

BOROUGH OF KETTERING

Committee	EXECUTIVE COMMITTEE	Item 10	Page 1
Report Originator	Strategic Management Team	<i>Fwd Plan Ref No:</i> A19/012	
Wards Affected	All	13 th November 2019	
Title	DURABLE BUDGET REPORT		

Portfolio Holder: Cllr 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 2020/21 and the estimated level of budget savings that may be required over the next few years;
- c) Provide an outline Budget Timetable for 2020/21.
- d) Provide a summary of the Local Government Finance Settlement Technical Consultation and the Council's responses to this consultation.

2. BACKGROUND

- 2.1. The background / context section can be found in **Appendix A**. This includes information about potential local government reform in Northamptonshire and what they may mean to future budget setting rounds.

3. BUDGET UPDATE (KEY ISSUES AND PROJECTIONS)

- 3.1 The Council's Medium-Term Financial Strategy is reproduced in Table 1 notes to the Medium-Term Financial Forecast are included at **Appendix B**.

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TABLE 1 - MEDIUM TERM FINANCIAL FORECAST							
		Current Spending Round		Future Spending Review Period			
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
		£000	£000	£000	£000	£000	£000
1	Net Council Budget	11,118	10,387	10,104	10,331	10,363	10,397
2	Forecast Resources:						
	Government Grant						
2a	Revenue Support Grant	0	0	0	0	0	0
2b	Business Rates	(2,484)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
	Total Government Grant	(2,484)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
	Council Tax / Coll'n Fund	(350)	(100)	(100)	(100)	(100)	(100)
	Income From Council Tax	(6,722)	(6,823)	(6,926)	(7,030)	(7,135)	(7,242)
	Total Resources	(9,556)	(8,923)	(9,026)	(9,130)	(9,235)	(9,342)
3	Budget (Surplus) / Deficit	1,562	1,464	1,078	1,201	1,128	1,055
4	'efficiencies' Identified	(1,562)	(998)	0	0	0	0
5	'efficiencies' - To be Identified	0	(466)	(1,078)	(1,201)	(1,128)	(1,055)
6	Budget (Surplus) / Deficit	0	0	0	0	0	0
GENERAL FUND WORKING BALANCE							
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		£000	£000	£000	£000	£000	£000
7	Estimated Opening Balance	1,415	1,375	1,335	1,335	1,335	1,335
8	Town Centre Initiatives	40	40	0	0	0	0
9	Estimated Closing Balance	1,375	1,335	1,335	1,335	1,335	1,335

- 3.2 The Executive at the April meeting approved that the Council continue using the existing budget delivery framework for the preparation of the 2020/21 budget.
- 3.3 As part of the 2020/21 budget process the key underlying assumptions have been updated and remodelled, the Medium-Term Financial Strategy will continue to be reviewed as part of the budget process. Overall the level of savings required over the next five years are around £6m.
- 3.4 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing efficiency targets going forward are at least of a similar scale to those already met, Chart 1 shows:

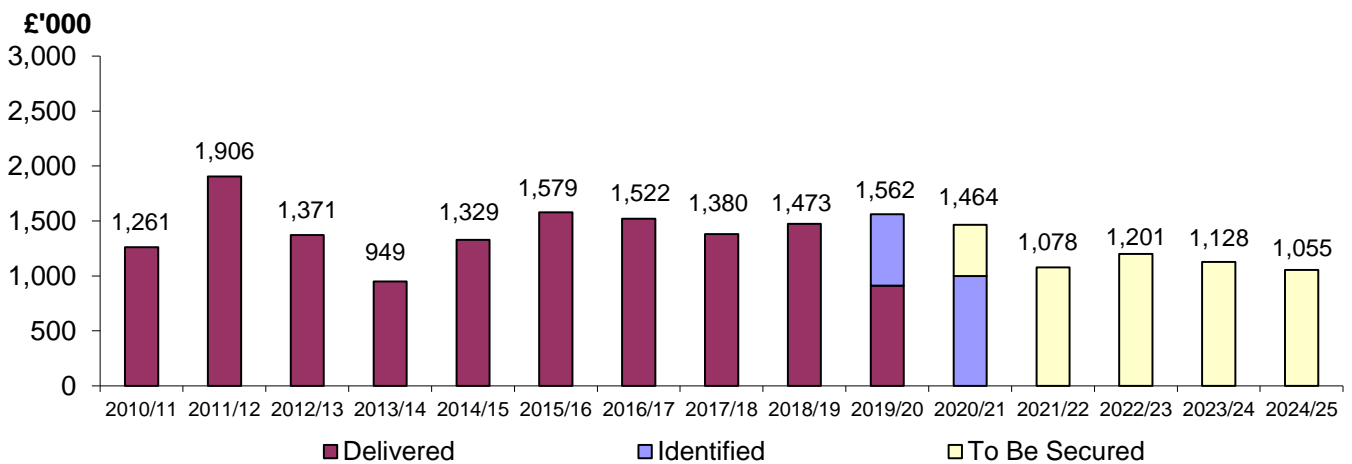
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- Efficiencies of £12.8m have been identified and delivered between 2010/11 – 2018/19;
- Efficiencies of £1.562m have been identified and continue to be delivered for 2019/20
- Efficiencies of around £6m need to be identified and delivered over the next five years (2020/21 – 2024/25).

Chart 1

Efficiencies / Savings / Income Generation



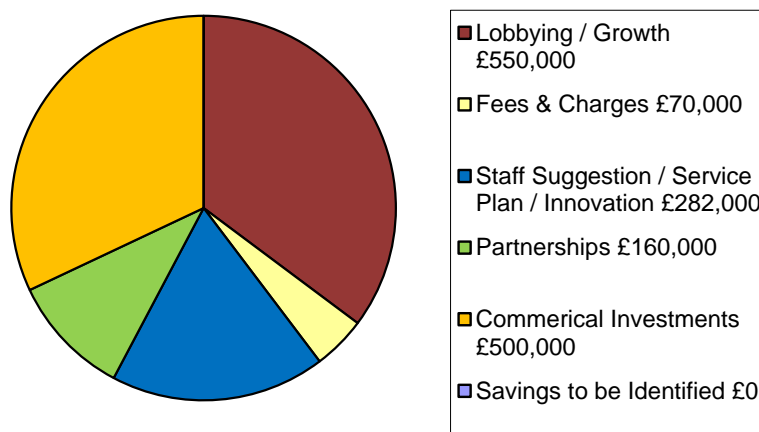
2019/20 Budget Update (General Fund)

3.5 Members will recall that additional ongoing ‘efficiencies’ of £1,562,000 were required to set a balanced budget for 2019/20. Those ‘efficiencies’ were identified in full before the budget was formally set and are summarised in Chart 2:

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Chart 2
Framework Efficiencies for the next Year
(2019/20)



3.6 Table 2 provides further information – relating to the composition of the 2019/20 Framework efficiencies:

Table 2 – Composition of 2019/20 Efficiencies		
Framework		£'000
Commercial Investments	Income from Commercial Investments	500
Lobbying / Growth	Business Rates Income	400
Staff / Innovation	Treasury Management Income	280
Partnerships	Joint Working	110
Lobbying / Growth	Homelessness Grant	83
Lobbying / Growth	New Homes Bonus	67
Fees & Charges	Crematorium Income	28
Fees & Charges	Recycling Credits	22
Various	Minor Variations	72
Total		1,562

3.7 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 Councils Swing – o – meter as detailed at **Appendix C**.

3.8 The General Fund budget is currently projected to come in around £300,000 below budget, these areas will continue to be closely monitored and further reviewed as part of the forthcoming budget process - some of these (such as homelessness) are essentially demand led and reflective of national economic issues. As part of the budget process, it will be recommended that the same strategy be used as in

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previous years in relation to any one-off 'savings' this is due to the growing levels of uncertainty and risk in the medium term. The most significant areas of volatility remained unchanged to those reported to the October Executive and are shown in Table 3.

Table 3 – General Fund Projected Variances (2019/20)		
	Projected Variance	Reason
Treasury Management	£300,000 (favourable)	This reflects additional income from investing surplus cash and lower borrowing costs which is in line with the Council's Treasury Management Strategy.
Recycling / Waste	£150,000 (favourable)	Costs for the disposal of co-mingled waste lower than originally budgeted.
Commercial Investments	£100,000 (favourable)	The additional income reflects the Council's continued progress with its Commercial Investment Strategy.
Homelessness	£150,000 (adverse)	There continues to be a significant increase in the number of homeless applications, which is reflective of the picture across the country. Locally, the Council's response has been to ensure we are best placed to take action to prevent homelessness and, secondly, to minimise expenditure on expensive nightly paid accommodation and bed & breakfast hotels. This has involved utilising HRA properties for temporary accommodation and acquiring a number of properties on the open market to use as temporary housing for homeless households.
Fee Income	£150,000 (adverse)	A number of the Council's main income streams (eg, Parking and Crematorium Income) are generating less income than budgeted at the present time. This is partly off-set by additional income for planning fees which reflects a number of large planning applications.
Other Items	£50,000 (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.

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- 3.9 Members may 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.
- 3.10 The Council takes a prudent view and resilience tests any projected 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 delivered is budgeted and secondly will act as a smoothing strategy when the scheme is reset which will enable to Council to meet the significant financial challenges a full re-set is expected to bring.
- 3.11 It should be noted that a favourable variance of around £1.5m from timing variances is projected from the Business Rates Retention Scheme during 2019/20. Due to the technical nature and the accounting arrangements for Business Rates being spread over three years a further favourable variance of around £700,000 is projected which will be accounted for over the next two years.

2020/21 Budget (General Fund)

- 3.12 The Executive at the April meeting approved that the Council continue using the existing budget delivery framework for the preparation of the 2020/21 budget.
- 3.13 At that time, the period from 2020/21 onwards was identified as much more uncertain. That was due to uncertainty about the future operation of the local government finance system following a review by the government – that was expected to be completed during this year and a new system commencing from 2020/21 onwards.
- 3.14 As part of the Governments Spending Round announcements, it was announced that any new system of local government funding would not now be introduced until 2021/22. This clearly will have implications for all local authority budget planning. Members should note that at this stage, the numbers being modelled in the budget projections in this report **have not been updated** following the announcement – this is because the information about how this will impact upon individual council budgets will not be available until later in the year.
- 3.15 It was reported to the October Executive that MHCLG had published the 2020/21 Local Government Finance Settlement - Technical Consultation. This consultation ran for four weeks from 3 October to 31 October 2019. The Council responded to this consultation and the main areas affecting Districts are summarised in Table 4:

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Table 4 – 2020/21 Local Government Finance Settlement (Technical Consultation)

Key Issue	Comments
<p>Business Rates</p> <p>The Government has delayed the introduction of a reformed system of local government funding until 1st April 2021.</p> <p>The Government does not plan to alter the existing mechanism for determining tariff and top-up payments in 2020/21.</p>	<p>For 2020/21 this is good news for KBC and other local authorities that have a good record of facilitating business growth – this is because the proposed reset of the system will see a significant proportion of the additional business rates receipts being redistributed nationally at that stage.</p>
<p>Revenue Support Grant (RSG)</p> <p>The Government proposes to pay RSG to ensure all local authorities will receive a uniform change in Settlement Funding Assessment in 2020/21.</p> <p>Negative RSG</p> <p>The Government have indicated that they are currently minded to remove negative RSG in 2020/21. This approach would be consistent with the treatment of Negative RSG in previous years.</p>	<p>This approach should result in authorities receiving a similar level of funding in 2020/21 as they received in 2019/20, however those in negative RSG would continue to receive no RSG.</p> <p>There has previously been strong representation from the local government sector around removing negative RSG. This is something that this Council strongly supported and the removal of negative RSG in 2020/21 would be welcomed – the amount of negative RSG for KBC in 2019/20 was around £250,000.</p>
<p>New Homes Bonus (NHB)</p> <p>As part of a roll-forward settlement the Government proposes to retain the £900m top-slice of RSG to fund NHB payments in 2020/21. In addition to funding legacy payments (2017/18 – 2019/20).</p> <p>Any new allocations in 2020/21 may not result in legacy payments being made in subsequent years.</p> <p>The Government will retain the option of adjusting the baseline in 2020/21 to reflect significant additional housing growth and will set out proposals on the baseline for 2020/21 at the provisional settlement alongside any new allocations.</p> <p>It is the Government's intention to look again at NHB and the Government will look to consult widely on proposals prior to implementation.</p>	<p>The Council supports the continued £900m top slice from RSG Grant to fund NHB in 2020/21 and are not in favour of any option to adjust the baseline or any other changes for 2020/21 as there is insufficient time to plan for any funding reductions.</p> <p>As there are no details of potential changes to NHB included in the technical consultation we would strongly suggest that it is not reasonable to propose amendments to the scheme for 2020/21 after the close of this consultation.</p> <p>Early clarification of the future of NHB or details of any replacement scheme is required as HNB is a significant proportion of funding for many district councils.</p>

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**Table 4 Cont'd – 2020/21 Local Government Finance Settlement
(Technical Consultation)**

Key Issue	Comments
<p>Council Tax</p> <p>The referendum threshold for 2020/21 is proposed to be 2% or £5 whichever is greater. This is a reduction from the current level (2019/20) of 3% or £5.</p> <p>The Government proposes to continue with no referendum principles for town and parish councils in 2020/21 but will keep this matter under active review for future years.</p>	<p>In order to be consistent with treating 2020/21 as a roll-over year, the referendum limit should be increased to 3% as in previous years</p> <p>We agree that it is sensible <u>not to</u> extend the referendum principle to town and parish councils.</p> <p>The actual levels of Council Tax for 2020/21 are for political consideration.</p>
<p>Rural Services Delivery Grant</p> <p>In recognition of additional cost pressures in rural areas, the Government proposes to roll-forward 2019/20 allocations of RSDG, totalling £81m.</p>	<p>We agree with Central Government's approach for distributing RSDG, although the use of the top quartile of the super-sparsity indicator represents a rather arbitrary cut off point. In this context we hope that the Fair Funding Review would be able to provide a more objective assessment of measuring the problems of rural service delivery as we feel that there are a number of authorities that have concerns with service delivery in rural parts of their area that do not currently qualify for grant.</p>

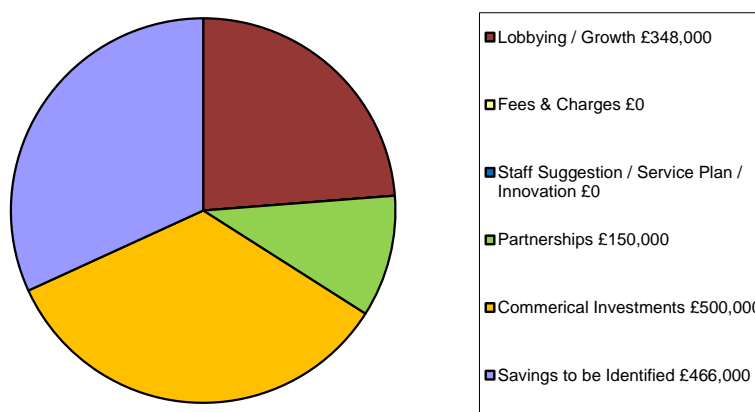
- 3.16 Whilst the Council recognises that individual allocations for 2021/22 will not be available for some time – it is important that Government provide early notification of any transitional arrangements this will assist with Council's Medium-Term Financial Planning. It's also important that clarification is provided that New Homes Bonus funding and growth from the Business Rates Retention Scheme forms part of any damping calculation.
- 3.17 The Council's Medium-Term Financial Strategy will be updated, following the announcement of the 2020/21 settlement, which is expected to now be delayed due to the upcoming General Election.
- 3.18 As well as monitoring framework savings identified for 2019/20 work as in previous years continues on identifying savings for the following year (2020/21). Members are reminded that the Medium-Term Financial Forecast required an additional £1,464,000 of ongoing savings to balance the budget in 2020/21 (which are reflected in Table 1).
- 3.19 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 and income growth of this magnitude are going to be difficult to maintain and this is emphasised by the 2020/21 budget process.

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3.20 Efficiencies of £798,000 have previously been identified and reported to the Executive. Further efficiencies of £200,000 have been identified these relate to additional growth from the Business Rates Retention Scheme meaning further efficiencies of £466,000 are required in order to deliver a balanced budget for 2020/21. Chart 3 illustrates how the identified efficiencies are to be delivered and the levels of efficiencies that are required to deliver a balanced budget – to date over two thirds of the efficiencies have been identified.

**Chart 3
Framework Efficiencies for the next Year
(2020/21)**



3.21 As explained in previous budget reports although we have traditionally referred to the term 'efficiencies', in reality these are a combination of efficiency savings and additional income. Table 5 illustrates how the efficiency targets in 2020/21 are being delivered:

Table 5 – 2020/21 Budget Changes			
Framework	Additional Income £'000	Reduced Expenditure £'000	Total £'000
Lobbying / Growth - NHB	148	0	148
Lobbying / Growth – Business Rates	200	0	200
Commercial Investments	500	0	500
Recycling	0	150	150
Total	848	150	998

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3.22 It is important that the Council considers all frameworks and all income streams and continues to explore how efficiency savings of around £466,000 can be delivered to meet the estimated savings target for 2020/21. As further savings are identified, and resilience tested these will be reported to future Executive meetings.

4 HOUSING REVENUE ACCOUNT

2019/20

4.1 A summary of Housing Revenue Account monitoring at the end of September 2019 is shown in Table 6. The HRA remains broadly on target to be delivered within budget for 2019/20.

Table 6 - HRA	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,318	15,318	0
Gross Income	(15,318)	(15,318)	0
Net Expenditure	0	0	0

5 CAPITAL PROGRAMME

2019/20 - Update

5.1 A summary of the Capital Programme monitoring at the end of September 2019 is shown in Table 7. The 2019/20 Capital Programme is currently projecting to come in around £4.8m under budget, this underspend is to be carried forward into 2020/21 as the variance relates to the timing on the delivery of a number of projects. The main variances relate to the timing of the Community Leisure scheme at Burton Latimer and the new build schemes at Scott Road and Albert Street.

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Table 7 - Capital Programme	Current Budget 2019/20	Projected Outturn 2019/20	Variance (underspend) / overspend
	£'000	£'000	£'000
Expenditure			
HRA Schemes	7,531	3,869	(3,662)
General Fund Schemes	48,749	47,599	(1,150)
	56,280	51,468	(4,812)
Financing			
Capital Receipts	2,342	1,077	(1,265)
Prudential Borrowing	48,815	46,268	(2,547)
Revenue Contribution	2,728	2,728	0
Grants and Contributions	2,395	1,395	(1,000)
	56,280	51,468	(4,812)

- 5.2 It was reported to the September Executive meeting, that the Council, following a competitive process, had been successful in receiving external funding of £1.985m from Historic England for the High Street Heritage Action Zone (HAZ) Fund, in respect of Kettering Town Centre Conservation Area.
- 5.3 Stage 2 of the process requires the Council to work with Historic England and our local stakeholders to develop and submit a Programme Design by January 2020, with a view that delivery will commence from April 2020 and run for a maximum of four years. The process for Stage 2 requires the Council to demonstrate how they can match fund the HAZ funding allocation and provide an indication of the spending profile. A spend profile and the source of funds for match funding will be reported to the December Executive Committee and December Full Council for approval.
- 5.4 The Council continues to make progress with its Commercial Investments programme and in October 2019 the Council acquired a 10,138 sq. ft. office building in Wellingborough at Park Farm Industrial Estate for £1.580m the estimated gross return is around 7.9%.
- 5.5 All the commercial investments that have been completed to date have been done in accordance with the requirements of (1) the Council Constitution and (2) the Council's Property Investment Strategy.

6 BUDGET TIMETABLE

- 6.1 A summary budget timetable is provided at **Appendix D**.
- 6.2 Members are reminded that the formal budget consultation period is from 15th January 2020 to 26th February 2020 when the Council sets its Council Tax for 2020/21. Comments from the consultation process will be reported to the

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Executive for consideration at its meeting on 19th February 2020. The formal budget process remains unchanged from the previous year.

- 6.3 Members will however be aware that the budget process at Kettering Borough Council is an ongoing process throughout the year that has been evidenced by the ongoing consideration of the durable budget report at each meeting of the Executive.

7 CONSULTATION AND CUSTOMER IMPACT

- 7.1 None as a direct consequence of this report. However members are reminded that the formal budget consultation period is from 15th January 2020 to 26th February 2020 when the Council sets its Council Tax for 2020/21. Comments from the consultation process will be reported to the Executive for consideration at its meeting on 19th February 2020.

8 POLICY IMPLICATIONS

- 8.1 As outlined in the report.

9 USE OF RESOURCES

- 9.1 As outlined in the report.

10 CLIMATE CHANGE IMPLICATIONS

- 10.1 There are no climate change implications arising directly from this report. Climate Change implications will be considered as part of setting a balanced budget for 2020/21.

11. RECOMMENDATIONS

That the Executive Committee Note;

- a) The Council's Medium-Term Financial Strategy and associated guiding principles;
- b) The Council's current Medium-Term Financial Forecast and the progress being made in identifying efficiency savings for 2020/21;
- c) Notes the summary budget timetable for 2020/21 (as outlined in **Appendix D**).
- d) Notes the key points and the Council's response to the Local Government Finance Settlement Technical Consultation.

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Background Papers:

Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports