

BOROUGH OF KETTERING

Committee	MONITORING & AUDIT	Item A2	Page 1
Report Originator	Head of Resources Mark Dickenson	<i>Forward Plan Ref</i>	
Wards Affected	All	6 th February 2018	
	BUDGET PROPOSALS FOR 2018/19 AND PREPARING FOR THE MEDIUM TERM		

1. PURPOSE OF REPORT

- 1.1 In accordance with the Council Constitution, this Committee should consider the Council's draft budget proposals and submit any comments back to the Executive for consideration at its meeting on 14th February 2018.
- 1.2 Members are requested to perform the scrutiny role on the draft budget proposals and submit any relevant comments back to the Executive for further consideration.
- 1.3 When considering the draft budget, members will need to ensure that they have a general understanding of the main budget drivers, the services that comprise the budget, and the process that has been followed when putting the budget together. A short presentation will be given at the start of this item to ensure that the key issues are highlighted to members.
- 1.4 In accordance with the overall remit of this Committee, members are encouraged to focus their attention on the 2018/19 budget figures in the light of any potential impacts on the delivery of Council Priorities.
- 1.5 A copy of the Executive budget report from its meeting of 17th January 2018 has already been circulated to all Members. **Members are requested to bring copies of the Executive report with them to this meeting.** Additional copies can be obtained from Member Services or accessed via the Council Website.

2. KEY ISSUES

- 2.1 As outlined in the previous section, members will need to read the draft budget report (and supporting appendices) that has been circulated under separate cover. Given the amount of detail in that report, the key issues summary from that report is reproduced in the following paragraphs for ease of reference, together with the latest Medium Term Financial Forecast.

BOROUGH OF KETTERING

Committee	MONITORING & AUDIT	Item A2	Page 2
------------------	-------------------------------	------------	--------

TABLE 1 - 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
1	Net Council Budget	10,948	10,893	9,975	9,783	9,894	9,682
2	Forecast Resources:						
	Government Grant						
2a	Revenue Support Grant	(546)	(171)	250	0	0	0
2b	Business Rates	(2,357)	(2,428)	(2,484)	(2,000)	(2,000)	(2,000)
	Total Government Grant	(2,903)	(2,599)	(2,234)	(2,000)	(2,000)	(2,000)
	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)
	Total Resources	(9,568)	(9,420)	(8,954)	(8,818)	(8,919)	(9,022)
3	Budget (Surplus) / Deficit	1,380	1,473	1,021	965	975	660
4	Efficiencies Identified	(1,380)	(1,473)	0	0	0	0
5	Efficiencies - To be Identified	0	0	(1,021)	(965)	(975)	(660)
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)	(1,385)	(1,345)	(1,305)	(1,305)
8a	Town Centre Initiatives	40	40	40	40	0	0
8b	Transitional Grant	(50)	0	0	0	0	0
9	Estimated Closing Balance	(1,425)	(1,385)	(1,345)	(1,305)	(1,305)	(1,305)

Notes to Medium Term Financial Forecast

- 1** ***Net Council Budget** – This represents the net expenditure prior to the Budget Framework savings.*

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

The level of government grant is known for 2017/18.

BOROUGH OF KETTERING

Committee	MONITORING & AUDIT	Item A2	Page 3
-----------	-------------------------------	------------	--------

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

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

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

5 Savings to be identified – *This identifies the total resources that are required to balance the budget in future years after 2018/19.*

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

8b Transitional Grant – *This relates to additional funding that has been made available in the form of a transitional grant from Government to ease the pace of reductions during the first 2 years (2016/17 and 2017/18) of the settlement for councils with the sharpest reductions in Revenue Support Grant.*

3. SUMMARY & CONCLUSIONS

2017/18

3.1 The Council has continued to successfully use the 'budget delivery framework' for the delivery of efficiency savings.

3.2 Since 2010, the Council will have delivered a total of £11.3m of efficiency savings by the end of March 2018.

2018/19

3.3 Taken in isolation, most of the main issues are 'known' for 2018/19 at this stage.

3.4 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%).

BOROUGH OF KETTERING

Committee	MONITORING & AUDIT	Item A2	Page 4
-----------	-------------------------------	------------	--------

Although the reduction was in line with expectations, this still represents a significant reduction in grant and a continued challenge for 2018/19.

- 3.5 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.
- 3.6 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.
- 3.7 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.
- 3.8 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.
- 3.9 **A capital programme of around £15m** is a significant commitment and clearly demonstrates the Council's strategy regarding commercial investments.
- 3.10 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

- 3.11 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 Council's previous decision to accept a four year grant settlement from the Government.
- 3.12 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

BOROUGH OF KETTERING

Committee	MONITORING & AUDIT	Item A2	Page 5
------------------	-------------------------------	------------	--------

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.

- 3.13 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.
- 3.14 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.
- 3.15 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.
- 3.16 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.
- 3.17 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 more important that the guiding principles are followed if the council is to remain in a relatively good financial position.
- 3.18 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);

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

- 3.19 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.
- 3.20 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

BOROUGH OF KETTERING

Committee	MONITORING & AUDIT	Item A2	Page 6
-----------	-------------------------------	------------	--------

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

3.22 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.

4. **CONSULTATION AND CUSTOMER IMPACT**

The formal budget consultation period is from 17th January 2018 to 28th February 2018 when the Council sets the Council Tax for 2018/19. Comments from this Committee will be reported to the Executive for consideration at it's meeting on 14th February 2018.

5. **POLICY IMPLICATIONS**

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

6. **FINANCIAL RESOURCE IMPLICATIONS**

The implications on the Council's resources are considered throughout this report.

7. **HUMAN RESOURCE IMPLICATIONS**

None as a result of this report.

8. **LEGAL IMPLICATIONS**

None as a result of this report.

9. **RECOMMENDATION**

9.1 That the Committee consider the draft budget proposals of the Executive and submit any comments back to the Executive for consideration at the Executive meeting of 14th February 2018.