

## BOROUGH OF KETTERING

|                          |   |                               |        |
|--------------------------|---|-------------------------------|--------|
| <b>Committee</b>         | <b>MONITORING &amp; AUDIT</b>   | Item<br>A2                    | Page 1 |
| <b>Report Originator</b> | Head of Resources<br>Mark Dickenson                                   | <i>Forward Plan Ref</i>       |        |
| <b>Wards Affected</b>    | All   | 8 <sup>th</sup> February 2017 |        |
| <b>Title</b>             | <b>BUDGET PROPOSALS FOR 2017/18 AND PREPARING FOR THE MEDIUM TERM</b> |                               |        |

### 1. PURPOSE

- 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 15<sup>th</sup> February 2017.
- 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 2017/18 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 18<sup>th</sup> January 2017 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.

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| MEDIUM TERM FINANCIAL FORECAST |                                   |                             |                  |                               |                  |                            |                  |
|--------------------------------|-----------------------------------|-----------------------------|------------------|-------------------------------|------------------|----------------------------|------------------|
|                                |                                   | Zone of<br>"Predictability" |                  | Zone of<br>"Unpredictability" |                  | Severe<br>Unpredictability |                  |
|                                |                                   | 2016/17                     | 2017/18          | 2018/19                       | 2019/20          | 2020/21                    | 2021/22          |
|                                |                                   | Forecast<br>£000            | Forecast<br>£000 | Forecast<br>£000              | Forecast<br>£000 | Forecast<br>£000           | Forecast<br>£000 |
| 1                              | <b>Net Council Budget</b>         | 11,497                      | 10,948           | 10,704                        | 10,398           | 9,883                      | 9,766            |
| 2                              | <b>Forecast Resources:</b>        |                             |                  |                               |                  |                            |                  |
|                                | <b>Government Grant</b>           |                             |                  |                               |                  |                            |                  |
| 2a                             | Revenue Support Grant             | (1,161)                     | (546)            | (171)                         | 250              | 0                          | 0                |
| 2b                             | Business Rates                    | (2,310)                     | (2,357)          | (2,433)                       | (2,520)          | (2,000)                    | (2,000)          |
|                                | <b>Total Government Grant</b>     | <b>(3,471)</b>              | <b>(2,903)</b>   | <b>(2,604)</b>                | <b>(2,270)</b>   | <b>(2,000)</b>             | <b>(2,000)</b>   |
|                                | Council Tax / Coll'n Fund         | (250)                       | (250)            | (250)                         | (200)            | (200)                      | (200)            |
|                                | Income From Council Tax           | (6,254)                     | (6,415)          | (6,511)                       | (6,609)          | (6,708)                    | (6,809)          |
|                                | <b>Total Resources</b>            | <b>(9,975)</b>              | <b>(9,568)</b>   | <b>(9,365)</b>                | <b>(9,079)</b>   | <b>(8,908)</b>             | <b>(9,009)</b>   |
| 3                              | <b>Budget (Surplus) / Deficit</b> | 1,522                       | 1,380            | 1,339                         | 1,319            | 975                        | 757              |
| 4                              | <b>Savings Identified</b>         | (1,522)                     | (1,380)          | 0                             | 0                | 0                          | 0                |
| 5                              | <b>Savings - To be Identified</b> | 0                           | 0                | (1,339)                       | (1,319)          | (975)                      | (757)            |
| 6                              | <b>Budget (Surplus) / Deficit</b> | 0                           | 0                | 0                             | 0                | 0                          | 0                |
| GENERAL FUND WORKING BALANCE   |                                   |                             |                  |                               |                  |                            |                  |
|                                |                                   | 2016/17                     | 2017/18          | 2018/19                       | 2019/20          | 2020/21                    | 2021/22          |
|                                |                                   | £000                        | £000             | £000                          | £000             | £000                       | £000             |
| 7                              | <b>Estimated Opening Balance</b>  | (1,415)                     | (1,425)          | (1,435)                       | (1,435)          | (1,435)                    | (1,435)          |
| 8a                             | Town Centre Initiatives           | 40                          | 40               | 0                             | 0                | 0                          | 0                |
| 8b                             | Transitional Grant                | (50)                        | (50)             | 0                             | 0                | 0                          | 0                |
| 9                              | <b>Estimated Closing Balance</b>  | <b>(1,425)</b>              | <b>(1,435)</b>   | <b>(1,435)</b>                | <b>(1,435)</b>   | <b>(1,435)</b>             | <b>(1,435)</b>   |

### 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 2016/17 and the provisional level of grant funding has been announced for 2017/18.*

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*The future levels of government grant for the period 2018/19 – 2019/20 are based on indicative figures provided as part of the 2017/18 financial settlement which form part of the 'four year settlement' figures*

*The financial landscape changes significantly from 2020/21 when the Business Rates Retention Scheme is reset. The figures from 2020/21 are currently a best estimate.*

**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 have made an adjustment in 2019/20 whereby the grant is reduced by £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 2017/18.*

**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 of the settlement for councils with the sharpest reductions in Revenue Support Grant.*

### **3. SUMMARY & CONCLUSIONS**

#### **2016/17**

- 3.1 The Council has continued to use its own specific 'budget delivery framework' for the delivery of savings. The challenge was to turn the 'paper based savings exercise' into reality so that the £1,522,000 of savings were actually delivered – this is being successfully delivered.
- 3.2 Since 2010, the Council will have delivered a total of £9.9m of savings by the end of March 2017. The delivery of savings of this magnitude will become increasingly more difficult to achieve.

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### 2017/18

- 3.3 Taken in isolation, most of the main issues are 'known' for 2017/18 at this stage.
- 3.4 The Council had budgeted for a grant reduction of 16.4% for 2017/18 the provisional figure from the Government was a reduction of 16.3%. Although the reduction was in line with expectations, this still represents a significant reduction in grant and a continued challenge for 2017/18.
- 3.5 Prior to the consideration of any council tax increase, it is estimated that **£1,380,000 of 'savings' will be required.** We will start 2017/18 in a similar position to 2016/17 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 2017/18. The remaining 'savings' have also been identified the Council will need to remain focused and stick to its collection of golden rules 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 2017/18. Given that the level of KBC's Council Tax has been frozen for six years, members will need to seriously consider what a sustainable strategy is for its level of Council Tax for 2017/18 (and the medium term) as part of this budget process.
- 3.9 **A capital programme of around £25m** 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

### 2018/19 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

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2017/18 financial settlement following the authorities decision to accept a four year grant settlement.

- 3.12 The levels of uncertainty and reductions in government funding in the medium term are very significant. Changes to NHB funding will result in significant reductions. The major review of business rates is also likely to bring significant change – this will only become clearer as time progresses. Neither of these should be underestimated.
- 3.13 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.
- 3.14 Based upon the assumptions applied, the future years' budgets would require ongoing year on year savings of the following (on top of the £11.3m of ongoing savings achieved since 2010);

|                |                   |
|----------------|-------------------|
| <b>2018/19</b> | <b>£1,339,000</b> |
| <b>2019/20</b> | <b>£1,319,000</b> |
| <b>2020/21</b> | <b>£ 975,000</b>  |
| <b>2021/22</b> | <b>£ 757,000</b>  |

- 3.15 The Council continues to develop a more commercial approach to ensure that its income base remains buoyant and continues to explore new fiscal arrangements to facilitate an asset acquisition strategy and types of governance models that best meets the needs of the business as it moves to a more self-sufficient business model. It is very important that this is progressed at a pace during 2017/18.
- 3.16 Hitherto, the Council has been able to close the budget gap without increases in Council Tax, cuts to front-line services, or cuts to voluntary sector funding. The scope for closing projected budget gaps will be dependent on progressing the commercial investment work-stream whilst also reconsidering future levels of Council Tax. Maintaining Council Tax at its current level into the medium term is unlikely to be sustainable.

### **Other Considerations**

- 3.17 The projections in all years rest on the Executive's adherence to the "*Guiding Principles*" the "*Modelling for Recovery Principles*" the "*Budget Containment Strategies*" and the "*Prioritisation Golden Rules*" (para 3.4).
- 3.18 Whilst the levels of core grant are known the settlement is far from straightforward with a new revaluation list and adjusted tariffs and top ups - it is unclear what the financial landscape will be over the medium term.
- 3.19 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

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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 volatility owing to the uncertainties around Business Rates and the government are also considering transferring new responsibilities to local government.

3.20 Everybody associated with the Council should feel an enormous sense of achievement by getting to this point. However there, still remains a significant task ahead.

#### **4. CONSULTATION AND CUSTOMER IMPACT**

The formal budget consultation period is from 18<sup>th</sup> January 2016 to 1<sup>st</sup> March 2017 when the Council sets the Council Tax for 2017/18. Comments from this Committee will be reported to the Executive for consideration at its meeting on 15<sup>th</sup> February 2017.

#### **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 15<sup>th</sup> February 2017.