

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	<i>Fwd Plan Ref No: A17/062</i>	
Wards Affected	All	11 th July 2018	
Title	DURABLE BUDGET REPORT		

Portfolio Holder: Councillor Lloyd Bunday

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) Provide members with an update on the draft outturn figures for 2017/18, in relation to;
 - General Fund
 - Housing Revenue Account
 - Capital
 - Treasury Management
- d) Approve the Capital Programme carry forwards from 2017/18 so these form part of the 2018/19 Capital Programme.

2. BACKGROUND

2.1. The Council's 2018/19 budget was approved by Council at its meeting on 28th 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.

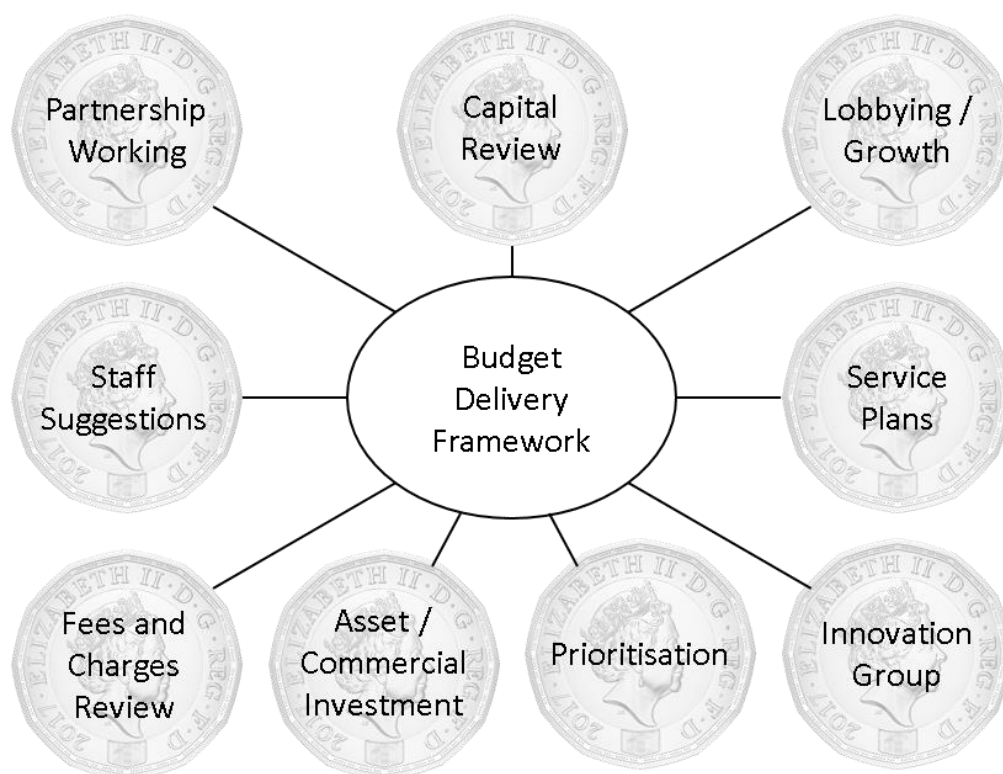
2.2. Members will appreciate that the strategies the Council has adopted over the past few years have generally kept the authority in a good position from which to move forward. In Kettering, our approach ensured that the Council was able to pro-actively deal with the challenges faced through: -

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

2.3. The Council's success in delivering a balanced budget over the past number of years has come from the Budget Delivery Framework however savings of this magnitude are becoming increasingly difficult to maintain. For the Council to remain in the best 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);

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- b. When setting the level of council tax, members should always consider the medium term outlook to ensure that a sustainable budget position is maintained;
- c. The Council must always ensure that adequate funding is provided to cover all of its statutory and regulatory responsibilities;
- d. Should the Council decide to allocate significant additional / new funding to a specific service – it should identify where the required funding is coming from (or compensating savings are to be made);
- e. When setting the Capital Programme, in addition to meeting statutory responsibilities, priority will be given to schemes that are beneficial to the council's overall revenue budget position;
- f. The council must ensure that it has an overall level of revenue reserves that are appropriate for the overall level of risks that the organisation faces – including potential national funding changes;
- g. In line with the council's investment strategy, the council will look to invest in schemes that will have a positive impact over the medium term on its budget position including taking out long-term debt financing (where there is an appropriate business case).

Financial Guiding Principles;

- i. When funding for a specific service is reduced / withdrawn (from national government or another provider) the council should not substitute itself as a provider or funder of the service – unless there are exceptional circumstances;
- ii. When considering the Capital Programme, due regard is given to ensure that existing council assets are properly maintained;
- iii. Where decisions are required about the priority of funding for services, the following is followed;

Priority 1 - Statutory Requirements

Priority 2 – Fit to Council Objectives of;

- ◆ Better Town Centres
- ◆ Better Jobs
- ◆ Better Education Offer

- iv. Continue to seek strategic partnerships with other public sector providers to help protect services for our residents – especially those that help promote economies of 'scope' rather than 'scale';

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

Housing Revenue Account Guiding Principles

2.5. The HRA Golden Rules and Guiding Principles were approved by the Executive at the meeting on 23rd May for ease of reference they are reproduced below:

HRA Financial Golden Rules;

- a. *The Housing Revenue Account Working Balance should not fall below £300,000;*
- b. *When setting the level of rents, members should always consider the national policy position;*
- 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. *The council must ensure that it has an overall level of revenue reserves that are appropriate for the overall level of risks that the HRA faces – including potential national funding and policy changes.*

HRA 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 setting the HRA budgets and considering the HRA Capital Programme, due regard is given to ensure that expenditure protects the long term viability of the Council's housing stock by making sure the assets are properly maintained and have the ability to meet the Borough's housing needs.*
- iii. *Where decisions are required about the priority of funding for services, the following is followed;*

Priority 1 - Statutory Requirements

Priority 2 – Investment in Existing Housing Stock

Priority 3 – Fit to Housing Strategy of;

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- ◆ *Increasing housing supply across all tenures*
 - ◆ *Ensuring safe and healthy homes, reducing the opportunity for crime and anti-social behavior*
 - ◆ *Helping people to live independently*
- iv. *Continue to seek strategic partnerships with other public sector providers to help protect services for our residents – especially those that help promote economies of ‘scope’ rather than ‘scale’;*
- v. *To maximise the resources that are available to the authority, the council will continue to actively lobby the Government on relevant issues.*

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3. UPDATE OF KEY ISSUES AND BUDGET PROJECTIONS

3.1 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
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)	(83)	0	0	0
5	Efficiencies - To be Identified	0	0	(938)	(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)

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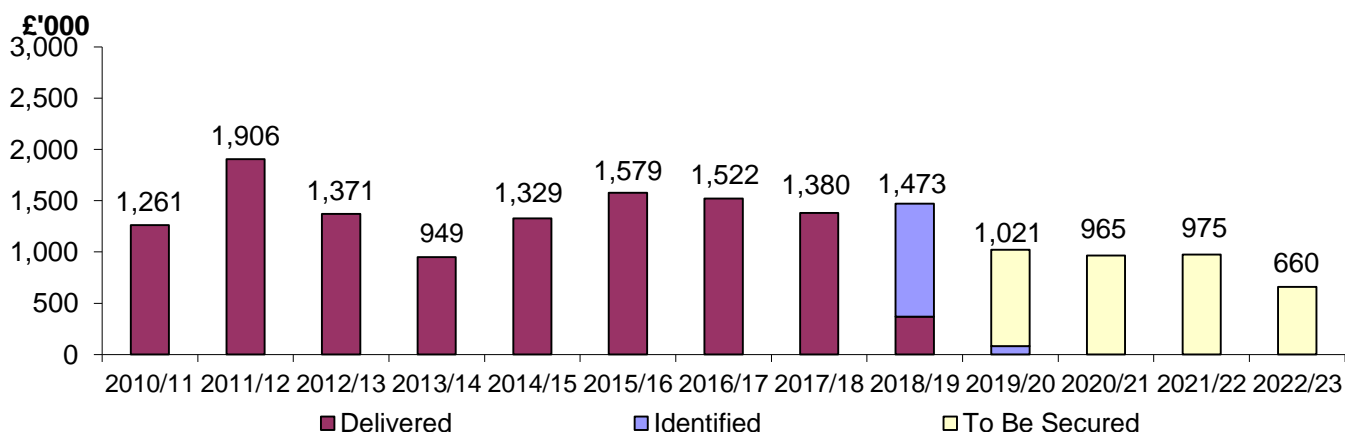
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- ◆ £965,000 in 2020/21,
- ◆ £975,000 in 2021/22 and
- ◆ £660,000 in 2022/23.

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 £11.3m have been identified and delivered between 2010/11 – 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**

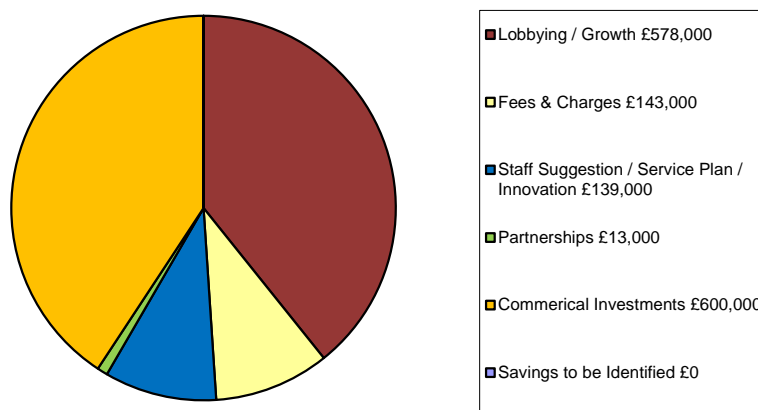


3.2 From when the 2018/19 budget was set, Members will recall that additional ongoing efficiency savings of £1,473,000 were required to set a balanced budget. Those 'efficiency savings' were identified before the budget was formally set and are summarised in Chart 2:

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

Table 2 – 2018/19 Budget Changes			
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
Total	1,441	32	1,473

3.4 Table 3 provides a reminder of the composition of the 2018/19 Framework efficiency savings.

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Table 3 – Composition of 2018/19 Budget Changes		
Framework	Saving	£'000
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 schemes	39
Fees & Charges	Additional Income	77
Fees & Charges	Crematorium Income	66
Partnerships	Joint Working	13
Total		1,473

- 3.5 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**.
- 3.6 The General Fund remains broadly on target to be delivered within budget for 2018/19 however there continues to be some key areas of volatility – the most significant of these being;

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	Projected Variance	Reason
Borrowing Costs	£300,000 (favourable)	The Council continues to use internal reserves as a means of borrowing and the variance reflects lower borrowing costs from using internal reserves rather than borrowing from external institutions. The Council does however use external borrowing for commercial investments.
Property Funds	£150,000 (favourable)	The additional income reflects changes in investing surplus cash in line with the Council's Treasury Management Strategy
Homelessness	£300,000 (adverse)	There has been an increase in the number of homeless applications this is reflective of the picture across the country in relation to this issue.
Recycling	£300,000 (adverse)	Increased cost for the disposal of co-mingled waste arising from a temporary change in gate fees owing to operational changes with the current provider.
Other Items	£150,000 (favourable)	The General Fund budget consists of many budgets to which there is some degree of variation – overall current projections show this as a favourable variance.

3.7 These areas will be closely monitored and reviewed as part of the forthcoming budget process – some of these (such as homelessness) are essentially demand led and reflective of national economic issues.

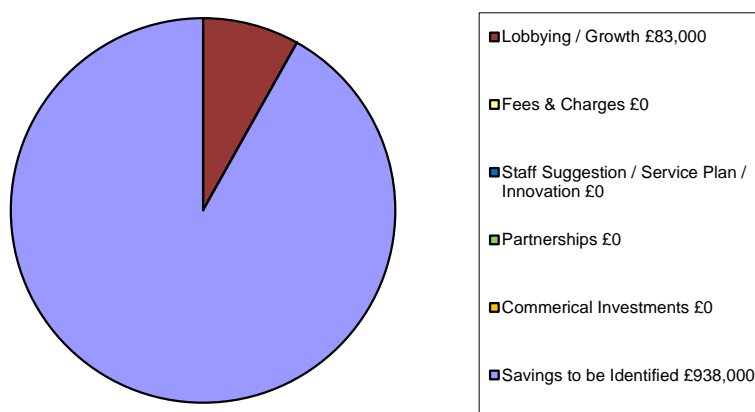
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GENERAL FUND – 2019/20

- 3.8 Members should be aware that the indicative savings levels for the period 2019/20 are subject to a number of high level assumptions as part of the 'four year settlement' indicative levels of grant funding were provided for 2019/20 and these are reflected in Table 1.
- 3.9 As well as monitoring framework savings identified for 2018/19 work continues on identifying savings for the following year – 2019/20. Members are reminded of the current Medium Term Financial Forecast which required an additional £1,021,000 of ongoing savings to balance the budget in 2019/20.
- 3.10 Members are reminded that significant efficiency savings have been delivered in recent years as shown in Chart 1. It has been previously reported that savings of this magnitude are going to be difficult to maintain and this is emphasised by the 2018/19 budget process which will be more challenging than previous years.
- 3.11 To date savings of £83,000 have been identified for 2019/20, this relates to additional funding from Central Government for homelessness. Further savings of £938,000 are required in order to deliver a balanced budget for 2019/20. Chart 3 illustrates how the identified savings are to be delivered and the levels of savings that are required to deliver a balanced budget – to date around 8% of the savings have been identified.

Chart 3
Framework Savings for the next Year (2019/20)



- 3.12 It is important that the Council considers all frameworks and all income streams the Council continues to explore how efficiency savings of around £1m can be delivered to meet the estimated savings target for 2019/20. As further savings

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are identified and resilience tested these will be reported to future Executive meetings.

GENERAL FUND – 2020/21 – 2022/23

3.13 Given the work that the Government are undertaking about the future of Local Government funding – it is more difficult to look this far ahead with any degree of certainty. The future levels of grant from 2020/21 are much more uncertain and are a best estimate. The scale of the financial challenges from this point onwards will be highly dependent on how the Business Rates Retention Scheme operates over the next five years, together with the national ‘fairer funding review’.

4. CAPITAL PROGRAMME 2018/19 CURRENT FINANCIAL YEAR

4.1 Over the past 12 months there have been a number of instances that have resulted in unauthorised encampments on Council Land. Such encampments can bring anti-social behaviour and increase tensions between the traveller and settled communities and the cost to tidy and clean the land used following these encampments can be significant.

4.2 In order to try and minimise travellers illegally encamping on council owned land it is considered that target hardening work at both Northampton Road and Ise Lodge is required. Discussions have been held with members of the Executive and in accordance with the Council’s virement limits a virement of up to £40,000 will be made from the Council’s Invest to Save capital scheme to fund these works.

4.3 MHCLG have recently announced the funding allocations to Local Authorities for Disabled Facilities Grants for 2018/19. The allocation for Kettering is £600,243 which is £100,000 higher than estimated, the Capital Budget has been amended to reflect this in accordance with the constitution.

4.4 Members may recall that monies related to DFG’s in two tier areas are paid to County Councils who then pass the monies on to the Districts and Boroughs as they are responsible for delivering this service. In recent years there has been significant delays in the County Council paying this money over to the districts and boroughs. The Council received the payment in full on 20th June 2018 in accordance with the requirements for 2018/19 funding to be paid over in full by the 29 June 2018.

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- 4.5 A summary of the projected Capital Programme outturn monitoring statement as at 30th June is shown in Table 4.

Table 4 - Capital	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Expenditure			
HRA Schemes	6,156	6,156	0
General Fund Schemes	28,794	28,794	0
	34,950	34,950	0
Financing			
Capital Receipts	969	969	0
Prudential Borrowing	30,059	30,059	0
Revenue Contribution	2,674	2,674	0
Grants and Contributions	1,248	1,248	0
	34,950	34,950	0
Net Expenditure	0	0	0

- 4.6 The Capital Programme included a budget of £4.5m split equally over 2018/19 and 2019/20 for Housing and Homelessness prevention. The success of this scheme has largely resulted in the 2018/19 budget being fully committed.
- 4.7 It is important that the Council continue its momentum on this project in order to mitigate revenue pressures arising from the demand in homelessness. If members were minded to increase the Capital Programme by a further sum in this financial year, this would enable the Council to pursue further Housing and Homelessness preventative measures, bringing forward £2.25m into this financial year from 2019/20 would give the Council the necessary freedom of movement. It would require the approval of Full Council at its next meeting, this would mean that the total budget for Housing and Homelessness Prevention would increase in 2018/19 from £2.25m to £4.5m

5. HOUSING REVENUE ACCOUNT 2018/19 – CURRENT FINANCIAL YEAR

- 5.1 A summary of HRA monitoring at 30th June 2018 is shown in Table 5. The HRA is projected to come in on budget.

Table 5 - HRA	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,359	15,359	0
Gross Income	(15,359)	(15,359)	0
Net Expenditure	0	0	0

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6. OUTTURN 2017/18

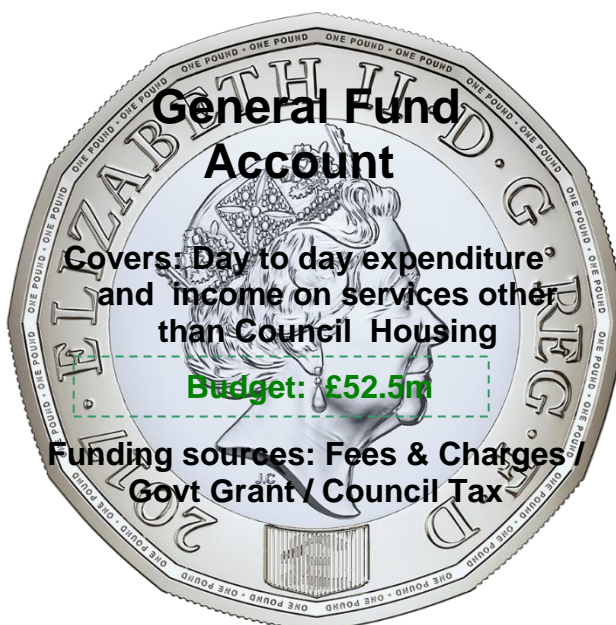
6.1 This section provides members with a summary of the outturn figures for last financial year (2017/18). The analysis covers the Council's three main accounts (plus an update on Treasury Management) and is split as follows;

- ◆ General Fund
- ◆ Housing Revenue Account
- ◆ Capital Programme
- ◆ Treasury Management

6.2 The closedown process for the 2017/18 accounts is now complete subject to external audit validation, which is taking place between June and July 2018. Once audited the accounts will be formally reported to members in accordance with the statutory requirements.

General Fund Revenue Account

6.3 Members are reminded that the General Fund account is the account that contains the majority of the Council's everyday service expenditure (excluding spending on council housing).

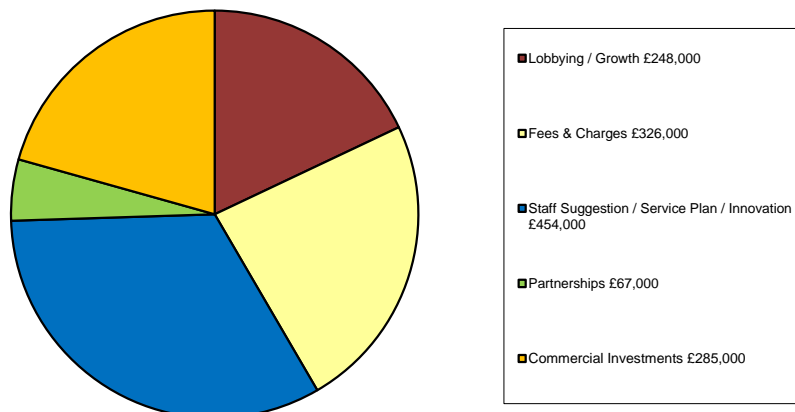


6.4 When the Council considered the budget for 2017/18, the budget delivery framework needed to identify £1,380,000 of additional efficiency measures to set a balanced budget for the year. This was primarily to deal with the impact of reduced central government 'core' grant. Chart 4 shows how the budget 'gap' was closed.

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**Chart 4
Framework Savings for the Current Year (2017/18)**



6.5 In addition to achieving the original challenging efficiency savings target, the Council's outturn position has delivered further efficiency savings of around £183,000. The reasons for these variances are detailed in Table 6 – most of which relate to 'one-off' savings;

Table 6 - General Fund Variances	£000
Homelessness	284
Waste Collection / Recycling	159
Staffing and staff related	(303)
Business Rates	(125)
Lower Borrowing Costs	(71)
Transition Grant	(70)
Additonal Crematorium Income	(64)
Net other variations	7
Total	(183)

6.6 Members will recall that the financial landscape changed significantly from April 2013 following the Government's introduction of the Business Rates Retention Scheme prior to this date all Business Rates were pooled and distributed nationally there was no risk or reward for authorities who collected more or less in Business Rates. However from 1 April 2013 local authorities would receive a reward where there is growth in Business Rates and would see a reduction in grant if there was a decline in Business Rates.

6.7 The Council takes a prudent view and resilience tests savings before they are incorporated into the budget as such any growth from the Business Rates Retention Scheme would only be reflected in the budget when the growth has actually been delivered. This approach ensures that only growth that has been

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delivered is budgeted and secondly will act as a smoothing strategy should there be an adverse impact when the scheme is reset in 2020.

6.8 It should be noted that a favourable variance of £125,000 resulting from timing variances occurred from the Business Rates Retention Scheme during 2017/18. Due to the technical nature and the accounting arrangements for Business Rates being spread over three years a cost of around £236,000 will need to be accounted for over the next two years, which can be met from the Business Rates Reserve.

6.9 The final outturn figures are now subject to validation by external audit. The savings are a combination of some early 'locking in' of the savings that are required for 2017/18 and one off items.

6.10 Overall, the outturn for the General Fund is pleasing for the following reasons;

- ◆ Early implementation of identified savings;
- ◆ The budget delivery framework has successfully engaged staff at all levels;
- ◆ The early delivery of the savings required for 2018/19 allows attention to be turned to savings for future years;
- ◆ Additional flexibility and resources have been secured to help pump prime delivery of future years' savings and protect against possible future burdens.

6.11 After taking account of contributions to reserves and balances the Council's General Fund working balance remained at £1.415m – this is still in line with the Council's Medium Term Financial Strategy '*guiding principles*'.

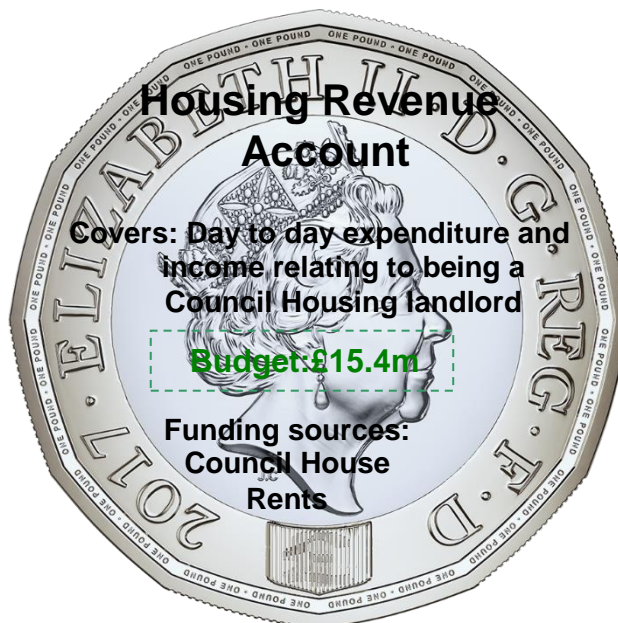
6.12 The savings made give confidence that the Council remains "ahead of the curve" in delivering the Medium Term Financial Strategy and whilst the Council's delivery of efficiencies and savings is to be commended, the challenges that are to be faced in future years remain both significant and unprecedented.

Housing Revenue Account

6.13 Members are reminded that the Housing Revenue Account is a ring-fenced account for day to day income and expenditure relating to the Council's role as a Housing Landlord.

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- 6.14 The Housing Revenue Account's budget for 2017/18 was £15.4m. The actual spend for 2017/18 was around £193,000 higher than the budget; this has led to the capital programme being funded by more capital receipts than anticipated. The main variances relate to the demand on the repairs and maintenance budget and the under recovery of rents due to a higher number of void properties than projected.
- 6.15 The Housing Revenue Account balance has remained unchanged at £850,000. This is in line with the Council's Medium Term Financial Strategy which states 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 primary strategic aim over the medium to long term.

Capital Programme

- 6.16 Members are reminded that the Capital Programme is used for the acquisition, improvement and enhancement of the Council's assets.

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- 6.17 Overall, the expenditure during 2017/18 was £40.9m compared to the working budget of £48.6m (i.e.84% of the approved programme was actually spent).
- 6.18 The Capital Programme after taking account of budget carry forwards to 2018/19, which are subject to Executive Approval will result in 100% of the budget being spent. **Appendix C** sets out capital budgets to be carried forward to 2018/19.
- 6.19 The major variation relates to the commercial property scheme, Members are reminded that £20m was brought forward from the 2018/19 capital programme which enabled the Council to pursue additional investment opportunities that were available of which £13m was utilised in year and the remaining £7m is planned to be used on further acquisitions as recently agreed by the Asset Management Board. Table 7 provides a summary of the 2017/18 Capital Programme.

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Table 7 - Capital Programme Outturn 2017/18	Revised Estimate	Actual	Variance
	£000	£000	£000
Expenditure			
Council Home Improvement Programme	4,083	4,071	(12)
Private Sector Housing Improvement	677	640	(37)
Investment & Repair Programme	690	563	(127)
Community Project Schemes	252	100	(152)
E Government Investment Programme	220	266	46
Invest to Save Projects	42,668	35,231	(7,437)
Total Capital Expenditure	48,590	40,871	(7,719)

Treasury Management – Current Position

6.20 The Council's debt and investment position at the beginning and the end of the year is set at in Table 8:

Table 8	31st March 2017		31st March 2018	
	Principal	Rate / Return	Principal	Rate / Return
	£'000		£'000	
Total Investments	£18,701	0.53%	£28,569	0.60%
Total Debt	£61,435	2.91%	£100,393	2.44%

	Rate of Return
Council Portfolio	0.60%
Benchmark – 3 Month LIBID	0.24%

6.21 The Council as part of its Treasury Management strategy has for a number of years effectively used its cash reserves to finance General Fund borrowing instead of borrowing money externally. As a result reserves are therefore not cash-backed and the Council would need to borrow if it wanted to use a significant proportion of its reserves. This strategy is prudent in the current economic climate where investment returns are low and counterparty risk is high.

6.22 The Council has however borrowed from external institutions during 2017/18 as a source of funding to support the Property Investment Strategy and the levels of borrowing have been detailed as part of the financing of the capital programme.

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Compliance with Treasury Limits and Prudential Indicators

6.23 During the financial year the Council operated within its treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and Annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in **Appendix D**.

7 CONSULTATION AND CUSTOMER IMPACT

7.1 As outlined in the report.

8 POLICY IMPLICATIONS

8.1 As outlined in the report.

9 USE OF RESOURCES

9.1 As outlined in the report.

10. RECOMMENDATIONS

That the Executive;

10.1 Note the following:

- a) Note the Council's Medium Term Financial Strategy and associated guiding principles;
- b) The Council's current Medium Term Financial Forecast and the progress being made for the delivery of efficiency savings for 2019/20 and future years;
- c) The draft out-turn position for 2017/18 for the General Fund, Housing Revenue Account, Capital Programme and Treasury Management;

10.2 Approve the Capital Programme carry forwards from 2017/18 (as detailed in Appendix C).

10.3 Endorse the Target Hardening Capital scheme as detailed in Section 4.2.

10.4 Recommend to July Council an increase of £2.25m to the 2018/19 Capital Budget for Homelessness and Housing Prevention as set out in Sections 4.6 and 4.7.

Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports