

## BOROUGH OF KETTERING

<b>Committee</b>	<b>EXECUTIVE</b>	Item 10	Page 1
<b>Report Originator</b>	Strategic Management Team	Fwd Plan Ref A16/040	
<b>Wards Affected</b>	All	12th April 2017	
<b>Title</b>	<b>MAINTAINING A DURABLE BUDGET</b>		

**Portfolio Holder – Cllr L Thurland**

### **1. PURPOSE OF REPORT**

The purpose of the report is to:

- a) Provide Members with a reminder of the Council's medium term financial strategy and associated guiding principles;
- b) Illustrate the latest budget model, the delivery of efficiency savings for 2017/18 and the estimated level of budget savings that may be required over the next few years;
- c) Provide a more detailed update in relation to the Governments March Budget announcement;
- d) Provide an update on consultations relating to the implementation of '100% Business Rates Retention' scheme.

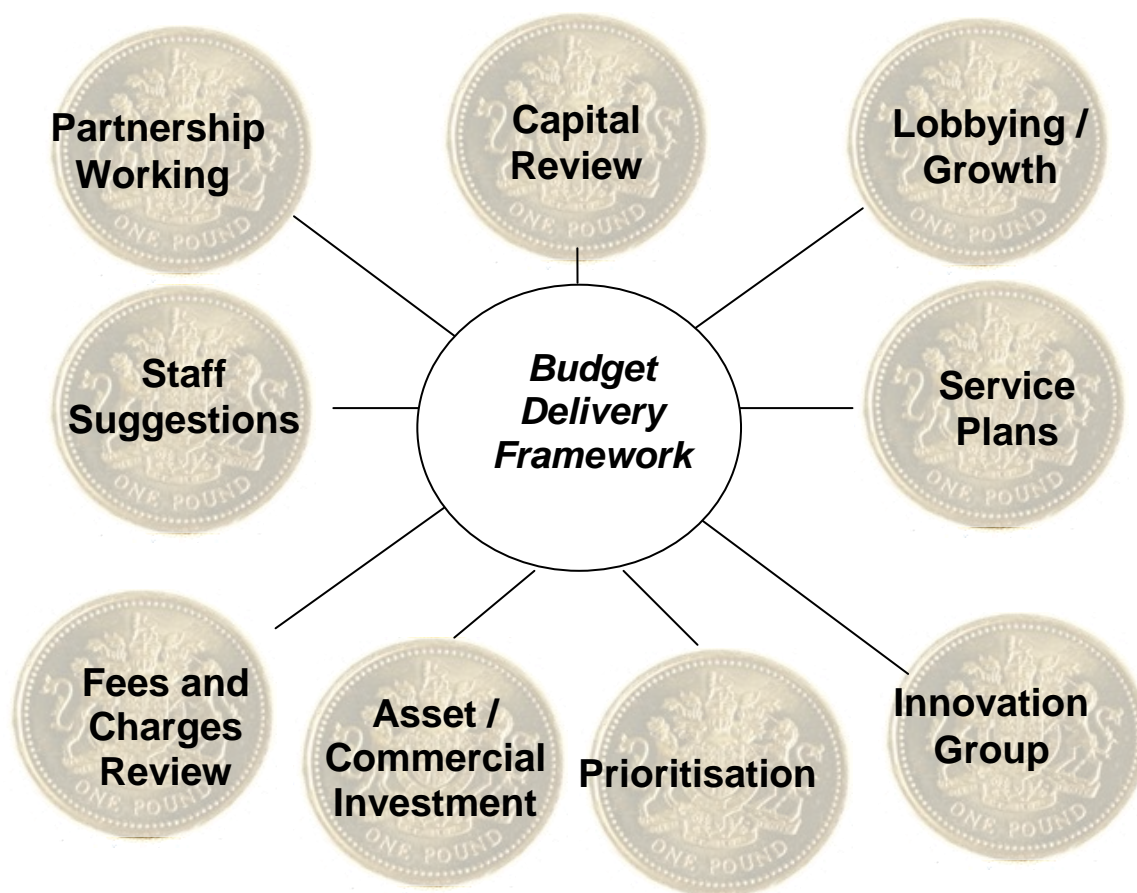
### **2. BACKGROUND**

- 2.1. The Council's 2017/18 budget was approved by Council at its meeting on 1<sup>st</sup> March 2017. 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 2017/18 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.

## BOROUGH OF KETTERING

Committee	<b>EXECUTIVE</b>	Item 10	Page 2
-----------	------------------	---------	--------

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 £10m of 'efficiency savings' to date. To have a realistic chance of continuing to balance its budget into the medium term, all of the above frameworks must continue to make a positive contribution – specifically Income and Commercial Investment Schemes. One of these sources alone will not provide the mechanism to set a balanced budget in the medium term, all of them must contribute.

2.5. The financial strategies key '*guiding principles*' supplemented by the '*Modelling for Recovery Principles*', the '*Budget Containment strategies*' and Prioritisation '*Golden Rules*' have provided a strong cornerstone for the Councils medium term financial strategy. For ease of reference, these are reproduced here;

### **Financial Strategy Guiding principles:**

- a. Revenue balances should not fall below £1m and overall revenue reserves should not fall below 10% of net revenue expenditure;

## BOROUGH OF KETTERING

<b>Committee</b>	<b>EXECUTIVE</b>	Item 10	Page 3
------------------	------------------	---------	--------

- b. In setting the Council Tax, members should consider the medium term to ensure that a sustainable budgetary position is preserved (with due regard being given to any penalties that might apply);*
- c. The level of household Council Tax to increase each year in line with inflation at least, where the budget is in deficit, to ensure resources remain consistent with budgeted costs;*
- d. When setting the Capital Programme, consideration is given to allocating capital resources to schemes that are beneficial to the Council's overall revenue budget position;*
- e. To maximise the resources available to the Authority, the Council will actively lobby the Government on relevant issues (e.g. grant distribution/ planning fees).*

### **Modelling for Recovery principles:**

- 1. Wherever possible, continue with all planned investments and programmes, to protect the local economy and lever in other investments;*
- 2. Given the strength of our Treasury position we should consider debt funding as a means of programme delivery or stimulus – if this can be shown to be sustainable and have a wider economic benefit;*
- 3. Organise our fiscal structures and business models to attract and retain the maximum amount of revenue within the local economy;*
- 4. To ensure all possible avenues are used within procurement rules to source locally;*
- 5. Protect the performance of Council services which come under particular strain;*
- 6. Work closely with partners in the voluntary, public and private sectors, to ensure optimum efficiency*

### **Budget Containment Strategy:**

- 1. Where a specific grant which funds a specific service is withdrawn, the service stops;*
- 2. Where grant funding reduces, which Kettering Borough Council passports through to another organisation, the reduced sum continues to be passported, providing the end recipient organisation feels it can still provide a value-added service at that funding point.*
- 3. Where a function is transferred to another provider, the Council leaves all service-provision discussions, including any top-up funding, with the new provider;*

## BOROUGH OF KETTERING

Committee	<b>EXECUTIVE</b>	Item 10	Page 4
-----------	------------------	---------	--------

4. *The Council would ordinarily neither seek to buffer nor profit from tax changes.*
5. *The Council should not substitute itself as a provider / funder of services when another public provider cuts such a service.*

### **Prioritisation 'Golden Rules':**

1. *Revenue Impact – The item should have a positive **material and causal** impact on the Council's revenue budget over the medium term. The impact should be material in nature.*
  2. *Fit with Key Priorities - There should be a direct and causal impact upon the achievement of the Council key priorities of;*
    - *Better Town Centres*
    - *Better Jobs*
    - *Better Educational Offer*
  3. *Risk and Return Profile - The item / project should fit the Council's risk and return appetite and also complement the overall portfolio of investment / assets.*
  4. *Investment Leverage - The item / project should ideally act as either an 'invest to save' type project or one that 'pump primes' other significant investment into the borough.*
  5. *Self Sufficiency - Given the continuing trend of reduction in central government grants, priority will be given to projects that assist in the Council moving further towards financial self-sufficiency.*
  6. *Strategic Partnerships - The item should generally have a positive impact on the Council's strategic partnerships and the Council's long term strategic ambitions for the borough – eg, town centre development. In particular – items that support and help develop 'scope' rather than 'scale' will be prioritised.*
- 2.6. Whereas the above guiding principles have served the Council well over the past number of years, they have remained unchanged for some considerable time now. It will make sense for the Council to either re-affirm or refresh these in sufficient time before the next budget process – late summer would probably be an appropriate time for the Executive Committee to consider this.

## BOROUGH OF KETTERING

<b>Committee</b>	<b>EXECUTIVE</b>	Item 10	Page 5
------------------	------------------	---------	--------

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

3.1 The Council's Medium Term Financial Strategy is reproduced in Table 1.

TABLE 1 - MEDIUM TERM FINANCIAL FORECAST							
		Zone of "Predictability"		Zone of "Unpredictability"		Severe Unpredictability	
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £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>

3.2 The forecast comprises the following 'Zones'

- ♦ **Zone of Predictability** – covers the 2016/17 and 2017/18 financial year's - for which the level of government funding is known.
- ♦ **Zone of Unpredictability** – 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 (that were previously reported to this Committee).
- ♦ **Severe Unpredictability** – Based upon the figures in the MTFs, the Council would need to identify and deliver further savings of around £1m in 2020/21 and

## BOROUGH OF KETTERING

Committee	<b>EXECUTIVE</b>	Item 10	Page 6
-----------	------------------	---------	--------

around £750,000 in 2021/22. Of course, these can only be high level assumptions at the present time.

### 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 both 2016/17 and 2017/18.

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 is expected to change significantly from 2020/21 (if not before) when the new Business Rates Retention Scheme is implemented by the Government.

- 2a / 2b **Revenue Support Grant / Business Rates** - Following the introduction of the Business Rates Retention Scheme the local share of business rates will be uplifted by RPI each year until the system is reset in 2020 this is shown in line 2b. The full reduction in grant is therefore applied to the element that is provided through the Revenue Support Grant, which is detailed in Line 2a. This Council's Revenue Support Grant reduces to nil in 2019/20. The Government made a further adjustment in 2019/20 whereby the Council rather than receiving a grant is making a payment to the Government of £250,000 this is reflected in line 2a.
- 3 **Budget (Surplus) / Deficit** – This illustrates the gap between the budget and the total resources available before identifying budget framework savings.
- 5 **Savings to be identified** – This identifies the total resources that are required to balance the budget in future years after 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

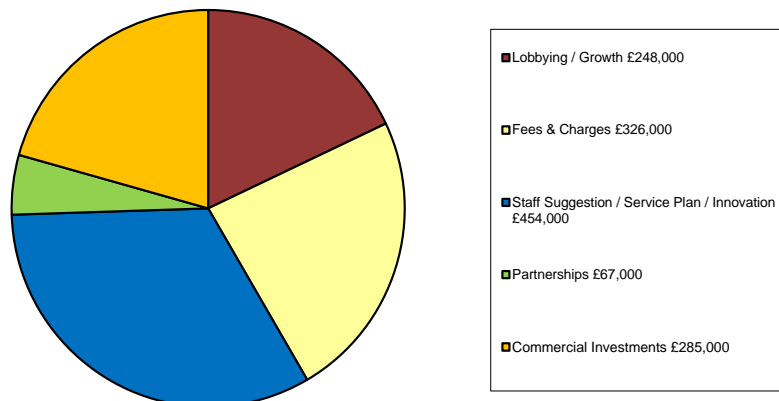
## BOROUGH OF KETTERING

Committee	<b>EXECUTIVE</b>	Item 10	Page 7
-----------	------------------	---------	--------

*pace of reductions during the first 2 years of the settlement for councils with the sharpest reductions in Revenue Support Grant.*

- 3.3 Members should be aware that the indicative savings levels for the period 2018/19 onwards are subject to a number of high level assumptions. Whilst as part of the 'four year settlement' indicative levels of grant funding have been provided for 2018/19 and 2019/20. The future levels of grant from 2020/21 are much more uncertain and are a best estimate as the Business Rates Retention Scheme will have completely changed by 2020/21 (if not before). 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. A high level timetable for implementing '100% Business Rates Retention Scheme' is set out in Section 6.
- 3.4 From Table 1 it can be seen that the Council's budget delivery framework will need to deliver £1,380,000 of savings in 2017/18 to maintain a balanced budget. The assumptions will need to be kept under close review during 2017/18. The identified savings are summarised in Chart 1:

**Chart 1**  
**Framework Savings for the Current Year (2017/18)**



- 3.5 Table 2 illustrates how the 2017/18 savings are to be delivered - around 1/3 of the total savings target is to be delivered through reduced expenditure and around 2/3 is to be delivered through increased income.

## BOROUGH OF KETTERING

<b>Committee</b>	<b>EXECUTIVE</b>	Item 10	Page 8
------------------	------------------	---------	--------

<b>Table 2 – Framework Savings 2017/18</b>			
<b>Framework</b>	<b>Additional Income £'000</b>	<b>Reduced Expenditure £'000</b>	<b>Total £'000</b>
Lobbying / Growth	248	0	248
Fees & Charges	326	0	326
Staff Suggestion / Service Plan / Innovation	0	454	454
Partnerships	6	61	67
Commercial Investments	285	0	285
<b>Total</b>	<b>865</b>	<b>515</b>	<b>1,380</b>

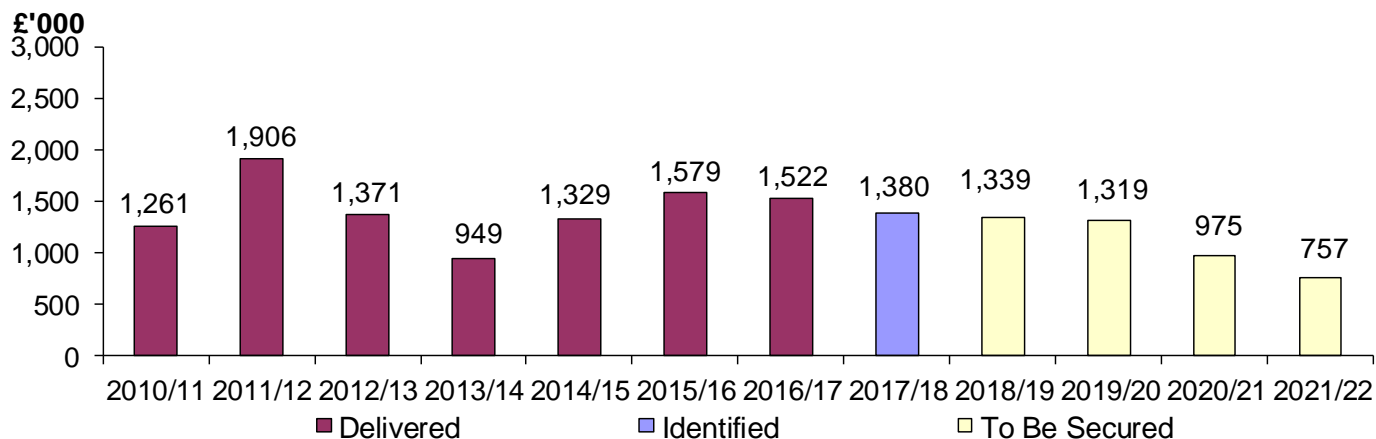
- 3.6 During the budget process, members were informed of a number of ‘big ticket’ items. These are typically items of large value that could have a disproportionate impact on the Council’s budget if they moved in an adverse fashion. Consequently these are monitored very closely and members and officers 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 A.
- 3.7 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing savings targets going forward are at least of a similar scale to those already met, the following chart shows:
- Savings of £9.8m have been identified and delivered between 2010/11 – 2016/17;
  - Savings of £1.380m have been identified but need to be delivered in 2017/18;
  - Savings of around £4.4m need to be identified and delivered over the next four years (2018/19 – 2021/22).



## BOROUGH OF KETTERING

<b>Committee</b>	<b>EXECUTIVE</b>	Item 10	Page 9
------------------	------------------	---------	--------

### Efficiency Savings



#### 4 GOVERNMENT BUDGET (March 2017)

4.1 The Chancellor of the Exchequer announced details of the Government's Budget on 8<sup>th</sup> March. Two aspects which are worthy of further comment are detailed below.

##### Business Rates

- ◆ A £300m fund was created for local councils to offer discretionary relief for those businesses who have the biggest increase in Business Rates following the recent national revaluation. £180m will be available in 2017/18, followed by £85m in 2018/19, £35m in 2019/20 and £5m in 2020/21
- ◆ No small businesses that are coming out of small business rates relief will pay more than £600 in business rates in 2017/18 than they did in 2016/17.
- ◆ The introduction of a £1,000 business rates discount for one year, from April 2017 for public houses with a rateable value of up to £100,000.

4.2 The additional funding for Business Rates has been made available to support businesses facing significant increases in the amount of business rates payable from April 2017, following the recent national revaluation. Local government will be fully compensated for the loss of income as a result of these measures.

4.3 Individual authority allocations were announced on 9<sup>th</sup> March 2017. Kettering Borough Council will receive around £160,000 over the next four years to support businesses facing significant increases in Business Rates. £100,000 will be received in 2017/18 and £41,000 in 2018/19, the remaining £19,000 will be paid in 2019/20 and 2020/21. The Council has guidelines for Discretionary Rate Relief and these guidelines will be updated to take account of these changes. Members should also note that to comply with the Council's guiding principles – the amount of money that the Government has allocated to the Council (as outlined above) will be the maximum total level of funding that the Council will have available for this purpose.

## BOROUGH OF KETTERING

Committee	<b>EXECUTIVE</b>	Item 10	Page 10
-----------	------------------	---------	---------

### Social Care

- 4.4 Additional funding (at a national level) was announced for social care. The headline announcement is £2bn over the next three years (2017/18 to 2019/20) £1bn of this will be provided in 2017/18. It is anticipated that a consultation paper will be issued by the Government shortly looking at how the social care system can be sustainable in the future.
- 4.5 The LGA as in previous years have produced a briefing regarding the Budget Announcement this is available at <http://www.local.gov.uk/documents/10180/5533246/LGA+On+the+Day+briefing+Spring+Budget+2017.pdf/52ab5671-31e3-4ddd-898c-7d4a3d12bdfd> Although the Council may not endorse all of the comments in the LGA briefing, it is nevertheless a useful reference document.

## **5 BUSINESS RATES CONSULTATIONS**

- 5.1 Members have been well briefed previously about the Government's stated intention to introduce the 100% Business Rates Retention Scheme. Since our last update, the Communities and Local Government have issued a further consultation on the design of the reformed '100%' Business Rates Retention scheme'. The consultation period runs until 3<sup>rd</sup> May.
- 5.2 The consultation is still fairly high level and focuses on how key aspects of the scheme may work going forward. The Council is represented at a professional officer level on a number of the national working groups looking into this issue. A draft response to the consultation is currently being worked upon.
- 5.3 The Consultation usefully included a high level timetable from the Government about their intended timeline to introduce the new system, this is summarised in Table 3.
- 5.4 The timeline is very useful in helping to clarify a few issues – in particular that it is the Government's stated intention to have the new arrangements operational by April 2019 – a very ambitious target!

## BOROUGH OF KETTERING

<b>Committee</b>	<b>EXECUTIVE</b>	Item 10	Page 11
------------------	------------------	---------	---------

<b>Table 3 – 100% Business Rates – Implementation Timetable</b>	
<b>Date</b>	<b>Description</b>
April 2017	Piloting of the approach to 100% Business Rates Retention begins in Cornwall and a number of combined authority areas.
Autumn 2017	Planned publication of further detail on secondary legislation including draft regulations where possible
April 2018	Further piloting of the approach to 100% Business Rates Retention begins in areas not covered by devolution deals, including two tier areas.
Spring 2018	Aim to decide on package of responsibilities to be devolved for the commencement of new 100% Business Rates Retention system.
Summer 2018	Planned consultation on new relative needs baseline for new system.
April 2019	Expected implementation of 100% Business Rates Retention cross local government.

- 5.5 Of probably greater significance than the consultation document is the Council's commitment to issue a detailed consultation document on the 'fair funding review'. This will be a key feature of the new scheme as this will determine the amount of funding Councils receive before growth is taken into account. This is expected in early April 2017 and it is the most important piece of work to concentrate upon (in relation to this issue) because it is likely to have the most significant impact
- 5.6 The Government is also expected to release further guidance on how any pilots for 100% Business Rates Retention in two tier areas will work this is expected during the summer. Expressions of interest from local authorities are likely to be required during the autumn – we will look at this closely when it is available and advise members accordingly.

## **6 CONSULTATION AND CUSTOMER IMPACT**

- 6.1 As outlined in the report.

## **7 POLICY IMPLICATIONS**

- 7.1 As outlined in the report.

## BOROUGH OF KETTERING

Committee	<b>EXECUTIVE</b>	Item 10	Page 12
-----------	------------------	---------	---------

### 8 USE OF RESOURCES

8.1 As outlined in the report.

### 9. RECOMMENDATIONS

That the Executive;

- a. Note the Council's Medium Term Financial Strategy and associated guiding principles;
- b. Note the key updates made in the Budget 2017 the continued uncertainty this brings to the Council's Medium Term Financial Strategy – especially in relation to potential changes to local government funding.
- c. Note that the Council will be responding to the Government's formal Consultation on '100% Business Rates Retention Scheme'.
- d. Note the Government's timetable for implementing '100% Business Rates Retention Scheme'

#### Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

#### Previous Reports/Minutes:

Monthly Durable Budget Reports