

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	<i>Fwd Plan Ref No:</i> A13/046	
Wards Affected	All	11 th June 2014	
Title	MAINTAINING A DURABLE BUDGET		

Portfolio Holder: Cllr I Jelley

1. PURPOSE OF REPORT

The purpose of the report is to:

- a. Provide Members with a further case study on attracting external funding.
- b. Provide a reminder of the Council's medium term financial strategy and associated guiding principles;
- c. Highlight the success of the Council's financial strategy, in particular through the delivery of efficiency savings for 2013/14;
- d. Illustrate the medium term financial modelling and the estimated levels of efficiency savings required for future years

2 CASE STUDY

2.1 Members will recall that in previous budget reports we have identified case studies as examples of good practice. The previous examples related to the new arrangements for the following:

- ◆ Generic warden service
- ◆ Recycling pilots
- ◆ Kettering Borough Training
- ◆ Partnership work with the Citizens Advice Bureau.
- ◆ VAT recovery
- ◆ Prevent Strategy funding
- ◆ Flexible Working
- ◆ Printing Function
- ◆ Market
- ◆ Managing homelessness
- ◆ Staff Sessions
- ◆ Attracting External Funding to the Borough

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2.2 The case study in this report highlights another example of the success the Council has achieved through attracting external funding.

Capacity Fund

Following a successful bid submission made by the Council to the Department for Communities and Local Government last year – we have been successful in attracting **£1,170,000** of Government capacity funding into the Council, to help unlock the delivery of the East Kettering Sustainable Urban Development.

This is an impressive achievement given the competition that existed for the funding across the Country and is testament to the continued efforts of the local authority (and developers) to move a very exciting project forward.

The funding enables the Council and the developers of the scheme to put resources into unblocking issues and addressing technical studies that are required to move the project forward – which should help bring forward the delivery of 5,500 homes, the creation of 10,000 jobs, the generation of significant levels of green energy – all resulting in around £1.2bn of economic activity to the Country.

The first part of the funding was paid during 2013/14 – this amounted to £901,000 and has been spent in accordance with the requirements of DCLG. This has resulted in recent confirmation from DCLG that the second year allocation of £269,000 has now been made available to the Council – this is welcome news.

The Council's track record in attracting external bid funding is second to none in relation to comparative local authorities (as outlined in previous case studies) – this has not happened by accident, it is the direct result of focused action by the Council concentrating on the 'big issue' items that will have the biggest economic and community benefits in the medium term.

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3. **BACKGROUND**

3.1 At the April Executive meeting Members approved that the budget delivery framework used in the four previous budget rounds be used for the preparation of the 2015/16 budgets. Specifically, members approved;

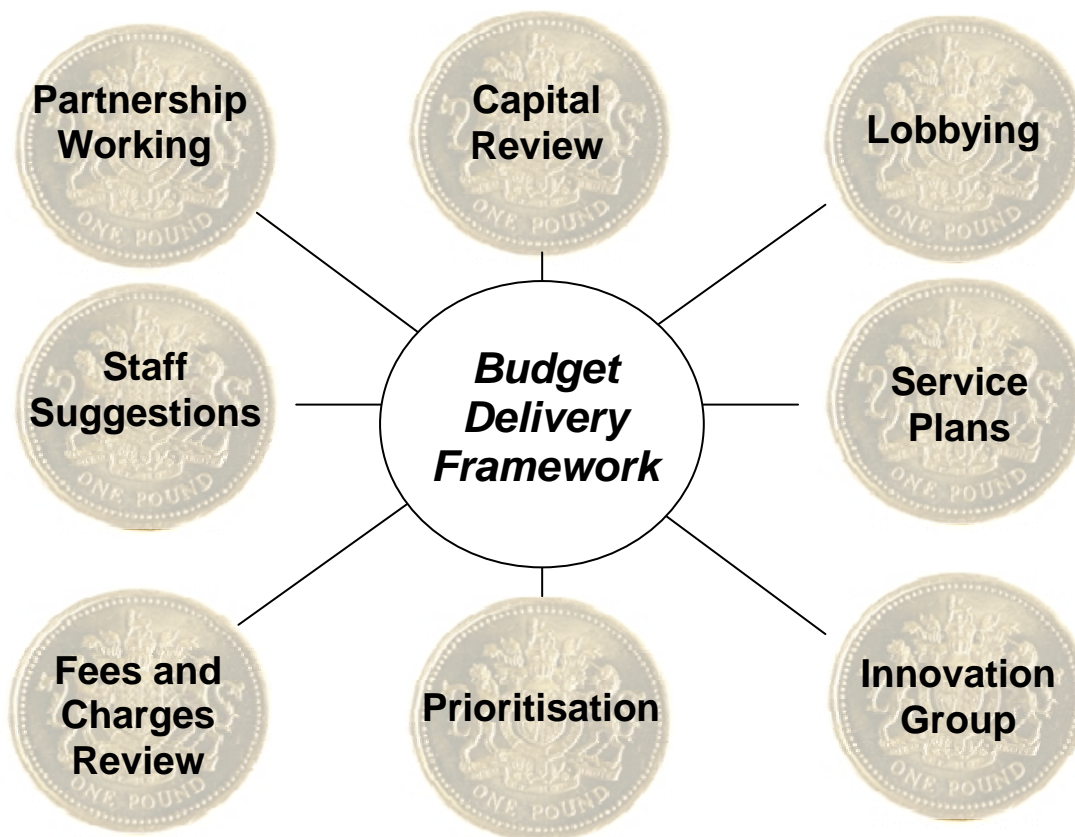
“that the same methodology be applied to the formulation of the 2015/16 budget as it applied to the 2014/15 budget, with particular reliance on:-

- the existing guiding principles*
- the existing modelling for recovery principles*
- the existing budget containment strategy*
- the existing eight workstreams”*

3.2 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.

3.3 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 framework consists of eight workstreams – as illustrated below;

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3.4 The financial strategies key '*guiding principles*' supplemented by the '*Modelling for Recovery Principles*' and the '*Budget Containment strategies*' have provided a strong cornerstone for the Council's 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;*
- 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;*

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- 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.*

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4. MEDIUM TERM FINANCIAL FORECAST

4.1 The Council's current Medium Term Financial Forecast is reproduced in Table 1 for information.

Table 1		Zone of "Predictability"		Zone of "Unpredi ctability" 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	12,020	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	1,587	1,464	1,293	1,054	1,018
4a	Council Tax Grant	(158)	(158)	0	0	0	0
5	Budget Frameworks	(949)	(1,329)	(200)	0	0	0
6	Savings - To be secured	0	(100)	(1,264)	(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)	(1,570)	(1,635)	(1,635)	(1,635)
4b	Council Tax Grant 13/14	(65)	(65)	0	0	0	0
4c	Council Tax Grant 14/15	0	(65)	(65)	0	0	0
4d	'One-off' Town Centre Initiatives	0	40	0	0	0	0
9	Estimated Closing Balance	(1,480)	(1,570)	(1,635)	(1,635)	(1,635)	(1,635)

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

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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, these assumptions will continue to be reviewed as part of the budget process.

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.
- 4c Council Tax Grant 2014/15** - This is a grant the Council receives from central government for two years in return for freezing Council Tax in 2014/15.
- 4d Town Centre Initiatives** – This relates to one off parking incentives and / or other town centre related items. Due to the one off nature this is being funded from the General Fund working balance rather than forming part of the base budget.
- 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 2014/15.

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- 4.2 Members will recall that late in the 2014/15 budget process, unidentified savings of £100,000 were required to set a balanced budget (as a result of the reduction in car parking charges). This still remains an outstanding issue that will require addressing in future durable budget reports.

New Homes Bonus

- 4.3 Members will recall that the New Homes scheme was intended to reward local authorities for the delivery of new houses through the payment of a bonus. The payment was equivalent of the average council tax in England and for each new home it was payable each year for six years. In two tier areas, the payments were split 80% to District's and 20% to Counties.
- 4.4 There was no new national funding pot established to pay for the New Homes Bonus, instead the Government top-sliced (ie, reduced) the existing formula grant that it would otherwise have paid to local authorities.
- 4.5 In effect the funding mechanism changed from being a 'population' driven formula to a system that in theory incentivised the delivery of new houses.
- 4.6 Local authorities have made the case for some time now that because there is no annual population adjustment in the annual revenue grant that councils receive from central government, the only funding source to deal with the additional demands brought by population growth is through the use of the New Homes Bonus to help fund the revenue account.
- 4.7 The Executive Committee revised its strategy for the use of New Homes Bonus funding at its September 2013 meeting. In effect a phased strategy is being applied that will result in a substantial proportion of the New Homes Bonus being used to support the Council's revenue account. This will need to be kept under review.
- 4.8 The Council will receive around £1.6m in New Homes Bonus funding in 2014/15. The relative size of the accumulated funding emphasises why the Council dedicated a significant amount of time lobbying and influencing the design of the original scheme and also why we are continuing to dedicate time on the national stage to influence any future changes that may take place. The changes that this Council instigated at the outset of the scheme (eg, averaging, premium for affordable housing) have benefitted the Council by in excess of £1m in cash terms to date.
- 4.9 By reference to Table 1 it can be seen from line 5 that the Council has identified ongoing budget savings of £200,000 this reflects the Executive's decision in September 2013 regarding the New Homes Bonus Strategy - In order to set a balanced budget for 2015/16 further ongoing savings of around £1.250m are required.

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5 BUDGET UPDATE

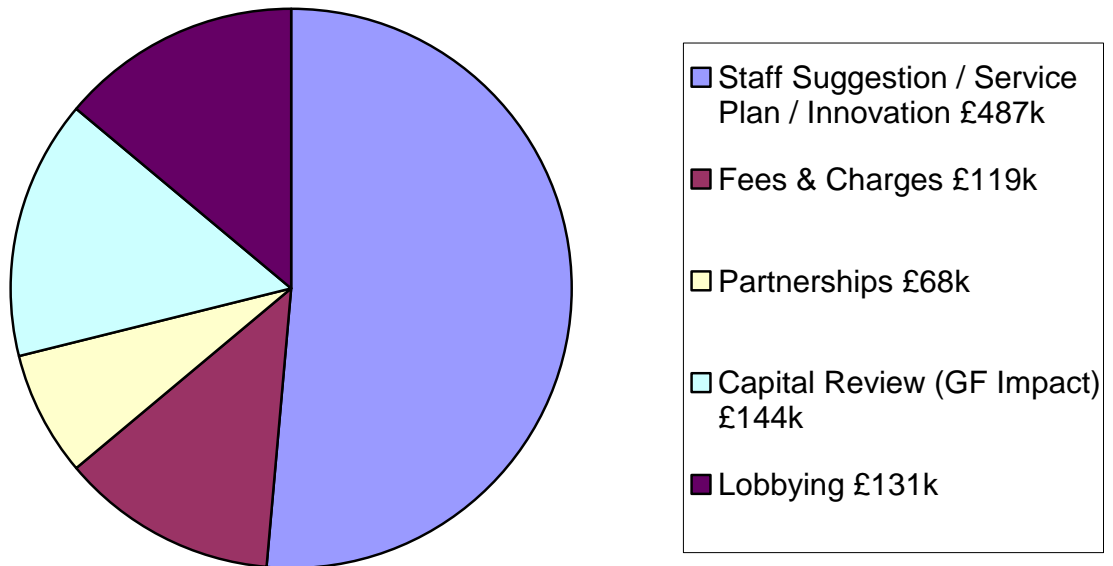
GENERAL FUND 2013/14

- 5.1 The Council is on course to complete the detailed closure of the financial accounts for 2013/14 by the end of June.
- 5.2 This is a very technical process that requires much care and attention. The draft accounts must be compiled by 30th June so that they can be submitted for external audit validation.
- 5.3 This year the audit process will be commencing on 23rd June a week earlier than the statutory deadline for completion of the accounts the audit will therefore be commencing significantly earlier than most authorities. The 30th September is the statutory deadline for the audit opinion to be published.
- 5.4 Members will recall that when the 2013/14 revenue budget was approved, efficiency savings of £949,000 were required. The progress that the Council has made against this target has been the subject of monthly reports to this committee throughout the year – it was confirmed earlier this year that the Council had successfully achieved its target.
- 5.5 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 have been extremely successful. The savings identified in 2013/14 from the frameworks are identified in the Chart 1 below:

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Chart 1 - Identified Framework Savings 2013/14



- 5.6 The final outturn figures will be reported to this committee during the summer as part of the durable budget report. Significant work is still ongoing to ensure that the correct figures are validated for big money items such as benefits subsidy and internal cost allocations prior to a technical assessment for items such as debt provisions. The ongoing national changes to the welfare system and national changes to the Business Rates Retention Scheme make this process even more important than ever.
- 5.7 In line with the previously agreed policy position of the Executive Committee, any variance in excess of the original £949,000 target will be used to increase earmarked reserves to help provide additional flexibility and protection against business risks / threats.

HOUSING REVENUE ACCOUNT

- 5.8 The Housing Revenue Account's budget for 2013/14 was £15.2m. It is currently estimated that the outturn will be within 0.2% of the global budget – this is likely to result in a small underspend in the region of £30,000.
- 5.9 Table 2 summarises the projected outturn for the Housing Revenue Account.

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Table 2 - Housing Revenue Account	Current Budget 2013/14	Projected Outturn 2013/14	Variance (favourable) / Adverse
	£	£	£
Gross Expenditure	15,198,350	15,177,350	(21,000)
Gross Income	(15,198,350)	(15,147,350)	51,000
Net Expenditure	0	30,000	30,000

CAPITAL PROGRAMME

- 5.10 Overall, the provisional outturn for 2013/14 was £8.779m compared to the revised budget of £9.810m (i.e. 90% of the approved programme was actually spent).
- 5.11 The overall provisional Capital Programme will be spent in full after taking account of budget carry-forwards.

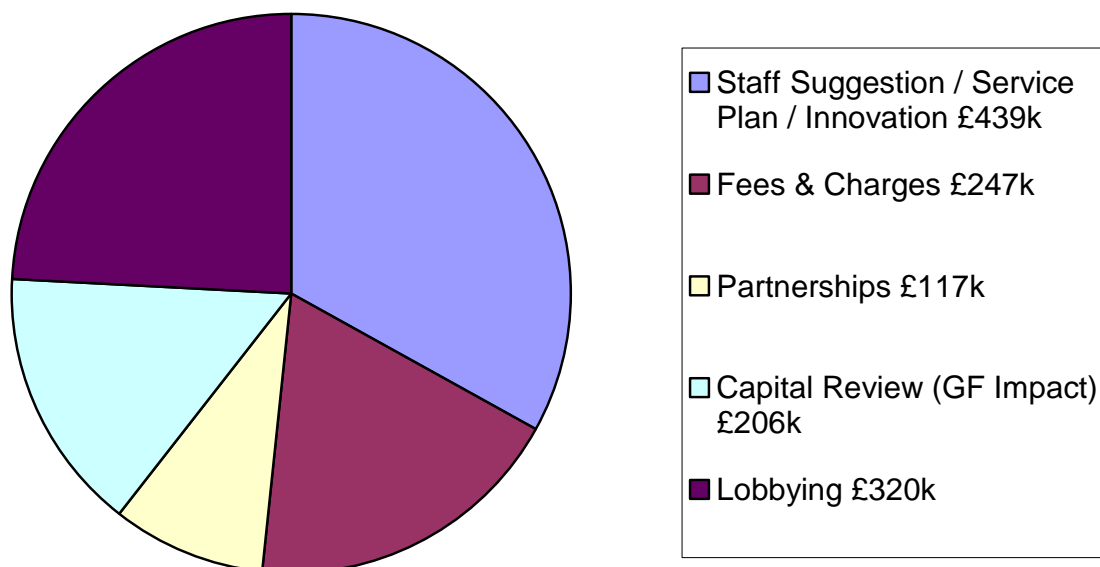
GENERAL FUND – 2014/15

- 5.12 From the recent budget process, Members will recall that additional ongoing savings of £1,429,000 are required for 2014/15.
- 5.13 By reference to Table 1, it can be seen from line 5 that the Council has identified ongoing budget savings of £1,329,000 and further in year savings of £100,000 are required. As previously reported to the Executive Committee, the budget delivery framework has continued to be used in order to identify where the £1,329,000 will be delivered from. The identified savings of £1,329,000 are summarised in Chart 2 below:

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Chart 2 - Identified Framework Savings 2014/15



5.14 Overall (when compared to many local authorities), the projected outturn for the General Fund continues to look encouraging for the following reasons;

- ◆ The guiding principles, modelling for recovery principles and the budget containment strategy are being adhered to by the Executive;
- ◆ The budget delivery framework has successfully engaged staff at all levels;
- ◆ Additional flexibility and resources have been secured to help pump prime delivery of future years' savings and protect against possible future burdens.

5.15 Whilst the savings made give confidence that the Council remains "ahead of the curve" in delivering the Medium Term Financial Strategy. Members have previously been advised about the significant changes to local government funding and the risk transfer from central government to local government. Such risks include:

- ◆ Business Rates Volatility (Government Grant Levels)
- ◆ Council Tax Benefits Volatility
- ◆ Spending Pressures

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GENERAL FUND – 2015/16

- 5.16 Chart 2 illustrates that, through close engagement with well motivated front-line staff, savings through staff suggestions / innovation have generated savings of around £450,000 for 2014/15.
- 5.17 The positive engagement with staff will remain a key factor moving forward if we are to remain successful in meeting the budget challenges that we face – our recent experience is testament to the advantages of remaining a flexible and nimble organisation that is light on its feet.
- 5.18 As well as monitoring framework savings identified for 2014/15 work continues on identifying savings for the following year – 2015/16. Members are reminded of the current Medium Term Financial Forecast which required an additional £1,464,000 of savings to balance the budget in 2015/16. Approximately £200,000 has already been identified (although not delivered) and work will continue to try and close the remaining gap as the year progresses.
- 5.19 Members will recall that from April 2013 Council Tax Benefit was replaced with Council Tax Support. The Council undertook an extensive public consultation during the Autumn of 2012 which included major precepting authorities (i.e., the County Council and the Police Authority), the voluntary sector and the public.
- 5.20 Prior to discussing the options members endorsed a simple set of additional *guiding principles* that would help frame the discussion about which option was preferable. These were;
- a) *In the medium term, the cost of a local scheme must be contained within the grant made available from the Government (to comply with the existing budget guiding principles)*
 - b) *The scheme should incentivise work*
 - c) *The impact on working age claimants should as far as possible be minimised through considering changes to Council Tax exemptions and discounts.*
- 5.21 The responses submitted were considered by the Executive and a new scheme was recommended by the Executive and approved by Full Council in January 2013. Accordingly, members of the Committee are reminded that the scheme that Council approved in January 2013 was fully implemented from April 2014.

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5.22 In the run up to the 2015/16 budget process, Members will need to consider the financial implications of the current Council Tax Support Scheme and decide if they want to undertake further consultation and consider the principles (detailed at 5.20) that were used to develop the current scheme.

5.23 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 Councils Swing – o – meter as detailed at Appendix A.

6 CONSULTATION AND CUSTOMER IMPACT

6.1 None as a direct consequence of this report. However members are reminded that the formal budget consultation period is from 14th January 2015 to 25th February 2015 when the Council sets its Council Tax for 2015/16. Comments from the consultation process will be reported to the Executive for consideration at it's meeting on 18th February 2015.

7 POLICY IMPLICATIONS

7.1 None as a direct consequence of this report.

8 USE OF RESOURCES

8.1 As detailed throughout this report.

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9. **RECOMMENDATIONS**

That the Executive;

- a. Note the success the Council has achieved in attracting external funding;
- b. Note the Council's Medium Term Financial Strategy and associated guiding principles;
- c. Note the Council's current Medium Term Financial Forecast and the progress being made for the delivery of efficiency savings for 2014/15 and future years;
- d. Note the need to consider the future operation of the Council Tax Support Scheme at a future meeting.

Background Papers:

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

Previous Reports/Minutes:

Monthly Durable Budget Reports