

## BOROUGH OF KETTERING

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<b>Report Originator</b>	Strategic Management Team	<i>Fwd Plan Ref No: A17/058</i>	
<b>Wards Affected</b>	All	14 March 2018	
<b>Title</b>	<b>DURABLE BUDGET REPORT</b>		

**Portfolio Holder: Councillor Lesley 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 2018/19 and the estimated level of budget savings that may be required over the next few years;
- c) Agree the high level budget process for 2019/20.
- d) Recommend three debts for write off in accordance with the Council's constitution.
- e) Provide an update on the Government's Fair Funding Formula Consultation.

### **2. BACKGROUND**

2.1. The Council's 2018/19 budget was approved by Council at its meeting on 28<sup>th</sup> February 2018. In terms of setting a balanced budget, the Council's strategy to date has been successful, although it has to be stressed that the budget setting process is a paper exercise and all the changes being proposed have to be realised and delivered over the next year if we are to avoid additional strain being placed on the following years' budgets. The budgets for 2018/19 will be closely monitored throughout the year and any variances will be reported to the Executive as part of the Durable Budget report.

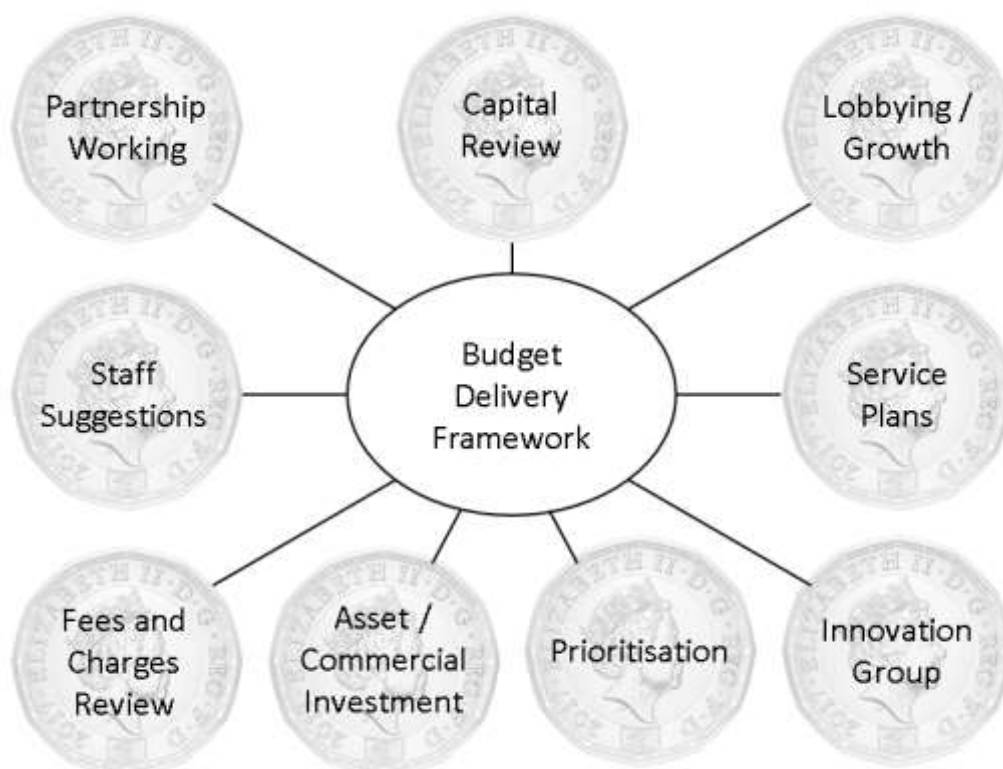
2.2. Members will appreciate that the strategies the Council has adopted over the past few years have generally kept the authority in a good position from which to move forward. In Kettering, our approach ensured that the Council was able to pro-actively deal with the challenges faced through: -

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

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2.3. The Council's success in delivering a balanced budget over the past number of years has come from the Budget Delivery Framework however savings of this magnitude are becoming increasingly difficult to maintain. For the Council to remain in the best possible shape in the medium term it will need to ensure that it 'delivers' on all aspects of its budget framework as outlined below:



2.4. The Council has already done an impressive job of delivering around £11.3m of 'efficiency savings' to date. The Council's financial 'golden rules' and the financial 'guiding principles' provide a strong basis for the Council's medium term financial strategy. 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);
- 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;

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- 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.
- 2.5. The Council has successfully set a balanced budget for 2018/19 which has been set within the parameters approved by the Executive. Given the success of the strategy to date, members are recommended to continue using the existing budget delivery framework for the preparation of the 2019/20. Specifically, members are recommended to adopt; *“that the same methodology be applied to the formulation of the 2019/20 budget as it applied to the 2018/19 with particular reliance on:-*
- *the financial ‘golden rules’*
  - *the financial ‘guiding principles*
  - *the existing nine ‘workstreams’*

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### 3. UPDATE OF KEY ISSUES AND BUDGET PROJECTIONS

3.1 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.

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
<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>
GENERAL FUND WORKING BALANCE							
		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>(1,305)</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>(1,305)</b>	<b>(1,305)</b>

3.1 The forecast comprises the following 'Zones'

- ♦ **Zone of Predictability** - covers the 2017/18 and 2018/19 financial year - for which the level of government funding is known. The government funding for 2019/20 is 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 formula 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;

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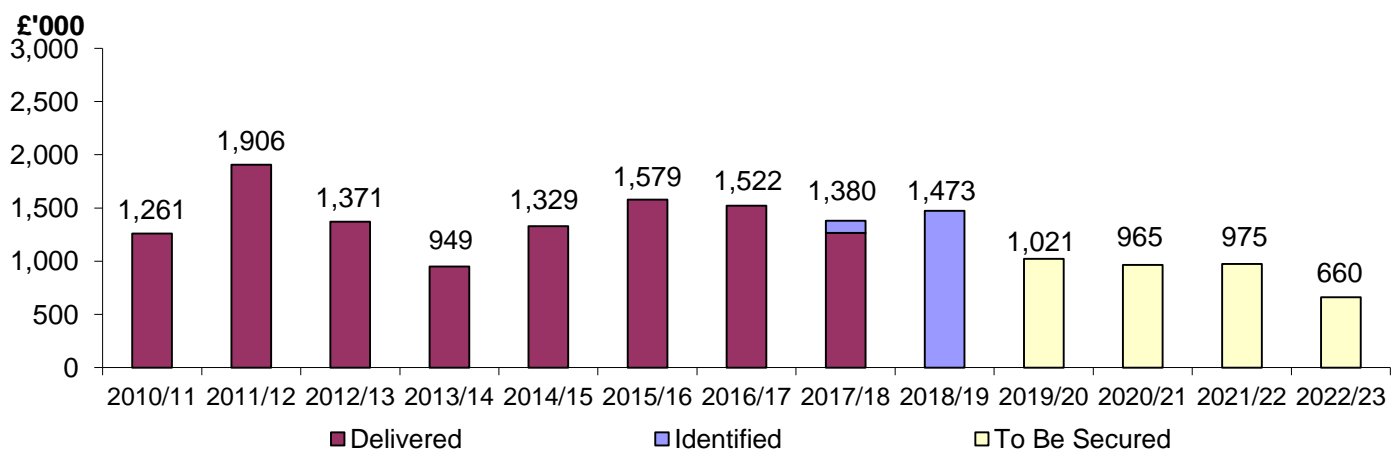
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- ◆ £965,000 in 2020/21,
- ◆ £975,000 in 2021/22 and
- ◆ £660,000 in 2022/23.

3.2 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).

**Chart 1  
Annual Budget Efficiencies / Savings**

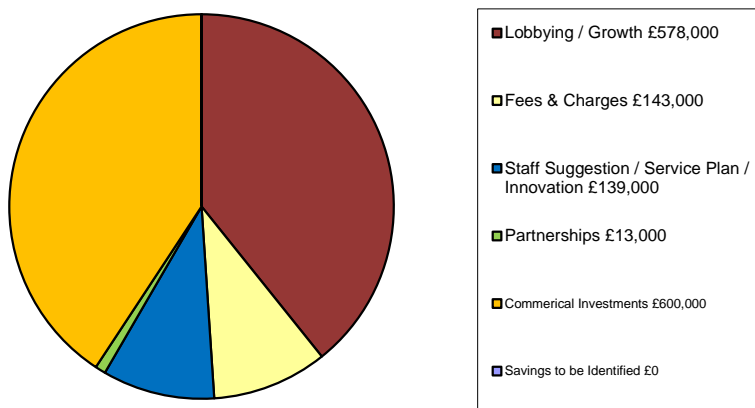


3.2 From when the 2018/19 budget was set, Members will recall that additional ongoing efficiency savings of £1,473,000 were required to set a balanced budget. Those 'efficiency savings' were identified before the budget was formally set and are summarised in Chart 2:

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



3.3 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.

3.4 Table 2 illustrates how the efficiency targets in 2018/19 are to be delivered:

<b>Table 2 – 2018/19 Efficiencies</b>			
<b>Framework</b>	<b>Additional Income £'000</b>	<b>Reduced Expenditure £'000</b>	<b>Total £'000</b>
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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- 3.5 Table 3 provides further information – relating to the composition of the 2018/19 Framework efficiency savings.

<b>Table 3 – 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>

- 3.6 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. These items are included in the Council's Swing – o – meter as detailed at Appendix B.

#### **4. CAPITAL PROGRAMME 2017/18 CURRENT FINANCIAL YEAR**

- 4.1 A summary of the projected Capital Programme outturn monitoring statement as at 28<sup>th</sup> February is shown in Table 4.



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<b>Table 4 - Capital</b>	<b>Current Budget</b>	<b>Projected Outturn</b>	<b>Variance</b>
	£'000	£'000	£'000
<b>Expenditure</b>			
HRA Schemes	4,083	4,069	(14)
General Fund Schemes	44,443	36,493	(7,950)
	48,526	40,562	(7,964)
<b>Financing</b>			
Capital Receipts	1,273	1,175	(98)
Prudential Borrowing	43,613	35,761	(7,852)
Revenue Contribution	2,948	2,934	(14)
Grants and Contributions	692	692	0
	48,526	40,562	(7,964)
<b>Net Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>

4.2 The main variance on the Capital Programme relates to the timing of the Commercial Investments scheme. The Budget for 2017/18 is £42.351m and the projected spend in year is around 85% (£35m). Work is ongoing on further commercial investments and any underspends would need to be carried forward to 2018/19. Carrying forward underspends are largely a result of timing issues and this will form part of a future durable budget report in the summer.

4.3 The Council has worked hard on the commercial investments workstream and will meet the estimated revenue income targets 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 Denby (investment of £14.8m estimated gross return of 6%)
- ◆ 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

**5. HOUSING REVENUE ACCOUNT 2017/18 – CURRENT FINANCIAL YEAR**

5.1 A summary of HRA monitoring at 28<sup>th</sup> February 2018 is shown in Table 5. The HRA is projected to come in on budget.

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Table 5 - HRA	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,390	15,369	(21)
Gross Income	(15,390)	(15,369)	21
Net Expenditure	0	0	0

### 6. GOVERNMENT CONSULTATIONS – FAIR FUNDING REVIEW

- 6.1 As previously reported to the Executive the Government issued a consultation paper on the Fair Funding Review in December 2017. The consultation closes on 12<sup>th</sup> March 2018 and looks at what factors should initially drive the allocation of government core funding to each local authority – principally looking at factors which drive ‘need’.
- 6.2 The fair funding review is intended to set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best evidence available. There are a number of Guiding Principles which form the basis for designing a new relative needs assessment methodology, these include the following;
- ◆ **Simplicity** – the aim is to produce a relative needs assessment that is as simple as is practicable.
  - ◆ **Transparency** – it should be straightforward to understand what factors have influenced the levels of funding received by a local authority.
  - ◆ **Contemporary** – the new relative needs assessment will be based on the most up-to-date data that is available. To facilitate more frequent updates, as far as practicable the funding formula will be based on data that can be regularly updated at planned intervals.
  - ◆ **Sustainability** – an evidence-based approach will be deployed to identify the factors which drive costs for local authorities today *and* in the future. The new funding formula must, as far as is practicable, anticipate future demand for services.
  - ◆ **Robustness** - the new funding formula should take into account the best possible objective analysis.
  - ◆ **Stability** – the funding formula should support predictable, long-term funding allocations, ideally as part of a multi-year settlement. Local authorities’ long-term financial planning and service delivery will also be assisted by temporary transitional arrangements to

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their new relative needs baseline to ensure there are no undue year-on-year changes in funding.

- 6.3 The Council broadly agrees with the principles set out in the consultation – however it is imperative that any new funding formula is forward looking and uses the latest available data to ensure growth areas are adequately funded. The current funding allocations were last updated in 2013/14, although the underlying statistical modelling which determines the cost drivers and the weightings given to them is older, this has resulted in a disconnect between needs and resources, particularly in growth areas.
- 6.4 The focus of the review can broadly be divided into three closely related strands of work:
- i) relative needs,
  - ii) relative resources, and
  - iii) transitional arrangements.
- 6.5 This consultation is specifically concerned with the first of these areas - the measurement of relative needs. The Government plans to follow this consultation with a series of technical papers that will consider other aspects of the review, including:
- ◆ the structure of formulas for **service specific cost drivers** that may be included in the relative needs assessment.
  - ◆ the assessment of the **relative resources** of local authorities.
  - ◆ **transitioning to the new funding distribution** a new needs and resources formula could result in significant changes to the funding baselines of some local authorities, it is likely that transitional arrangements are introduced so changes in funding are phased in over a period of time.
- 6.6 The review proposes a '**foundation formula**' based on three key cost drivers population, rurality and deprivation, supplemented by several service specific formulas to reflect differing needs. It is important that the age profiles are reflected in the population formula as the cost of services are driven by different sections of the population.
- 6.7 The Council feels that the number of households should also form part of the foundation formula' as population alone does not fully reflect the cost of delivering services and the number of households could better reflect service demand in certain areas such as waste collection and disposal.
- 6.8 The review also includes a number of **service specific cost drivers** – the Council broadly agrees with these specific cost drivers and these include;

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- ◆ Adult Social Care
- ◆ Children's Services
- ◆ Highway's maintenance and public transport
- ◆ Waste Collection and Disposal
- ◆ Fire and Rescue Services
- ◆ Legacy Capital Financing

6.9 The consultation focuses on how funding is distributed across local government and does not consider how local government can increase the amount of resources it has available. The Council as part of its consultation response will raise this key point and ask the government to consider a reverting back to annual RPI increases for Business Rates opposed to annual CPI increases.

6.10 KBC will be assisting the District Councils Network work up a response to the consultation (as well as doing our own response). A draft of the response is included at **Appendix C** for committee endorsement.

## **7 DEBT WRITE-OFFS**

7.1 In accordance with good practice and to ensure the Council's Balance Sheet accurately reflects monies due at the end of the financial year the Council reviews debts outstanding over £20,000. Where it is unlikely that these debts will be settled due to either the companies being in liquidation or the companies have been dissolved they are submitted to the Executive for write off in accordance with the Council's Financial Regulations (which requires the Executive to approve all write offs in excess of £20,000).

7.2 A total of 3 debts as detailed below are submitted for approval to the Executive Committee these relate to Business Rates. The companies are in liquidation and have no assets meaning the debts are irrecoverable. The Council makes a provision for bad debts on an annual basis and these debts would be charged against this provision. This is an accounting adjustment and forms part of the Final Accounts process as the Council prepares the annual Statement of Accounts.

Reference	Amount
101167389	£34,154.69
101191096	£40,364.26
101191805	£40,450.52

7.3 The Council collects around £30m in Business Rates on an annual basis and these debts represent around 0.38% of the total debt – the Council's collection rate for Business Rates is currently around 98%.

## **8 CONSULTATION AND CUSTOMER IMPACT**

8.1 As outlined in the report.

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## 9 POLICY IMPLICATIONS

9.1 As outlined in the report.

## 10 USE OF RESOURCES

10.1 As outlined in the report.

## 11. RECOMMENDATIONS

11.1 That the Executive;

- a) Approve the budget process for 2019/20 as outlined in Section 2.5;
- b) Approve the debt write off (as detailed in section 7.2);
- c) Notes the Council's Medium Term Financial Strategy and associated guiding principles;
- d) Endorse the key points contained in the draft Fair Funding Review consultation response at Appendix C.

### Background Papers:

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

### Previous Reports/Minutes:

Monthly Durable Budget Reports