a well-balanced borrowing portfolio and was able to take advantage of both the preferential short and long term rates that were made available from the PWLB to finance the self-financing transaction. The housing debt at 31st March 2017 was £58.9m. The 2017/18 budget provides for a further debt repayment of £3m which would reduce the debt to £55.9m at 31st March 2018 whilst the draft 2018/19 budget provides for a further debt repayment of £3m reducing the debt to £52.9m.

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### 2017/18 Update (HRA)

- 5.5 The updated projected outturn for the Housing Revenue Account is shown in Table 14. Overall the Housing Revenue Account is currently projected to come in on budget. The detailed composition of the Housing Revenue Account can be seen by reference to Appendix A – Section 2.

<b>Table 14</b>	<b>Current Budget</b>	<b>Projected Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Gross Expenditure	15,586	15,399	(187)
Gross Income	(15,586)	(15,399)	187
<b>Net Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 5.6 The main variances on the 2017/18 projected outturn relate to income being around £195,000 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.
- 5.7 The reduction in income and other additional expenditure pressures are mainly offset by utilising the contingency budget of £100,000 and the revenue contribution to fund capital expenditure being £115,000 lower – owing to the Hampden Crescent capital scheme being delivered over a number of financial years. The overall capital investment remains in line with the original budget and schemes approved in year this has been reflected in the 2017/18 revised budget and enables the HRA balance to be maintained at £850,000 at 31<sup>st</sup> March 2018.

### 2018/19 Draft Budget (HRA)

- 5.8 A summary of the draft HRA budget for 2018/19 is included at Appendix A - Section 2 of the budget booklet. The high level summary is reproduced in Table 16:

<b>Table 16 - Housing Revenue Account</b>	<b>Draft Budget 2018/19</b>
	<b>£'000</b>
Gross Expenditure	15,359
Gross Income	(15,359)
<b>Net Expenditure</b>	<b>0</b>

- 5.9 2018/19 is the seventh year of the self-financing system and whilst it enables the Council to benefit from the greater certainty as the Council repays debt and interest on the loans opposed to receiving an annual subsidy determination which was usually notified in December, there has been significant financial implications from a new rent setting formula as outlined in 5.10 – 5.14.

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- 5.10 The Government announced in summer 2013 that from 2015/16 social rents would rise by CPI plus 1% each year for ten years, previously social rents were rising by RPI plus 0.5% plus £2. Members will recall that in the Chancellor's Budget Statement on 8 July 2015 it was announced that social rents would reduce by 1% a year for the next four years which was clearly at odds with the ten year rent setting formula.
- 5.11 The differential impact on the rental income in the Council's Medium Term Financial Strategy on the previous formula (CPI + 1%) vs a reduction of 1% for four years is in the order of **£65m** (cash) over the life of the 30 Year Business Plan.
- 5.12 The impact in the first year (2016/17) was in the order of £500,000 (cash) in the second year (2017/18) the impact will be in the order of £1.5m (cash) and in 2018/19 the cash impact is in the order of £3m – the rental income in the Housing Revenue Account reflects the 1% rent reduction (this is the income assumed in the income figure in Appendix A Section 2). Whilst authorities can charge more or less than the guidelines issued by central government they will nonetheless be constrained by the limit rent – which is the maximum that can be charged based on the formula prescribed by central government.
- 5.13 The reduced rental income (as a result of the change in Government policy) has meant that the HRA business plans were redrafted. Consequently revenue funding for the capital programme has reduced – the impact being that the capital programme has been revised accordingly.
- 5.14 The Government have said that councils and housing associations will be allowed to raise rents by CPI plus 1% for five years from 2020 – it is however expected to take until around 2022/23 to get back to rent levels that were being charged in 2015/16 which is a direct result of the 1% rent reduction.
- 5.15 In 2018/19 the overall reduction in income is around £227,000 – around £150,000 is attributed to the 1% rent reduction – the remaining £77,000 results from a combination of estimated right to buy sales and the redevelopment of Hampden Crescent.
- 5.16 Whilst the reduction of income has brought about significant pressures for the HRA – it has previously been reported to the Executive that the whole management of the Council's Housing stock is now the responsibility of our Housing Service Unit. One of the key areas of work going forward will be to reduce the void times as a reduction in void times will improve income levels, this along with other operational efficiencies should enable more resources to be invested into programmed maintenance and repairs in the medium term.
- 5.17 The other key elements of the budget are;
- a) Rents – income expected from tenants.

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- b) Repairs & Maintenance – The costs for response and planned maintenance.
- c) General Management – The costs of managing the Council’s housing stock.
- d) Special Services – Income / expenditure relating to flats & sheltered housing.

5.18 The draft budget will be discussed by the Tenants’ Forum at its meeting of 8<sup>th</sup> February 2018 along with the proposal for rent setting. This will be reported back to the Executive meeting on 14<sup>th</sup> February 2018 for approval.

### **National Policy**

5.19 It was reported to the December Executive that the Chancellor as part of the November budget announced the possibility of lifting the HRA debt cap to help facilitate new Council House building. It is anticipated that this will be via a formal bidding process and that implementation of any changes will take place between 2019/20 and 2021/22.

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### 6. Section E: CAPITAL PROGRAMME

#### 2017/18 Capital Programme Update

- 6.1 The updated projected outturn for the Capital Programme is shown in Table 17. The detailed composition of the Capital Programme can be seen by reference to Appendix A – Section 3.

Table 17 - Capital Programme	Current Budget 2017/18	Projected Outturn 2017/18	Variance (underspend) / overspend
	£'000	£'000	£'000
<b>Expenditure</b>			
HRA Schemes	7,196	4,083	(3,113)
General Fund Schemes	44,493	44,385	(108)
	51,689	48,468	(3,221)
<b>Financing</b>			
Capital Receipts	1,334	1,273	(61)
Prudential Borrowing	45,868	43,613	(2,255)
Revenue Contribution	3,233	2,948	(285)
Grants and Contributions	1,254	634	(620)
	51,689	48,468	(3,221)

- 6.2 Council at the December 2017 meeting approved the following two changes to the 2017/18 Capital Programme, which have been incorporated into Table 17.
- 1) Commercial Investments budget was increased by £20m from £22.3m to £42.3m to maintain capacity to deliver on future commercial investments and to lock in the investment returns required.
  - 2) New Build Scott Road – A new scheme of £2.753m to build 21 Council dwellings.
- 6.3 The 2017/18 capital programme is currently projected to come in around £3.2m lower than budget the main variance relates to £454,000 on the refurbishment of Hampden Crescent and £2.6m for the new build at Scott Road – both of these are timing variances with the schemes estimating to complete in 2018/19. It is not unusual for schemes of this scale to span over more than one financial year.
- 6.4 Table 17 illustrates that based upon the latest estimates for 2017/18; prudential borrowing of £45.6m will be required to finance the programme
- 6.5 Borrowing is in accordance with the Prudential Code and the borrowing that the Council undertakes to finance its capital programme is required to deliver the

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commercial strategy which also increases the asset valuations that the Council holds on its balance sheet that is published annually in the Statement of Accounts.

### **Draft Capital Programme (2018/19 – 2022/23)**

- 6.6 As part of the budget process members are required to consider the Council's capital programme, and available funding, so that a programme can be agreed for 2018/19 together with indicative funding for the following four years.
- 6.7 The draft capital programme for 2018/19 – 2022/23 is detailed in Appendix A – Section 3. The high level summary is reproduced in Table 18.

<b>Table 18 - Capital Programme</b>	<b>Draft Budget 2018/19</b>	<b>Indicative Estimate 2019/20</b>	<b>Indicative Estimate 2020/21</b>	<b>Indicative Estimate 2021/22</b>	<b>Indicative Estimate 2022/23</b>
	£'000	£'000	£'000	£'000	£'000
<b>Expenditure</b>					
HRA Schemes	6,156	3,229	3,451	3,445	3,518
General Fund Schemes	8,694	23,562	21,312	21,312	21,312
	<b>14,850</b>	<b>26,791</b>	<b>24,763</b>	<b>24,757</b>	<b>24,830</b>
<b>Financing</b>					
Capital Receipts	969	857	808	517	303
Prudential Borrowing	10,059	22,922	20,672	20,672	20,672
Revenue Contribution	2,674	2,512	2,783	3,068	3,355
Grants and Contributions	1,148	500	500	500	500
	<b>14,850</b>	<b>26,791</b>	<b>24,763</b>	<b>24,757</b>	<b>24,830</b>

- 6.8 The Councils current policy to yield more income from commercial investment projects has been clearly outlined in this report. At the December Council meeting it was agreed to bring forward £20m from the 2018/19 capital programme so the Council could ensure it was 'ahead of the curve' regarding the income figures required to support the 2018/19 General Fund budget.
- 6.9 As a result of bringing forward the 2018/19 capital budget of £20m (for commercial investments) into 2017/18, without any further adjustment there would be no operational budget for 2018/19 to take advantage of schemes that may present themselves later in the year. To that end, a smaller budget of £5m has been put into the draft capital programme at this stage. Given the importance of this income stream, members are recommended to bring forward, by one year, the draft capital budgets for commercial investment schemes that are currently shown in the draft capital programme for the period 2019/20 – 2022/23.
- 6.10 The draft 2018/19 General Fund capital programme also includes a budget of £2.25m for proactive intervention measures into the housing market. This

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investment would mitigate the significant revenue pressures arising from the increasing demand in homelessness applications which would reduce the reliance on the use of Bed and Breakfast and nightly paid accommodation – which is the most expensive form of temporary accommodation. The budget would also be used for appropriate and effective management of General Fund housing requirements. In effect, there will be significant invest to save budgets that should yield significant revenue savings for the general fund.

6.11 Members are required to approve the capital programme for 2018/19 and approve a five-year rolling capital programme with commitment given for schemes in years 2 to 5 to assist with scheduling and achieving the programme.

6.12 From reference to Table 18 it can be seen that:

- ◆ The draft programme for 2018/19 is £14.850m
- ◆ The indicative programme from 2019/20 – 2022/23 is around £25m per annum.
- ◆ In line with the Council's prioritisation guiding principles, a global capital budget sum of £20m has been included in the Capital Programme each year from 2019/20. This will provide a source of funding for the Council to use when pursuing commercial property deals or investments that yield a positive revenue return – Members will need to consider if some of this is brought forward to 2018/19.

6.13 **Capital Receipts** –The capital programme for 2018/19 to 2022/23 assumes funding from Right to Buy receipts of £100,000 per annum.

6.14 **Borrowing** – the estimate for borrowing for 2018/19 is £10.059m. The main contributor to the borrowing costs is the increased commercial investment budget. The additional revenue from these investments is shown net of MRP and borrowing costs. To finance such investments the Council will need to borrow externally in accordance with the Council's Treasury Management Strategy.



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### 7. Section F: SUMMARY & CONCLUSIONS

#### 2017/18

- 7.1 The Council has continued to successfully use the 'budget delivery framework' for the delivery of efficiency savings.
- 7.2 Since 2010, the Council will have delivered a total of £11.3m of efficiency savings by the end of March 2018.

#### 2018/19

- 7.3 Taken in isolation, most of the main issues are 'known' for 2018/19 at this stage.
- 7.4 The Council had budgeted for a grant reduction of £299,000 for 2018/19 the provisional figure from the Government was a reduction of £304,000 (10.5%). Although the reduction was in line with expectations, this still represents a significant reduction in grant and a continued challenge for 2018/19.
- 7.5 Prior to the consideration of any council tax increase, it is estimated that **£1,473,000 of 'efficiency savings' will be required.** We will start 2018/19 in a similar position to 2017/18 because of the continued use of the Council's successful budget delivery framework which has resulted in the Council already having secured some of the on-going savings required for 2018/19. The remaining 'savings' have also been identified the Council will need to remain focused and stick to its Financial Golden Rules and Financial Guiding Principles if these are to be successfully delivered.
- 7.6 The Council's strong and controlled budgetary position is a direct result of the adherence to the guiding principles that have been diligently followed over recent years. It remains important that the guiding principles are followed if the council is to remain in a relatively good financial position. This financial discipline is a pre-requisite of any future financial strategy.
- 7.7 The Council will need to ensure that it continues to look for ways of generating additional income, whilst ensuring that services continue to be delivered efficiently.
- 7.8 Members will need to consider the medium term projections and associated risks when deciding a level of council tax for 2018/19. Given that the level of KBC's Council Tax has been frozen for seven years, members will need to seriously consider what a sustainable strategy is for its level of Council Tax for 2018/19 (and the medium term) as part of this budget process.
- 7.9 **A capital programme of around £15m** is a significant commitment and clearly demonstrates the Council's strategy regarding commercial investments.

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7.10 The Council uses the budget “**swingometer**” as detailed at Appendix A – Section 1 to highlight and assess the sensitivity of the most volatile and material budgets. The “swingometer” shows some significant swings reflecting the economic climate. It must be stressed however that the Council has an excellent track record of spending at or around budget, even when faced with significant in year pressures, and a strong balance sheet with a level of reserves sufficient to cover the risks outlined in the “swingometer”.

### **The Medium Term**

#### **2019/20 and Beyond**

7.11 Assumptions have been made for future levels of government grant (and other funding changes) these are based on indicative figures provided as part of the 2018/19 financial settlement following the Councils previous decision to accept a four year grant settlement from the Government.

7.12 The levels of uncertainty and reductions in government funding in the medium term are very significant. The Government has published a consultation on a new funding methodology, for funding changes from 2020-21. 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’ – this will be a very important review for all sectors of local government.

7.13 Further changes are anticipated to Business Rates whereby the local share for Business rate retention increases from 50% to 75% by 2020/21 this will include a transfer of public health and other grants and will include either a full or partial reset to the Business Rates baseline in 2020/21.

7.14 Authorities should not underestimate the potential ramifications of changes to baselines for measuring growth whilst moving to a 75% scheme appears that more growth will be retained locally this will be dependent on where the baseline is set as growth will only be paid above the baseline level and any increase to the baseline will reduce the amount of retained growth.

7.15 Both the resetting of the baseline and the review of the funding formula could have a significant impact on the Council’s Medium Term Financial Strategy.

7.16 The Government have retained the option of making adjustments to New Homes Bonus funding from 2019/20 by adjusting the baseline to reflect significant and unexpected housing growth. The baseline in 2018/19 is 0.40% of the total housing stock an increase in the baseline would result in less New Homes Bonus funding. At this stage it is unclear where the baseline will be set for 2019/20 and the years thereafter.

7.17 The Council’s strong and controlled budgetary position is a direct result of the adherence to the guiding principles that have been diligently followed over recent years. The challenges faced in the medium term mean that it is even

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more important that the guiding principles are followed if the council is to remain in a relatively good financial position.

7.18 Based upon the assumptions applied, the future years' budgets would require ongoing year on year efficiency savings of the following (on top of the £12.7m of ongoing savings achieved since 2010);

<b>2019/20</b>	<b>£1,021,000</b>
<b>2020/21</b>	<b>£ 965,000</b>
<b>2021/22</b>	<b>£ 975,000</b>
<b>2022/23</b>	<b>£ 660,000</b>

7.19 The Council continues to develop a more commercial approach to ensure that its income base remains buoyant a key component of this is asset acquisition.

7.20 Maintaining Council Tax at its current level into the medium term is unlikely to be sustainable, particularly with the impending reviews of 'needs' based funding.

### **Other Considerations**

7.21 The projections in all years rest on the Executive's adherence to the "*Financial Golden Rules and Financial Guiding Principles* (para 3.5).

7.22 The assumptions within the Council's Medium Term Financial Strategy will continue to be reviewed and amended where necessary. What will actually happen will only become clearer as time progresses – whilst the Government have announced how New Homes Bonus will operate from 2017/18 there is still significant levels of uncertainty over the base line in future years and there is significant volatility owing to the uncertainties around Business Rates.

## **8 CONSULTATION AND CUSTOMER IMPACT**

8.1 The formal budget consultation period is from 17<sup>th</sup> January 2018 to 28<sup>th</sup> February 2018 when the Council sets its Council Tax for 2018/19. The budget timetable is detailed at Appendix B. Comments from the consultation process will be reported to the Executive for consideration at its meeting on 14<sup>th</sup> February 2018.

## **9 POLICY IMPLICATIONS**

9.1 There are no direct policy implications as a result of this report.

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### 10 USE OF RESOURCES

- 10.1 The implications on the Council's resources will be considered throughout the durable budget reports.

### 11 RECOMMENDATIONS

That the Executive Committee:

- 11.1 Refers the draft budgets for 2018/19 (as contained in the separate budget booklet) to Scrutiny for comment in accordance with the Council's Constitution.
- 11.2 Note the current budget position for 2017/18.
- 11.3 Recognise that the task of balancing the budget in future years is becoming increasingly difficult especially in the light of increasing service pressures, a national review of the Business Rates Retention Scheme and the Government review of the Fair Funding Formula.
- 11.4 Note that the budget consultation period will run from 17<sup>th</sup> January 2018 to 28<sup>th</sup> February 2018. The budgets and level of Council Tax for 2018/19 will be set at a meeting of Full Council on 28<sup>th</sup> February 2018.

#### Background Papers:

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

#### Previous Reports/Minutes:

Monthly Durable Budget Reports  
(April 2010 to date)