Committee	EXECUTIVE	Item 10	Page 1
Report Originator	Strategic Management Team	*Fwd Plan Ref No: A10/001*	
Wards Affected	All	15 January 2014	
Title	BUDGET PROPOSALS FOR 2014/15 AND PREPARING FOR THE MEDIUM TERM		

Portfolio Holder: Cllr I Jelley

1 PURPOSE OF REPORT

The purpose of this report is to:

a) outline the draft budget figures for the Council's three main accounts for 2014/15 (to start the formal budget consultation process);

b) consider the main issues that are likely to impact on the Council's budgets in the medium term including changes to major funding regimes for local authorities;

c) provide an illustration of the Council's medium term financial projections.

2 CONTENTS

2.1 To help Members navigate this report, it contains four sections:

Section A 'The current years Budget Position (2013/14)' (pages 3 to 15) – Provides the detail to the current year's budget position with specific reference to the following:

Section B 'Next years draft Budget Position (2014/15)' (pages 16 to 26) – Provides the detail to the 2014/15 draft budget

Section C 'Changing Financial Landscape' (pages 27 to 31) – Provides details to the following technical aspects of the budget process:

Section D 'The Medium Term Prospects' (pages 32 to 37) – Provides an update on the Council's Medium Term Financial Strategy

These four sections are then followed by a **Summary and Recommendations.**

The report contains the following appendices

A – Draft Budget Booklet
B – Budget Consultation Timetable

Section A: The Current Years Budget Position (2013/14)

3 CONTEXT / BACKGROUND

3.1 Each and every month the Executive Committee receives a detailed report on the Council's budget position. This particular report brings together all the key messages and figures so that the Council can fulfil its statutory responsibilities to construct and formally consider (and ultimately approve) a number of budgets.

3.2 When the Council previously set its budget for 2013/14 in February 2013, the following were outlined:-

- *Council Tax remains below the national average (around £3 per week for the average household);*
- *The Council has maintained a balanced budget without cutting front line services or using one-off reserves;*
- *The Council has maintained it's overall support for the voluntary sector;*
- *The budget is of course, only a paper exercise and the challenge of delivering the £949,000 of savings during 2013/14 must not be underestimated. The Council's focus will remain on maintaining the delivery of high quality front-line services. However, with the level of changes necessary some transition turbulence is inevitable.*
- *A further £1,250,000 of savings is estimated to be needed to balance the budget for 2014/15. Work on the budget delivery framework will continue to ensure savings are identified.*
- Assumptions have been made for future levels of government grant (and other funding changes) and **a decrease of 13% has been applied for 2014/15** following the provisional settlement and **further annual decreases in overall funding of 7% for 2015/16 and beyond.**
- The current economic times are unprecedented. Therefore the delivery of the budget is dependent upon successfully tracking the other budget assumptions that have been made (eg, inflation and interest rates) and it must be recognised that any major changes in such variables can have a significant impact on the Council's budget figures and resultant levels of required savings.

- **The new system of government funding effectively transfers significant risks from central to local government.** Such risks include;

  - **Business Rate Volatility**

  Future **changes in business rates yield** will have a direct impact on a significant proportion of the grant received by the council in the future. The Council has most of the risk of any downward movement whilst can retain a small element of any increased yield. This is a new element of risk for the council and will need to be monitored very closely.

  Business rate appeals will also impact on the councils future funding – again **this is a new risk for local authorities** and will need to be monitored.

  - **Council Tax Benefits Volatility**

  It is anticipated that **future levels of council tax support funding will be reduced in line with the reductions in central government core grant**. It is also likely that the **council will have to bear the cost of increased caseload** over the medium term – given the current economic outlook this is a real and present risk.

- *The financial outlook post 2014/15 is difficult to predict with a new government grant regime being introduced. The Council will need to maintain its focus on big ticket items and continue with its successful lobbying strategy;*

3.3 In preparation for the previous budget processes and in light of the imminent reductions in central government grant funding, Kettering Borough Council adopted its own ‘unique budget delivery strategy’.

3.4 The recession in the national economy caused significant economic and fiscal pressures on businesses and local councils. Councils had to respond quickly to the challenges faced and some found that they hadn’t anticipated the changes and subsequently could not act quick enough to deal with them. In Kettering, our approach ensured that the Council was able to pro-actively deal with the challenges faced through;

- Having high level strategic financial capability (in addition to the council’s operational resources);

- Anticipating and influencing major ‘Big Ticket’ items;

- Having a well motivated and flexible workforce that is pro-actively delivering change.

3.5 These have allowed us to develop and deliver the strategies necessary to deal with changing financial circumstances including such things as

- establishing (and sticking to) budget guiding principles;
- developing a budget delivery solution that suited KBC;
- finding innovative methods of service delivery.

3.6 The foundations of the Medium Term Financial strategy are the *'guiding principles*,' *'modelling for recovery'* principles and '*budget containment strategy.*' These three sets of inter-dependent principles have served the Council well and remain the Council's approved policy position going into the budget process for 2014/15. 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;

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;*

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.*

3.7 Whilst these principles provide a robust framework to work within, the Council's success comes from an ability to deliver. The Budget Delivery Framework has provided the operational mechanism for delivering the savings required to balance the budget for the past four years. This will continue for maintaining a durable budget into the medium term.

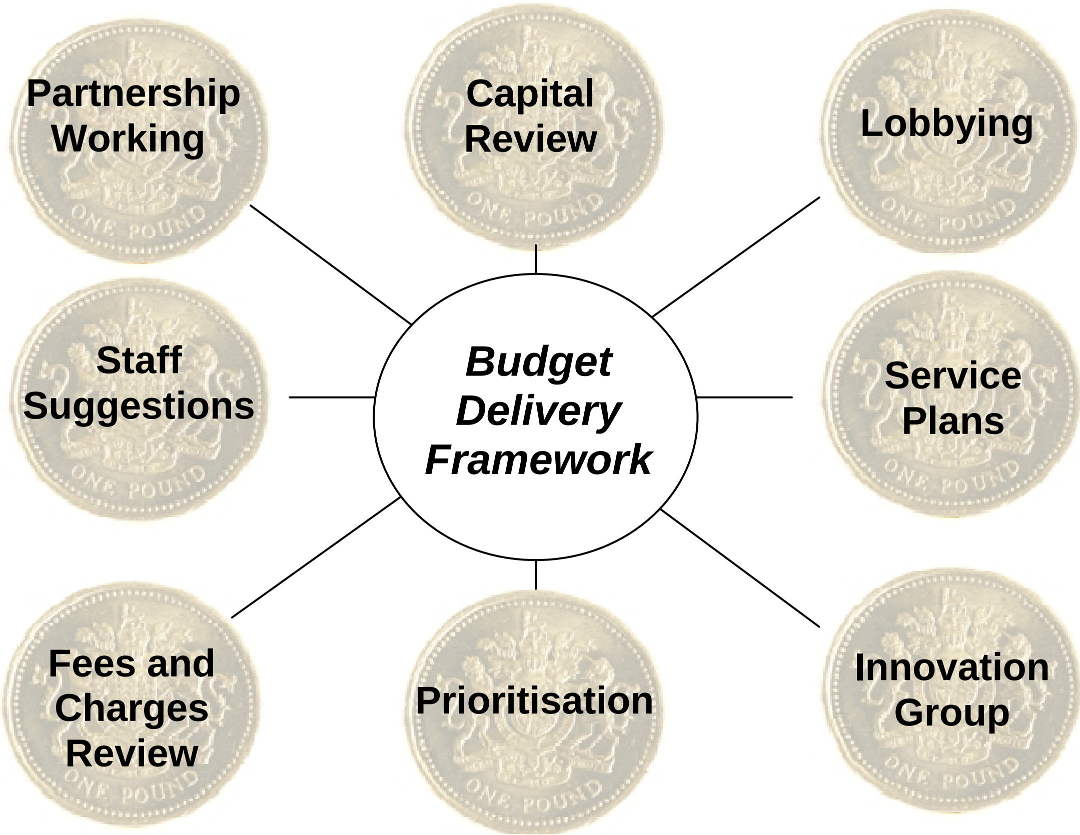
3.8 The Council operates three main accounts; each requires an annual budget to be considered and approved by members in accordance with statutory requirements. Table 1 outlines what each account is used for.

Table 1 - The Council's Three Accounts	
Account	**Description**
General Fund Revenue Account	All revenue expenditure and income (i.e. day to day running costs), financed from Council Tax, Government Grants and Fees and Charges (excluding those related to the provision of Council Housing.)
Capital	All capital expenditure and income (i.e. acquisition, replacement and enhancement of assets) financed from Government Grants, external contributions, capital receipts and borrowing.
Housing Revenue Account	All revenue expenditure and income on activities related to being a housing landlord. This is primarily financed from housing rents. From 2012/13 a new 'self financing' system for housing finance replaced the subsidy system. In effect this means that rather than the Council making a payment to the national housing pool each year the Council had to take on a proportion of the national housing debt. For this Council that amounted to £72.9m which is equivalent to around £21,000 per property.

3.9 With a turnover of around £70m the Council is one of the three largest businesses operating in the local economy. Using the tests in the Companies Act the Council would be categorised as a ‘large’ company. It is arguably the most diverse, offering over 100 services to over 100,000 people.

4 POLICY POSITION

4.1 Members are reminded that during 2010 the Council agreed a unique budget delivery framework from which to help deliver its ambitious financial strategy. The framework consisted of eight workstreams – this is illustrated below for ease of reference;



4.2 As previously reported to this committee, the strategy has to date proved extremely successful and helped provide additional flexibilities from which to address the national funding challenges that face all local authorities.

4.3 This overall strategy provides the cornerstone on which the Council's long-standing success in both setting a ‘balanced budget’ and delivering within budget are founded. The Council's established policy position has been key in providing a stable point of reference – this was recognised at the meeting of the Executive Committee on 13 March 2013 when the following resolution was approved in relation to the budget setting process for 2014/15:

“the same methodology be applied to the formulation of the 2014/15 budget as it applied to the 2013/14 budget, with particular reliance on:-

- the existing guiding principles
- the existing modelling for recovery principles
- the existing budget containment strategy

5 CURRENT YEAR'S BUDGET (2013/14) – LATEST ESTIMATE

5.1 The following section outlines the latest budget estimates for each of the three accounts:

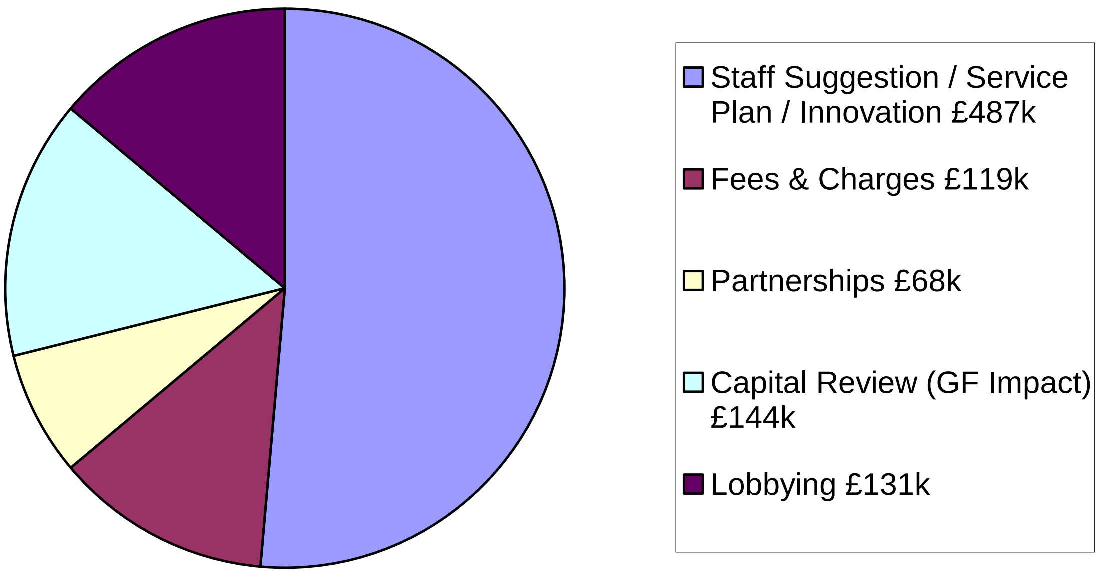
General Fund Revenue Account – Latest Estimate

5.2 The projected outturn for the General Fund is shown in Table 2: -

Table 2 - General Fund Revenue Account	Current Budget 2013/14	Projected Outturn 2013/14	Variance (Underspend) / Overspend
Net Expenditure	£ 11,067,000	£ 10,567,000	£ (500,000)

5.3 Members are reminded that in the current financial year (2013/14) the General Fund required budget savings of £949,000 in order to set a balanced budget. When the Council identifies budget savings these are shown against specific budget headings rather than using unidentified global savings targets, an approach taken by many local authorities. This approach and the resilience testing applied has been extremely successful in the past and means the Council is on track for delivering the savings this year. The savings identified from the framework are identified in the chart below:

Identified Framework Savings 2013/14



5.4 In addition to the delivery of £949,000 of required savings, we are currently projecting a favourable variance of £500,000. This is due to a combination of some early ‘locking-in’ of the savings that are required for 2014/15 (c£150,000) and some one-off items (c£350,000). The one off items whilst extremely welcome from a cash flow perspective do not make a contribution to the savings target for 2014/15.

5.5 A direct consequence of the early delivery of savings for 2014/15 and the one-off items is that the Council has some additional one-off resources to help provide additional flexibility. The Executive have previously approved that further budget savings (either of a one off nature or from the early delivery of framework savings) be used to increase earmarked reserves to help provide additional flexibility and protection against business risks / threats. This approach has previously been endorsed by the Council’s external auditors, KPMG. Accordingly, the smoothing reserves do help provide some protection against key business risks, including business rates income / welfare reform and providing continued opportunity for ‘invest to save’ type schemes.

5.6 The General Fund working balance is estimated to be £1.5m at 31st March 2014.

5.7 Through its proactive approach, the Council is delivering a balanced budget and is also able to have a more resilient reserve position. Many local authorities are using their reserves to help set a balanced budget, something which is unsustainable in the medium term. This is not the case at Kettering Borough Council.

5.8 The Council recognised in May 2010 the need to prepare early and to create maximum flexibility to manage the forthcoming national funding reductions. The Council established its plan for dealing not only with the anticipated budget cuts but also a continued period of extraordinary and unprecedented volatility. It should be remembered that in times of recession, demand for many Council services increases sharply (e.g. caseloads for Benefits and homelessness) whilst at the same time many income streams have reduced.

5.9 Whilst the principles and strategies continue to provide a robust framework to work within the success comes from an ability to deliver. The Council has an excellent track record of driving efficiency savings, successfully lobbying on national policies (this is covered in 7.13 – 7.24) and attracting external funding. These have been key in the Council achieving the financial standing it currently enjoys. However, it is important the Council continues with the same level of commitment and momentum as there is much uncertainty and significant challenges facing local government in the years ahead.

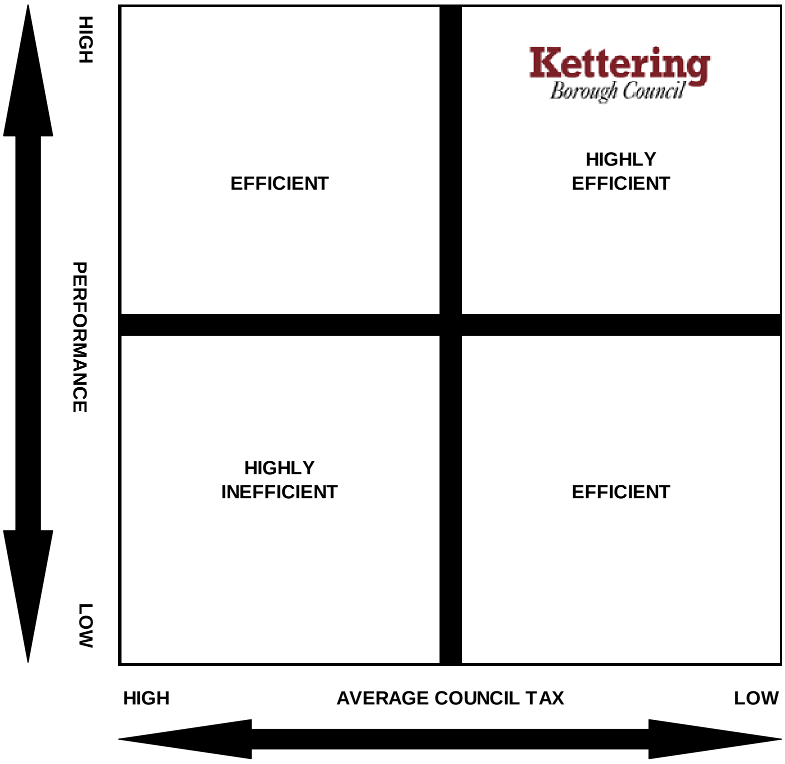
5.10 The Council’s impressive record in identifying and delivering efficiency savings in the past five years, including the year under consideration (2014/15), are around **£6.8m -** as illustrated in Table 3;

Table 3 – Efficiency Savings	**£000**
2010/11	1,260
2011/12	1,910
2012/13	1,330
2013/14	*950*
Total	**5,450**
2014/15	*1,330*
Total ***% Cash Savings (Net Budget)***	***6,780*** ***66%***

5.11 The scale and delivery of this level of **efficiency savings is particularly impressive given that there has been no detrimental impact on the delivery of front line services** and when considering the increased costs of utilities and inflation levels. Over the four year period (as detailed in Table 3) the efficiency savings will be equivalent to approximately **66% (85% in real terms)** of the Council's draft net budget (which stands at £10.3m for 2014/15).

5.12 Members are reminded that **before the efficiency programme** commenced a number of years ago, the Council was charging a level of **Council tax below the national average yet delivering a level of performance that was above the national average.** Despite having to deliver efficiency savings of £6.780m in the past five years, the Council's level of council tax charged remains below the national average and performance remains above average.

5.13 Members will recall the following illustration that summarises the Council's overall position as being a 'high performing / low cost' local authority.



5.14 The above position was achieved before the Council decided to have no increase in Council Tax in 2011/12 (and before any aspirations for subsequent Council Tax freezes). Members are reminded that despite having no increase in Council Tax in 2011/12 and despite having to deliver the level of efficiency savings (as outlined in Table 3), the Council's performance in key priority areas remains 'above average'. Given this context, to maintain the Council's position as a high performing whilst being low cost local authority has been a significant achievement and has not happened by accident.

5.15 <u>To achieve this position with no reduction in front line services is an extraordinary effort - one of which both officers and members should be extremely proud.</u>

5.16 Through the monthly durable budget report a number of case studies have been included that highlight the financial benefit being received from various operational changes or external funding the Council has secured. The following table brings together the case studies that have been reported as part of 2014/15 budget process and the amounts shown in brackets show the financial benefit:

Month	Description
April	Attracting external funding for childrens playing facilities in Desborough – in delivering the project the Council worked with the local community and used ideas provided by children from the local junior school (£49,000).
June	Kettering Borough Council and a 'Friends of the Park' group were successful in attracting external funding to create a play area and fitness zone (£48,000).
July	The Council successfully submitted a bid to HCA for £206,000, the first part of the bid was for £152,000 for the purchase and repair of eight empty homes and the second part of the bid was for £54,000 to lease and repair six homes. In addition these properties will also attract New Homes Bonus of around £84,000. (£290,000).
Sept	A multi wheeled sport facility for Kettering costing £148,000 was officially opened in July. This project was made possible through the Council successfully attracting £75,000 of external funding from WREN; The Council was able to supplement this Grant with £73,000 from developer contributions. (£148,000).
Oct	Unit 1 of the Market Place Buildings saw the opening of the national Mexican restaurant chain Chimichanga. This marks the full occupation of the Market Place Buildings. The units occupied by Chimichanga and Prezzo along with the 10 residential units provide the Council with a sustainable income source and improves the town centre offering.
Nov	The Council's vehicle fleet comprises refuse freighters, street sweeping machinery and vehicles, and a range of vans used for property maintenance, environmental health and other functions. Following a procurement process that brought all previous contracts together 'in to one' and also facilitated the move to more standard specification vehicles, a contract was awarded that will initially result in ongoing annual revenue savings in the region of £50,000 per annum (or £350,000 in 'cash' over the 7 year contract period). (£350,000).
Dec	First Renewable Developments (FRD) have started work on a game changing £45 million extension to the Burton Wold Wind Farm. In addition to the existing wind turbines there will be an additional nine high efficiency wind turbines, supplied by General Electric (GE). The wind farm will provide over £300,000 for community projects over its life, and has the potential to make a significant positive contribution to the East of Kettering development in terms of housing and employment (£300,000).

Capital Programme – Latest Estimate

5.17 The updated projected outturn for the Capital Programme is shown in Table 4;

Table 4 - Capital Programme	Current Budget 2013/14	Projected Outturn 2013/14	Variance (underspend) / overspend
	£'000	£'000	£'000
Expenditure			
HRA Schemes	4,346	3,334	(1,012)
General Fund Schemes	6,336	6,326	(10)
	10,682	9,660	(1,022)
Financing			
Government Grants	4,515	4,071	(444)
Borrowing	5,482	4,952	(530)
Revenue Contribution	420	456	36
Capital Receipts	265	181	(84)
	10,682	9,660	(1,022)

5.18 The detailed composition of the capital programme can be seen by reference to Appendix A – Section 2.

5.19 The main updates that have taken place are summarised as follows:

- The major capital scheme, Homes for the future has been realigned between 2013/14 and 2014/15 to better reflect the timing of the project.
- A number of smaller schemes originally planned for 2014/15 have been brought into the 2013/14 capital budget. This includes the Renewal of the Museum Roof and works to the Mausoleum.

5.20 Table 4 illustrates that based upon the latest estimates for 2013/14; borrowing of £4,952,000 will be required to finance the programme. This is in accordance with the Council's guiding principles and Members are reminded that although in the past the Council has not had to borrow from external sources for this funding, it has in effect borrowed the money 'from itself' from other cash holdings that the Council has. The borrowing that the Council undertakes to finance its capital programme is required to deliver the Council's three key objectives and results not only in improvements being made to the locality but also increases the asset valuations that the Council holds on its balance sheet that is published annually in the Statement of Accounts. In effect, the council doesn't hold any 'cash backed' reserves due to the use of internal borrowing over the past many years – this means that the council does not have reserves of excess cash waiting to be used.

Housing Revenue Account – Latest Estimate

5.21 The updated projected outturn for the Housing Revenue Account is shown in Table 5. The Housing Revenue Account is currently projected to come in on budget.

Table 5 - HRA	Approved Budget	Projected Outturn	Variance
	£	£	£
Gross Expenditure	15,207,750	15,198,350	(9,400)
Gross Income	(15,207,750)	(15,198,350)	9,400
Net Expenditure	0	0	0

5.22 The detailed composition of the Housing Revenue Account can be seen by reference to Appendix A – Section 3.

5.23 Members are reminded that in 2012/13 the housing subsidy system was replaced with a new 'self financing' system of housing finance that was introduced across the Country. The Executive Committee at its meeting of 15th February 2012 approved the strategy for financing the housing debt;

The amount to borrow	£72.9m
Who to borrow from	Public Works Loan Board (preferential rates)
A fixed or variable rate loan	Fixed rates
What type of loan(s)	Maturity loans
What period of loan(s)	A number of fixed term loans at different maturity dates (to provide the Council with the flexibility required)

5.24 It was previously reported to Members that by using 'maturity loans', the Council has retained the maximum flexibility that it can. In essence, maturity loans are serviced annually (throughout the duration of the loan) by paying interest to the Public Works Loan Board (PWLB). No principal repayment of the loan takes place throughout the duration of the loan. The Council will however each year make a provision for principal repayment and can then decide at the maturity of each loan whether it wishes to fully repay the outstanding principle or re-finance the loan.

5.25 The Council has a well balanced borrowing portfolio and was able to take advantage of both the preferential short and long term rates that were made available from the PWLB to finance the self financing transaction.

Section B: Next Years Budget Position (2014/15)

6 DRAFT BUDGET – 2014/15

6.1 The consideration of the draft budgets for 2014/15 is the statutory responsibility that Members will start to discharge when considering this report.

6.2 The detailed draft budget figures are contained in the budget booklet at Appendix A. The booklet contains:

- Section 1 - General Fund
- Section 2 - Capital Programme
- Section 3 - Housing Revenue Account

DRAFT GENERAL FUND BUDGET 2014/15

6.3 Following on from the successful delivery of the required framework savings for 2013/14, and the early delivery of some additional savings during the year – Table 6 summarises the estimated financial position for the period to the end of March 2015.

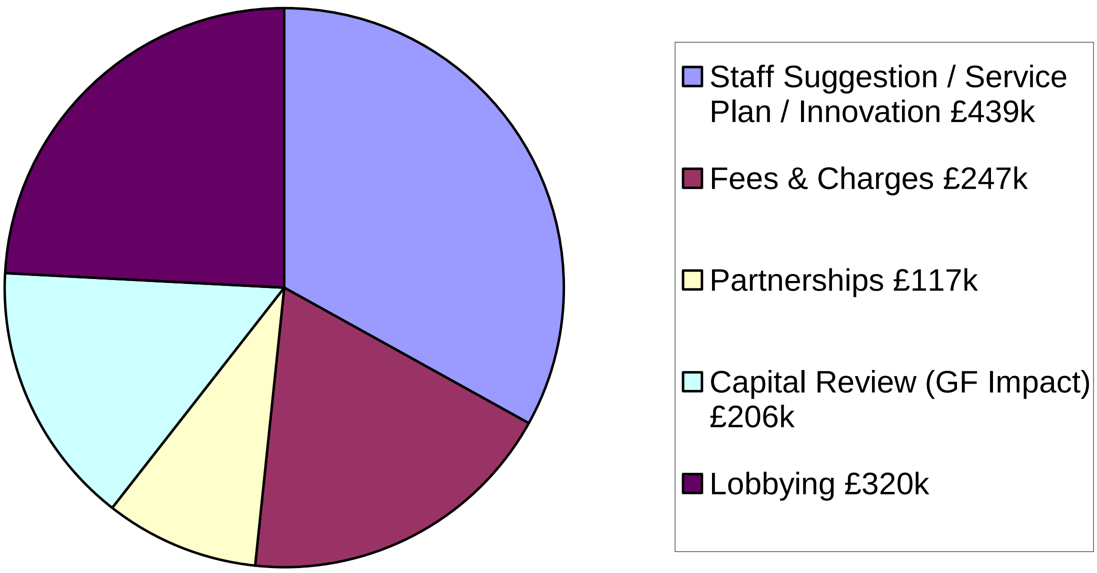
Table 6 - Estimated Position to 31/03/2015			
		2013/14	2014/15
		Forecast £000	Forecast £000
1	**Net Council Budget**	**12,174**	**11,920**
2	**Forecast Resources:**		
	Government Grant:		
	RSG	(3,034)	(2,367)
	Business Rates	(2,205)	(2,137)
	Total Government Grant	**(5,239)**	**(4,504)**
	Council Tax / Coll'n Fund	(50)	(50)
	Income From Council Tax	(5,778)	(5,879)
	Total Resources	**(11,067)**	**(10,433)**
3	**Budget Deficit / Savings Target**	**1,107**	**1,487**
4	**Council Tax Grant**	**(158)**	**(158)**
5	**Budget Frameworks**	**(949)**	**(1,329)**
6	**Budget (Surplus) / Deficit**	**0**	**0**

GENERAL FUND WORKING BALANCE			
		2013/14	2014/15
		£000	£000
7	**Estimated Opening Balance**	**(1,415)**	**(1,480)**
	Budget (Surplus) / Deficit	(65)	(65)
8	**Estimated Closing Balance**	**(1,480)**	**(1,545)**

6.4 The Council has a statutory duty to consider the medium term financial projections when setting its budget for 2014/15 – this is covered later in section C of this report.

6.5 From Table 6 it can be seen that the Council's budget delivery framework will need to deliver £1,329,000 of savings in 2014/15 to maintain a balanced budget. The assumptions will need to be kept under close review during 2014/15. The savings are identified in the chart below:

Identified Framework Savings 2014/15



6.6 The Council prior to the provisional grant settlement had been modelling a reduction in government grant of £740,000 (14.1%) for 2014/15. The Council's provisional grant settlement for 2014/15 is £4,504,000; this represents a cash reduction in grant of £735,000. The provisional figure is in line with previous indications. It is reassuring that the figure has not reduced further, although it does represent a 14.1% reduction on the previous year. Further details regarding the provisional grant settlement are provided in Section C.

6.7 Table 7 summarises how the £1,329,000 for 2014/15 is anticipated to be found and compares this to the savings of £949,000 identified for 2013/14. Despite the success of the delivery of savings for 2013/14, it must be stressed that the majority of the required savings for 2014/15 will still actually need to be delivered in the year – ie, successfully converting them from a paper based exercise to actual delivery. Work continues on resilience testing the ideas and assumptions, and the delivery of the savings is dependent upon the Council adhering to its suite of budget principles and golden rules (previously outlined in Section A).

Table 7 – Identified Framework Savings	2013/14 £000	2014/15 £000
Staff Suggestions / Service Plan / Innovation	(487)	(439)
Fees and Charges	(119)	(247)
Partnerships	(68)	(117)
Capital Review	(144)	(206)
Lobbying	(131)	(320)
Total Identified Framework Savings	**(949)**	**(1,329)**

6.8 The Council will need to continue to keep its key budget assumptions under review throughout 2014/15. These are unprecedented times and the assumptions used for inflation (especially on utility budgets) are again likely to require amendment through the year to respond to changes in national pricing structures.

6.9 Some of the major service risks and pressures the Council face in 2014/15 and the years thereafter include:

Service Pressures

6.10 **Council Tax Support** – The Council Tax Support Scheme which is defined by individual local authorities (albeit with much central prescription) introduced a whole new area of volatility in 2013/14 for local authorities. The Government have previously stated that they will not be funding the cost of the scheme in full and we will receive around 85% of the current cash grant the remaining 15% will be funded through changes to Council Tax Discounts and Exemptions and some specific scheme changes.

6.11 In 2013/14 a separately identifiable grant was received from CLG for Council Tax Support for 2013/14 this amounted to £759,000, this is included within both the RSG and Business Rates line at Table 6. From 2014/15 the Government have not separately identified this grant and this has been rolled into RSG and Business Rates therefore this is subject to the same levels of reductions as the core government grant, for 2014/15 (14.1%) the grant for Council Tax Support will have reduced from £759,000 to £652,000 a reduction of £107,000. At the same time there are pressures from an increase in Council Tax Support resulting in a reduction in funding but an increased demand.

6.12 Business Rate Appeals – the authority will need to carefully monitor the financial implications of the growing number of business rate appeals nationally. This is especially so given the recent announcement in the Autumn Statement of the intention to clear 95% of the national backlog of appeals by July 2015.

6.13 **Homelessness** – the Council has for a number of years successfully managed the level of homelessness during a long period of pressure through innovative measures to prevent the use of bed and breakfast expenditure. The service during 2013/14 experienced significant pressures this continues to be scrutinised carefully to ensure the continued high level of service is maintained at the lowest possible cost. This is a statutory General Fund service paid for by Council Tax.

6.14 **Utilities costs –** the assumptions used will need close monitoring during the year in case of further changes. Over the past year the price of utilities particularly gas and electricity has risen sharply. The budget for 2014/15 takes account of these increases however if the trend continues this could place considerable pressure on the Council's budgets. A 1% change in these costs is around £10,000.

<u>Financial Markets</u>

6.15 **Investment Income –** the Council earns interest on cash balances and changes in interest rates has an impact on the budget. The Council however has a comparatively low cash balance, which reduces the impact of interest rate changes.

6.16 **Borrowing Costs –** borrowing funds, to help finance the Council's Capital Programme, has a direct cost implication to the Council's revenue account. The exact amount depends on market conditions but currently every £1m borrowed costs around £50,000 per year in revenue. The borrowing costs (whether internally or externally funded) to support the proposed Capital Programme are factored into the budget model. It should be remembered that capital investment can be an effective way of delivering revenue generation. Members are reminded of the comments made in section 5.20.

<u>Town Centre</u>

6.17 Despite the difficulties that town centres are experiencing nationally as a result of the challenging economic conditions and shifting shopping habits – the latest independent figures for Kettering Town Centre show a relatively healthy position. Although Kettering is commonly referred to as one of the 'most typical towns' in England – in 2009 it's empty shops ratio was 3% better than the national average and the very latest figures indicate that the same ratio for Kettering Town Centre is now 7% better than the national average.

6.18 The successful letting of the second restaurant unit on the market place provides a welcome additional income stream for the Council's revenue budget (which supplements the income stream established by the letting of the first unit the previous year). Both are examples of the Council investing one-off capital sums to stimulate ongoing revenue income which helps support the Councils revenue budget – in line with the Council's budget guiding principles.

6.19 The 2014/15 draft Capital Programme provides a budget of £250,000 to progress the next phase of the Public Realm works to the town centre. This will facilitate the proper introduction of a controlled pedestrianized area through the installation of bollards at key entry points. In effect, this is forward funding an element of the town centre improvement works, the larger scheme ultimately being financed from the s106 contributions from the forthcoming East Kettering development. Moving to a properly controlled pedestrianized town centre constitutes a significant step forward and builds upon the budget already utilised in 2013/14.

6.20 The ‘Big Screen’ became fully operational during 2013 – again this was a scheme funded by a one-off capital budget to help generate ongoing benefits. The revenue budget for 2014/15 has been supplemented so that the screen can be rolled out for more events during 2014.

6.21 The Council has a medium term strategy for its car parking charges – the current strategy is in its second year (out of four) and is the second such medium term strategy the Council has approved. The strategy was developed around a number of guiding principles for ‘fees and charges’ that were approved by the Executive Committee a number of years ago (following consideration by a Scrutiny Task and Finish Group). The principles remain valid and are reproduced below (for information);

Fair Shares

a) The subsidy from taxpayer to service user should be a conscious choice, not an accident of history

b) Concessions for services should follow a logical pattern

c) Fees and charges should not be used to provide subsidies to commercial operators from the council taxpayer

d) A tough stance should be taken on fee dodging

Rationality and Prioritisation

a) Fees and charges policies should reflect key commitments and corporate priorities

b) Price should be based on ‘added’ and ‘perceived value’ as well as cost

c) There should be some rational scale in the charge for different levels of the same service

d) There should be some consistency between charges for similar services

Stability and Predictability

a) The impact of pricing policies should be managed through phasing over time when the impact is high

b) Policies should fit with the Council's medium term financial strategy (i.e. be affordable to service users and taxpayers)

c) Fees and charges should generate income to help develop capacity, deliver efficiency and sustain continuous improvement

6.22 The Executive Committee decided to effectively 'flex' the medium term car park charging strategy by running two separate pilot schemes during the year. The two pilots and an overview of the impact is provided in the following table;

Pilot Scheme	**Overview**
£1.50 charge for 2 hours (replacing the normal separate charge for 1 hour and 2 hours) at London Road Car Park	This has been running for over 12 months. The number of tickets issued at the car park has reduced by 10,000 and income has decreased by £5,000. Although data is not available to substantiate this – it is thought that there was some displacement activity in other car parks.
Free Christmas parking (on 3 Saturdays, and after 3pm on 3 Thursdays)	It is estimated that the income foregone was around £15,000 for this initiative. Unfortunately, no conclusions can be drawn about the effectiveness of the pilot because it took place on the three business Saturdays of the year and also because the ticket machines did not issue tickets – unfortunately, the short notice at which the scheme was introduced resulted in data not being able to be collected.

6.23 Should members want to consider any additional pilots / promotions /incentives to help stimulate the town centre – to adhere to the budget guiding principles it may be worth considering establishing a one-off budget from which a programme of new pilot schemes could operate so that their effectiveness could be assessed.

6.24 At the November Executive Committee meeting, it was agreed that year 3 of the medium term strategy for car park charges should not be implemented in January 2014. Accordingly, the draft 2014/15 revenue budget is currently based upon a continuation of the current years charges (being the current policy position).

DRAFT CAPITAL PROGRAMME (2014/15 – 2018/19)

6.25 As part of the budget process members are required to consider the Council's capital programme, and available funding, so that a programme can be agreed for 2014/15 together with indicative funding for the following four years.

6.26 Members are required to approve the capital programme for 2014/15 and approve a five-year rolling capital programme with commitment given for schemes in years 2 to 5 to assist with scheduling and achieving the programme.

6.27 The draft capital programme for 2014/15 – 2018/19 is detailed in Appendix A – Section 2. The high level summary is reproduced in Table 8.

Table 8 - Capital Programme	**Indicative Estimate 2014/15**	**Indicative Estimate 2015/16**	**Indicative Estimate 2016/17**	**Indicative Estimate 2017/18**	**Indicative Estimate 2018/19**
	£'000	£'000	£'000	£'000	£'000
Expenditure					
HRA Schemes	3,624	2,928	2,928	2,928	2,928
General Fund Schemes	1,890	947	947	882	882
	5,514	3,875	3,875	3,810	3,810
Financing					
Government Grants	3,424	3,208	3,208	3,143	3,143
Borrowing	1,859	527	527	527	527
Revenue Contribution	40	40	40	40	40
Capital Receipts	191	100	100	100	100
	5,514	3,875	3,875	3,810	3,810

6.28 From reference to Table 8 it can be seen that:

- The programme for 2014/15 is £5.514m

- The programme from 2015/16 – 2018/19 is approximately £3.8m per annum.

- The main change between the 2014/15 and 2015/16 programme relates to the Homes for the Future capital scheme which is being delivered over the two year period 2013/14 to 2014/15 with around £500,000 being invested each year.

6.29 As in previous years the draft capital programme contains budgetary provision to fund private sector housing schemes. The government have announced that authorities will as a minimum receive the same level of funding in 2014/15 as they received in 2013/14 for Disabled Facility Grants (DFG's). From 2015/16 the funding of DFG's will form part of the Government's Better Care Fund which was previously known as the Integrated Transformation Fund (ITF).

6.30 **Capital Receipts** – Under the previous housing finance rules, when a house was sold under the right to buy legislation – the Council could retain 25% of the proceeds with 75% being paid to the Government. Prior to the introduction of the new housing finance system it was suggested that local authorities should retain 100% of the receipts – this made sense given that they have 100% of the debt. By the time the new system came into being, the position had changed significantly and had reverted back to local authorities retaining 25% of the proceeds with 75% being paid to Government. The Government on 2 April 2012 announced that the maximum Right to Buy discount in Kettering would increase from £24,000 to £75,000 per property (a three-fold increase!). Ministers also confirmed their intention that the proceeds from any additional sales (sales over and above that assumed in the self financing settlement) would be used to fund replacement homes on a one-for-one basis across the country as a whole. The capital programme for 2013/14 to 2017/18 assumes funding from Right to Buy receipts of £100,000 per annum.

6.31 **Major Repairs Allowance (MRA) –** MRA can only be used for Housing Revenue Account (HRA) capital projects. The estimate for 2014/15 is £3.068m.

6.32 **Borrowing –** the estimate for borrowing for 2014/15 is £1.859m. The revenue impact of borrowing (be it external or internal) in 2013/14 is included in the revenue budgets. Members are reminded that the majority of this borrowing relates to the Crematorium – Mercury Abatement scheme, which is estimated to generate significant revenue savings over and above the borrowing costs incurred. Members are reminded of the earlier comments made in paragraph 5.20.

DRAFT HOUSING REVENUE ACCOUNT (HRA) 2014/15

6.33 A summary of the draft HRA budget for 2014/15 is included at Appendix A - Section 3 of the budget booklet. The high level summary is reproduced in Table 9:

Table 9 - Housing Revenue Account	**Draft Budget 2014/15**
	£
Gross Expenditure	15,532,800
Gross Income	(15,532,800)
Net Expenditure	**0**

6.34 The Housing Revenue Account (HRA) includes all the income and expenditure items associated with maintaining a landlord account for the Council's housing stock. The Council has a statutory obligation to produce a balanced "ring-fenced" HRA. 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 HRA's primary strategic aim over the medium to long term. The level of the minimum balance is risk assessed and takes account of the limited nature of the service, the fact that budgets are less volatile than in the General Fund and transactions tend to be high in number but low in value.

6.35 The Chancellor of the Exchequer presented the Local Government Spending Review 2015/16 to Parliament on 26th June 2013 (the key updates from this announcement were reported to the July Executive). The Government announced that from 2015/16 social rents will rise by CPI plus 1% each year for ten years. Currently social rents are rising by RPI plus 0.5% plus £2. This will result in lower increases in social rents. Whilst authorities can charge more or less than the guidelines issued by central government they will nonetheless be constrained by the limit rent – which is the maximum that can be charged based on the formula prescribed by central government.

6.36 The Council was aiming to achieve rent convergence by 2015/16 by applying the government guideline rent increases. If the Council is to continue on the basis of rent convergence in 2014/15 a rent increase of 5.1% for 2014/15 is required (this is the income assumed in the income figure in Appendix A Section 3).

6.37 The draft budget will be discussed by the Tenants' Forum at its meeting of 6th February 2014 along with the proposal for rent setting. This will be reported back to the Executive meeting on 12th February 2014 for approval.

6.38 Sections 5.23 – 5.25 referred to the new 'self financing' system of housing finance and the borrowing strategy undertaken to finance this transaction. This is the third year of the new housing finance system and enables the Council to benefit from the greater certainty the new system provides from a budgeting perspective.

6.39 Prior to the new system the Council would have received an annual subsidy determination usually in December notifying the Council of the amount of subsidy payable in the following financial year. The Council was paying in the region of 34% of the rent it collects from its tenants over to the Government (approximately £4.5m for 2011/12).

6.40 The subsidy payments have now been replaced with principal repayments and interest payments which are a direct result of the borrowing of £72.9m undertaken to finance the 'self financing' payment.

6.41 The other key elements of the budget are;

a) Rents – income expected from tenants.
b) Repairs & Maintenance – The costs for response and planned maintenance.
c) General Management – The costs of managing the Council's housing stock.
d) Special Services – Income / expenditure relating to flats & sheltered housing.

6.42 Appendix A – Section 3 shows the make-up of the draft budget for 2014/15.

6.43 The Council has worked hard and successfully to maintain rent arrears levels. It was reported to the Monitoring & Audit Committee towards the end of 2013 that following national policy changes on welfare reform and the economic climate rent arrears continue to come under pressure and continues to be closely monitored. The 2014/15 budget allows for an increased Bad Debt Provision of £25,000.

Section C – Changing Financial Landscape

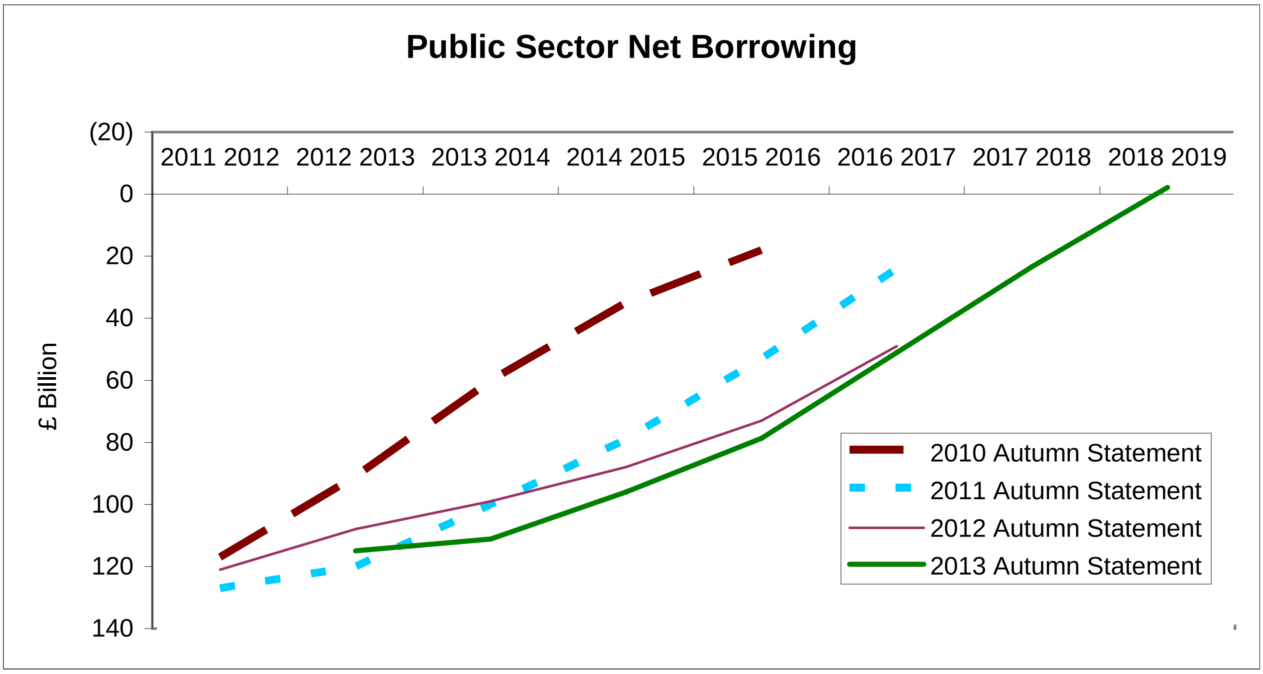
7.1 This section looks at four issues:

- National Economic Indicators
- Local Government Grant Settlement
- Business Rates Retention
- New Homes Bonus

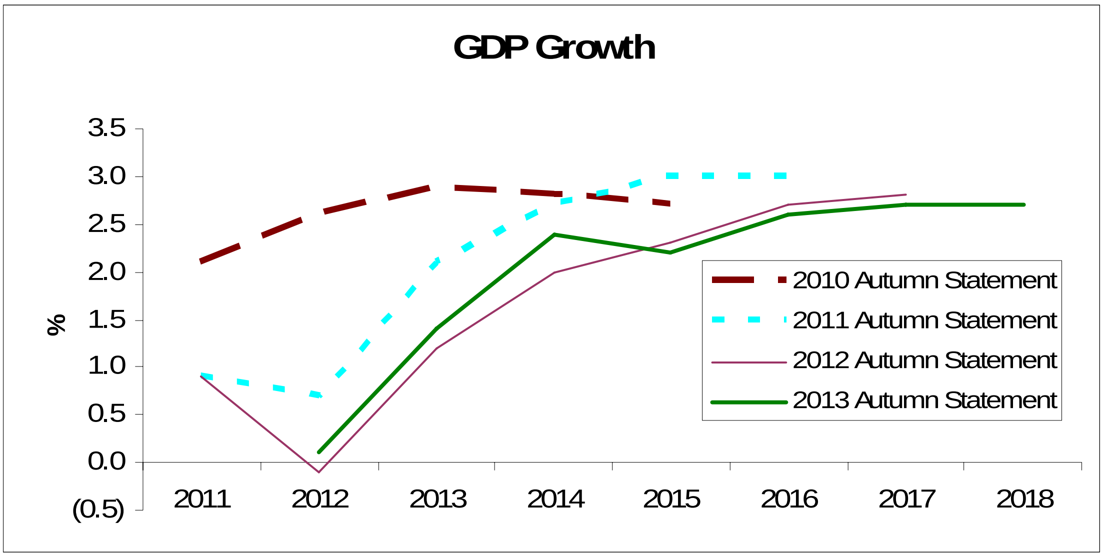
National Economic Indicators

7.2 There is much uncertainty facing local government. This section looks at two key national economic indicators (Public Sector Net Borrowing and Gross Domestic Product). In addition, this section also focuses on the provisional grant settlement and provides an update on the latest position on the Business Rates Retention and New Homes Bonus.

7.3 The following chart summarises the changes in Public Sector Net Borrowing between the 2010 and 2013 Autumn Statement. This illustrates that it is expected that public sector net borrowing will continue to fall at a similar rate to that expected in autumn 2012.



7.4 The outlook for GDP growth is also summarised in the following graph:



7.5 Whilst Public Sector Borrowing continues to be higher than previously anticipated, the economy is showing small signs of recovery as GDP is higher than anticipated a year ago. This is still unlikely to result in favourable conditions for local government and the public sector in the coming years until the Public Sector Net Borrowing position has been significantly reduced.

Local Government Grant Settlement

7.6 It was reported to the December Executive that the Council anticipated having a balanced budget for 2014/15 based on the grant assumptions that were being used. This was however prior to the announcement of the provisional settlement, which was announced on 18 December 2013. The announcement in terms of timeframe was similar to last year – this is however much later than previous years.

7.7 The Council's provisional grant settlement for 2014/15 is £4,504,000; this represents a cash reduction in grant of £735,000 (14.1%) from 2013/14. This is in line with the indicative figures that were announced by the Government in the summer and those that the Council had been modelling and enables the Council to have a balanced draft budget for 2014/15.

7.8 The Council had also been modelling for a grant reduction of 14.3% for 2015/16 again this was based on the indicative figures announced by the Government in the summer - the provisional settlement for 2015/16 indicates that the reduction is likely to be around 15.8%, this is reflected in Table 12.

7.9 Table 10 illustrates the levels of grant reductions that have taken place. This shows a cash reduction in government funding of around 50% (£3.435m) over the five year period (2011/12 – 2015/16) which is closer to a real terms reduction of 65%.

TABLE 10 – GRANT REDUCTIONS			
Year	**Reduction in Central Government Core Grant**		**Status**
	%	**£**	
2011/12	-15.2%	-£958,000	Actual
2012/13	-12.8%	-£700,000	Actual
2013/14	-6.3%	-£303,000	Actual
2014/15	-14.1%	-£735,000	Provisional
2015/16	-15.8%	-£739,000	Indicative

7.10 It is expected that the trajectory of future grant reductions for the next spending review period (which covers 2015/16 to 2018/19) will be similar to those experienced in the previous four year period. The following assumptions have been made about future levels of Government Grant. The Council will need to keep the assumptions in the Medium Term Financial Strategy under review.

2015/16	(15.8%)
2016/17	(10.0%)
2017/18	(10.0%)
2018/19	(10.0%)

7.11 In previous years budget reports, we have reported that through the operation of ‘floors and ceilings’ mechanism, the Council has effectively had grant money withheld for many years – adding up to around £2.75m. The detailed information that has been released by CLG no longer facilitates such a calculation to be undertaken by local authorities – it is unlikely that the figure has improved!

7.12 The Government, in the summer announced that it will provide further support to freeze Council Tax in 2014/15 and 2015/16. This will be the equivalent of 1 per cent Council Tax increase for councils which freeze their tax on the same lines as in 2013/14 – for Kettering Borough Council this would equate to around £65,000. This is explained further in Section D of the report and was reported to the July Executive meeting.

<u>Business Rates Retention</u>

7.13 The way that the Government provides funding to local authorities changed significantly from April 2013. Kettering played a leading role on the national stage in relation to Business Rates Reform and the persistent and effective lobbying at the highest levels by senior officers has significantly influenced the content of the current scheme.

7.14 Members are reminded that the success this Council has achieved by lobbying on two key areas namely on moving the baseline position for which growth will be measured from a five year average to a two year average and limiting the levy rate to 50%. This means that Councils will be able to retain growth of 20% which is a significant increase from the original proposals. Therefore the Council has a lower base for which growth will be measured and a lower levy rate being applied to growth resulting in the Council retaining more of the benefits from growth.

7.15 To put this into context the move to a two year average results in the Council's Business Rates Baseline being around £2m lower compared to a 5 year average combined with a levy cap of 50% results in the Council receiving around £400,000 each year that it would not have received without these changes.

7.16 The Council also continues to be the lead authority for the Northamptonshire Business Rates pool and this is likely to result in a six figure benefit to the authority.

7.17 The 2013 Autumn Statement included a £1.1 billion package (nationally) to reduce business rates for businesses and that local authorities will be fully compensated for the loss in revenue resulting from these changes. This is an area that the Council will need to track carefully to ensure it is fully reimbursed.

New Homes Bonus

7.18 The report to the December Executive meeting included a reminder of the proposed changes to the New Homes Bonus scheme together with work being undertaken by colleagues regarding the proposed changes.

7.19 Members will recall that it was announced in July a consultation was being undertaken which might result in £400m (of the £1,140m set aside nationally) being 'top sliced' from the national pot for New Homes Bonus – the intention being to pay the money directly to LEPS rather than local authorities.

7.20 The Government issued a consultation document in July seeking views on 'how' (rather than 'if') the 'pooling' or 'top slice' of funding should operate in practice. The consultation was based around the following two options:

Option 1 – Flat Rate Mechanism

Option 2 – Upper tier authorities contribute 100% of their New Homes Bonus and lower tier authorities contribute the reminder

7.21 This Council has worked closely with CLG officials and has consistently and persistently said that the funding should come from anywhere other than New Homes Bonus. This has been recognised and the Government announced in the Autumn Statement that it has decided not to 'top slice' the New Homes Bonus for those authorities outside of London. This returns £330m to local government.

7.22 Council representatives will continue working with CLG officials in identifying where the £330m should be funded from in the future. The Government will formally respond to the Technical Consultation on the New Homes Bonus early in the new year and the Government will also be consulting on mechanisms whereby New Homes Bonus payments could be withheld where planning approvals are made on appeals.

7.23 At its peak, it is currently estimated that KBC will earn around £2.1m from New Homes Bonus in 2016/17 (the peak year). As the top-slice to LEPs is no longer happening this returns around **£600,000** to KBC each year (this amounts to **£3.6m** in cash over the full six years the award is received).

7.24 The **successful lobbying work that this Council has undertaken** at the highest national level on both the Business Rates Retention Scheme and the New Homes Bonus scheme **will benefit the Council by around £1m each year.**

Section D – The Medium Term Prospects

8.1 This section brings together the Council's financial model for the General Fund for the period up until 2018/19.

8.2 The Budget Position for the 2014/15 year – ie, the second year of the Zone of predictability' was dealt with in Section B. The period from April 2015 to March 2019 is the subject of this section of the report.

8.3 The figures in the model are shown prior to the consideration of any increase in levels of Council Tax. Council Tax levels can only be determined annually by the Council once it has received and considered the report of its officers.

8.4 The Council's Medium Term Financial Forecast is summarised in Table 12. It is however predicated on a number of assumptions (as mentioned earlier in the report). It is also subject to high levels of volatility due to the number and significance of changes in the financial landscape for local government – these have been briefly outlined in paragraph 7.13 – 7.24.

8.5 From Table 12 it can be seen that the Council's budget delivery framework has identified savings of £1,329,000 in 2014/15 enabling a draft balanced budget to be delivered. Total savings of £1,329,000 are higher than the figure of £1,293,000 previously reported to members in the 'durable budget reports' and are a result of a full and vigorous review of the Council's budget figures and assumptions as part of the annual budget process – the assumptions will need to be kept under close review during 2014/15.

8.6 The Council's budget process includes a full review of the Medium Term Financial Strategy and has resulted in a number of assumptions being remodelled, whilst the quantum of savings needed over the four year period 2015/16 – 2018/19 remains around £4.8m the timing of the savings is different with the savings target being greater in 2015/16 and 2016/17 and less in 2017/18 and 2018/19 to that being previously modelled. This is illustrated in Table 11:

Table 11 – Medium Term Financial Savings	**December Executive** **£000**	**Current MTFS** **£000**	**Difference** **£'000**
2015/16	(1,261)	(1,464)	(203)
2016/17	(1,186)	(1,293)	(107)
2017/18	(1,201)	(1,054)	147
2018/19	(1,164)	(1,018)	146
Total Savings – to be secured	**(4,812)**	**(4,829)**	**(17)**

8.7 The Council's latest Medium Term Financial Forecast is shown in Table 12. The forecast comprises the following 'Zones'

- **Zone of Predictability** (2013/14 and 2014/15) – The provisional level of government funding for 2014/15 was announced in summer 2013 and further announcements were made in December 2013 as part of the provisional grant settlement, however there continues to be two significant areas of volatility being the Business Rates Retention Scheme and Council Tax Support which we will continue to monitor closely.

- **Zone of Unpredictability A** (2015/16) – The headline reductions in Departmental control totals were announced by the Chancellor on 26 June 2013 and indicative figures for 2015/16 were announced in December 2013 along with the 2014/15 provisional grant settlement.

- **Zone of Unpredictability B** (2016/17 – 2018/19) – Spending reviews over the next few years will provide the level of funding available for this period.

	TABLE 12 - MEDIUM TERM FINANCIAL FORECAST						
		Zone of "Predictability"		**Zone of "Unpredictability" A**	**Zone of "Unpredictability" B**		
		2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
		Forecast £000	**Forecast £000**	**Forecast £000**	**Forecast £000**	**Forecast £000**	**Forecast £000**
1	**Net Council Budget**	**12,174**	**11,920**	**11,321**	**10,787**	**10,224**	**9,900**
2	**Forecast Resources:**						
	Government Grant:						
2a	RSG	(3,034)	(2,367)	(1,660)	(1,200)	(777)	(387)
2b	Business Rates	(2,205)	(2,137)	(2,263)	(2,331)	(2,401)	(2,473)
	Total Government Grant	**(5,239)**	**(4,504)**	**(3,923)**	**(3,531)**	**(3,178)**	**(2,860)**
	Council Tax / Coll'n Fund	(50)	(50)	(25)	(25)	(25)	(25)
	Income From Council Tax	(5,778)	(5,879)	(5,909)	(5,938)	(5,967)	(5,997)
	Total Resources	**(11,067)**	**(10,433)**	**(9,857)**	**(9,494)**	**(9,170)**	**(8,882)**
3	**Budget (Surplus) / Deficit**	**1,107**	**1,487**	**1,464**	**1,293**	**1,054**	**1,018**
4a	**Council Tax Grant**	**(158)**	**(158)**	**0**	**0**	**0**	**0**
5	**Budget Frameworks**	**(949)**	**(1,329)**	**0**	**0**	**0**	**0**
6	**Savings - To be secured**	**0**	**0**	**(1,464)**	**(1,293)**	**(1,054)**	**(1,018)**
7	**Budget (Surplus) / Deficit**	**0**	**0**	**0**	**0**	**0**	**0**

	GENERAL FUND WORKING BALANCE						
		2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
8	**Estimated Opening Balance**	**(1,415)**	**(1,480)**	**(1,545)**	**(1,545)**	**(1,545)**	**(1,545)**
4b	Council Tax Grant 13/14	(65)	(65)	0	0	0	0
9	**Estimated Closing Balance**	**(1,480)**	**(1,545)**	**(1,545)**	**(1,545)**	**(1,545)**	**(1,545)**

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 following assumptions have been made about future levels of government grant:

2014/15	(14.1%)
2015/16	(15.8%)
2016/17	(10.0%)
2017/18	(10.0%)
2018/19	(10.0%)

3 **Budget (Surplus) / Deficit** – This illustrates the gap between the budget and the total resources available before identifying budget framework savings.

4a **Council Tax Grant** – This is a grant the Council receives from central government for four years in return for freezing Council Tax in 2011/12. This is equivalent to the cash that would have been received if a 2.5% increase had been levied.

4b **Council Tax Grant 2013/14** – This is a grant the Council receives from central government for two years in return for freezing Council Tax in 2013/14. This is equivalent to the cash that would have been received if a 1% increase had been levied. A Council Tax Freeze has ongoing implications as an increase in Council Tax generates income year on year.

5 **Budget Frameworks** – This identifies the total savings required.

6 **Savings to be secured** – This identifies the total resources required to balance the budget in future years after 2013/14.

8.8 Based upon the figures in the model it can be seen that the following levels of savings maybe required over the new few years (prior to the consideration of any increase in council tax);

2015/16	**£1,464,000**
2016/17	**£1,293,000**
2017/18	**£1,054,000**
2018/19	**£1,018,000**

8.9 As previously outlined in the report, the figures are predicated on a number of budget assumptions that will require careful monitoring as we move forward. They are also dependent upon the Council sticking to the budget guiding principles and associated rules that were previously outlined in Section A. In doing so, it is recognised that it will become increasingly difficult for the Council to do everything it wishes when trying to resolve issues and problems if it is to live within a financial strategy that continues to pursue the Council's three core objectives of:

- A better offer for our town centres
- A better education and training offer
- A better employment offer – high grade, higher density jobs

Whilst at the same time deal with the challenging (and changing) financial landscape. The challenge is amplified even further by reference to the Executive Committee's stated desire to follow a 'triple zero' approach

- Zero increase in Council Tax
- Zero cuts to front line services
- Zero cuts to the voluntary sector funding envelope.

8.10 Members should be aware that the indicative savings levels for the period 2015/16 onwards are subject to a number of high level assumptions. One of these is about the potential level of government grant. For the purpose of modelling we have assumed an overall annual cash reduction of 15.8% for 2015/16 as announced in the provisional settlement. For the period 2016/17 up to and including 2018/19 we have assumed an overall annual cash reduction of 10.0%. It is thought likely that overall the figures we are modelling on, may be in the right area, however, the split between years may be different.

8.11 Line 6 is the sum that is required to achieve a balanced budget. Every 1% increase in council tax generates around £58,000 towards that sum (prior to Council Tax Support this was around £65,000). Formal decisions on each year's council tax increases can only be taken by Council at the February budget setting meeting after the consideration of a report from its officers.

8.12 The Government will provide a grant for two years equivalent to a 1.00% increase in Council Tax (this is before the changes to the Tax Base resulting from Council Tax Support). This is approximately £65,000. If members are minded to levy a 0% Council Tax increase, it would be appropriate (given its one-off nature) to treat any one-off grant as a windfall grant outside of the revenue budget.

8.13 As part of the Local Government Spending Review 2015/16 that was announced on 26th June 2013 (and reported to the July Executive) the Government announced that it will set referendum limits of 2% in both 2014/15 and 2015/16. Following the provisional grant settlement in December the Government has stated that the council tax referendum threshold principles will be announced separately in 2014 but no further indication when this will be announced has been given. The government has indicated that it is open to representations on how these will operate and the government is particularly open to suggestions that some lower threshold be applied to some categories of authorities.

8.14 The setting of Council Tax can have significant implications on the sustainability of the Council's budget in the medium term. Members are reminded of their statutory responsibility to consider the medium term financial position when setting Council Tax for 2014/15.

8.15 When considering the budget and council tax levels for 2014/15, Members are reminded of the current global levels of inflation and inflation targets;

Current Inflation Rate = 2.60% (CPI Nov 2013)
Government Target Rate (in future years) = 2.00%

8.16 If the current rate of inflation is used as a reference point, in effect local residents have experienced a real terms reduction in their local council tax for Kettering Borough Council during the year as a result of the Council decision to have a 0% increase from 2011/12. If the Council were to levy a similar level of increase into the medium term, further real terms reductions would be experienced by council tax payers at the same time as the Council having to deal with its own inflationary pressures (eg, utility bills) and deliver significant levels of ongoing efficiency savings. Table 13 summarises the real terms impact this has when compared to Council Tax freezes

Table 13	**Actual / Estimated Inflation Rate**	**Council Tax Increase**	**Cumulative Real Terms Reduction**
2011/12	4.80%	0.00%	4.80%
2012/13	2.70%	0.00%	7.50%
2013/14	3.00%	0.00%	10.50%
2014/15	3.00%	0.00%	13.50%

8.17 The Council tax level for 2014/15 will be considered by the Executive in February but can only be set by full Council at its meeting on 26th February, once the budget consultation has been completed and the officers' report has been fully and properly considered. When discharging their statutory duties, Members will need to give due regard to the issues facing the authority in the medium term, especially in relation to the changing financial landscape in relation to those issues outlined in paragraph 6.10 – 6.24.

9 SUMMARY & CONCLUSIONS

2013/14

9.1 The Council has continued to use its own specific ‘budget delivery framework’ for the consideration and subsequent delivery of the £949,000 of savings required for the General Fund for 2013/14.

9.2 Once the budget was approved in February 2013, the challenge was to turn the ‘paper based savings exercise’ into reality so that the £949.000 of savings were actually delivered.

9.3 From the information contained in the budget report (and previously reported to the Executive Committee through a series of Durable Budget Reports) it can be seen that the original savings target of £949,000 is being delivered successfully.

9.4 In addition to the original target, the Council is currently projecting a further £500,000 under-spend during 2013/14, these are a combination of some early delivery of the on-going savings required to balance the budget in 2014/15 (c£150,000) and a number of one-off items (c£350,000). As previously approved by the Executive, this underspend will be put into earmarked reserves to help the Council protect itself from the many service and budget pressures that exist.

2014/15

9.5 **The changes to the national landscape continues to bring greater uncertainty and volatility to future projections**.

9.6 The Council needs to continue its **excellent track record of delivering budget savings** to balance the budget for 2014/15.

9.7 Prior to the consideration of any council tax increase, it is estimated that **£1,329,000 of savings will be required.** We will start 2014/15 in a similar position to 2013/14 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 2014/15. The remaining savings have also been identified and the Council is confident that these will be delivered during 2014/15.

9.8 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 for 2014/15 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.

9.9 **A capital programme of around £5.5m** is not inconsiderable for a District Council of Kettering's size and no doubt a welcome boost to the local economy.

9.10 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

2015/16 and Beyond

9.11 Assumptions have been made for future levels of government grant (and other funding changes) and **a decrease of 15.8% has been applied for 2015/16** following the provisional settlement and **further annual decreases in overall funding of 10% for 2016/17 and beyond.** This will need to be reviewed when more information becomes available.

9.12 The current economic times are unprecedented. Therefore the delivery of the budget is dependent upon successfully tracking the other budget assumptions that have been made (eg, inflation and interest rates) and it must be recognised that any major changes in such variables can have a significant impact on the Council's budget figures and resultant levels of required savings.

9.13 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.

9.14 Based upon the assumptions applied, the future years' budgets would require ongoing year on year savings of:

2015/16	**£1,464,000**
2016/17	**£1,293,000**
2017/18	**£1,054,000**
2018/19	**£1,018,000**

9.15 **The system for government funding which was introduced in April 2013 effectively transfers significant risks from central to local government.** Such risks include;

- **Business Rate Volatility**

  Future changes in business rates yield will have a direct impact on a significant proportion of the grant received by the council in the future. The Council has most of the risk of any downward movement whilst it can retain a small element of any increased yield. This element of risk continues to be monitored very closely.

  Business rate appeals will also impact on the councils future funding. **The Government have announced that there will be a consultation on reforms to business rate appeals with a commitment to clear 95% of the September 2013 backlog of appeals before July 2015. This is an area that will need to be closely monitored.**

- Council Tax Benefits Volatility

  As widely expected and as reported to the Executive as part of the 2013/14 budget process **future levels of council tax support funding will be reduced in line with the reductions in central government core grant.** It is also likely that **the council will have to bear the cost of increased caseload** over the medium term – given the current economic outlook this continues to be a real and present risk.

Other Considerations

9.16 The projections in all years rest on the Executive's adherence to the "*Guiding Principles"* the "*Modelling for Recovery Principles*" and the Budget Containment Strategies (para 3.6).

9.17 Depending on the decisions taken in relation to Council Tax, year on year savings of these magnitudes have and will continue to take capacity out of the organisation. The priority has been front line delivery and accordingly members may notice a reduction in some areas of internal delivery, as well as our **capacity to influence longer term strategic issues.**

9.18 Many of the changes to be implemented are untested and it is inevitable some transition turbulence may be experienced even with the focus on protecting front line service delivery.

9.19 <u>All the council's partners, elected councillors and staff should feel proud of reaching this point. However we must maintain this extraordinary effort if we are to continue to achieve our ambitious objectives.</u>

10 CONSULTATION AND CUSTOMER IMPACT

10.1 The formal budget consultation period is from 15th January 2014 to 26th February 2014 when the Council sets its Council Tax for 2014/15. The budget timetable is detailed at Appendix B. Comments from the consultation process will be reported to the Executive for consideration at it's meeting on 12th February 2014.

11 POLICY IMPLICATIONS

11.1 There are no direct policy implications as a result of this report.

12 USE OF RESOURCES

12.1 The implications on the Council's resources will be considered throughout the durable budget reports.

13 RECOMMENDATIONS

The Executive Committee is recommended to:

13.1 Note the current budget position for 2013/14.

13.2 Recognise the savings that the budget delivery framework has generated to set a balanced budget for 2014/15.

13.3 That the Executive refers the draft budgets for 2014/15 (as contained in the separate budget booklet) to Scrutiny for comment in accordance with the Council's Constitution.

Background Papers:

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

Previous Reports/Minutes:

Monthly Durable Budget Reports
(April 2010 to date)