

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	<i>Fwd Plan Ref No:</i> A14/016	
Wards Affected	All	15 th October 2014	
Title	MAINTAINING A DURABLE BUDGET		

Portfolio Holder: Cllr Ian Jelley

1. PURPOSE OF REPORT

This report provides a reminder / update of the following core issues:

- a. Provide Members with a case study on Disabled Facilities Grant;
- b. Remind Members of the Council's medium term financial strategy and associated guiding principles;
- c. Illustrate the latest budget model, the delivery of efficiency savings for 2014/15 and the estimated level of budget savings that may be required over the next few years;

The report also provides members with the following:

- d. a mid year update on Treasury Management;
- e. An update on the Council Tax Support Consultation process, following the decision taken by the Executive Committee at its previous meeting.

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 securing external funding.

DISABLED FACILITIES GRANT

Disabled Facilities Grants (DFGs) were administered by external providers on behalf of the Council. However, this resulted in lengthy waiting times and poor customer satisfaction rates. The decision was therefore made to bring the administration of DFG's back in house. By doing this we were able to create extra officer capacity within the Council's Private Sector Housing team to help with the administration of DFGs, have greater control over the processing of works and prevent duplication.

Customer satisfaction has improved significantly and 97% of customers rated the service that they received from KBC as very good or good.

The Council has secured investment of just over £200,000 from the County Council towards additional investment into DFG's. The result of the additional investment and the efficiencies from delivering the service in house has seen a significant reduction in the waiting list.



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3. BACKGROUND

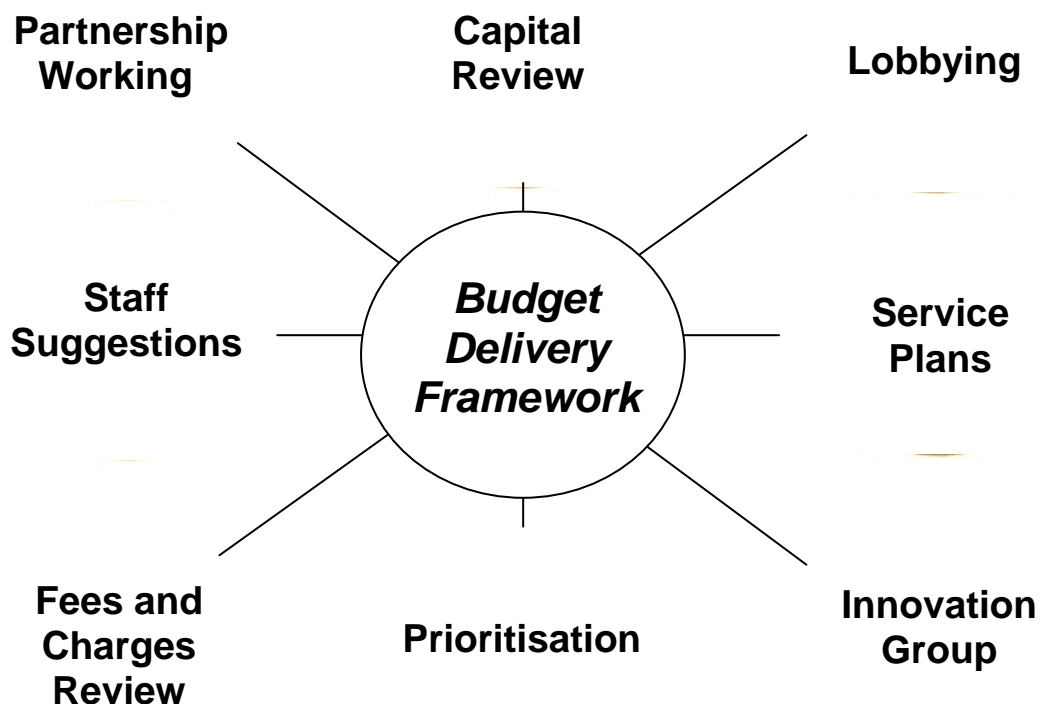
3.1 At the April Executive meeting Members approved that the budget delivery framework used in the four previous budget rounds be used for the preparation of the 2015/16 budgets. Specifically, members approved;

“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;*
- 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*

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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.*
- 3.5 There are a variety of other pressures that the Council is facing now or is likely to face in the coming years in order to best manage these pressures the Executive at it's July meeting endorsed the following prioritisation 'golden rules'.

Prioritisation 'Golden Rules':

1. *Revenue Impact – The item should have a positive **material and causal** impact on the Council's revenue budget over the medium term. The impact should be material in nature.*
2. *Fit with Key Priorities - There should be a direct and causal impact upon the achievement of the Council key priorities of;*
 - *Better Town Centres*
 - *Better Jobs*
 - *Better Educational Offer*
3. *Risk and Return Profile - The item / project should fit the Council's risk and return appetite and also complement the overall portfolio of investment / assets.*
4. *Investment Leverage - The item / project should ideally act as either an 'invest to save' type project or one that 'pump primes' other significant investment into the borough.*

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5. *Self Sufficiency - Given the continuing trend of reduction in central government grants, priority will be given to projects that assist in the Council moving further towards financial self sufficiency.*
6. *Strategic Partnerships - The item should generally have a positive impact on the Council's strategic partnerships and the Council's long term strategic ambitions for the borough – eg, town centre development. In particular – items that support and help develop 'scope' rather than 'scale' will be prioritised.*

4 MEDIUM TERM FINANCIAL FORECAST

4.1 The Council's latest Medium Term Financial Forecast is shown in Table 1.

♦ **Zone of Predictability** – this year and next (2014/15 - 2015/16)

The level of government funding has previously been announced for this year (2014/15) and provisional levels of funding were announced for next year (2015/16). The two previously identified areas of volatility, namely Business Rates Retention Scheme and Council Tax Support remain important variables that we continue to monitor closely.

Although we have received indicative grant allocations for next year, it is important to note that these are only indicative and could be affected by the upcoming Autumn Statement (due on the 3rd December). It is not uncommon to see some changes in national policy resulting from the Autumn Statement, there may be a greater likelihood of this given that it is the final Autumn Statement of the current Government.

♦ **Zone of Unpredictability A** – Medium Term (2016/17 – 2019/20)

Reference to the budget deficit figures (Table 1) illustrates the significant challenge that the Council faces in the medium term. Whereas uncertainty will continue to exist about the future levels of government grant post the 2015 General Election, it is fair to say that it will be an extremely challenging time for the authority.

The overall scale of budget reduction is very significant. The Council has done an impressive job of delivering a balanced budget despite having no council tax increase, no cuts to front line services, and no reduction to overall funding for the voluntary sector since 2011/12. This has only been achievable by following the budget guiding principles and making sure that other income sources, such as fees and charges, are harvested in line with their previously agreed guiding principles – this will remain important moving forward.

The reality of the Council being able to deliver a balanced budget in this period is looking increasingly fragile – the Council will need to carefully consider its main sources of income (Council Tax, Fees and Charges) at the

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same time as starting to consider its priorities for services (and levels of services) if a balanced budget is to be achieved in the medium term. The commonly referred to 'triple zero' success of recent times will not be achievable in the medium term, indeed any one element of this will put additional pressure on existing levels of service and resources.

Table 1		Zone of "Predictability"		Zone of "Unpredictability" A			
		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Actual £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000
1	Net Council Budget	12,020	11,321	10,787	10,224	9,900	9,612
2	Forecast Resources:						
	Government Grant:						
2a	RSG	(2,367)	(1,660)	(1,200)	(777)	(387)	(27)
2b	Business Rates	(2,137)	(2,263)	(2,331)	(2,401)	(2,473)	(2,547)
	Total Government Grant	(4,504)	(3,923)	(3,531)	(3,178)	(2,860)	(2,574)
	Council Tax / Coll'n Fund	(50)	(25)	(25)	(25)	(25)	(25)
	Income From Council Tax	(5,879)	(5,909)	(5,938)	(5,967)	(5,997)	(6,028)
	Total Resources	(10,433)	(9,857)	(9,494)	(9,170)	(8,882)	(8,627)
3	Budget (Surplus) / Deficit	1,587	1,464	1,293	1,054	1,018	985
4a	Council Tax Grant	(158)	0	0	0	0	0
5	Budget Frameworks	(1,329)	(500)	0	0	0	0
6	Savings - To be secured	(100)	(964)	(1,293)	(1,054)	(1,018)	(985)
7	Budget (Surplus) / Deficit	0	0	0	0	0	0
GENERAL FUND WORKING BALANCE							
		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		£000	£000	£000	£000	£000	£000
8	Estimated Opening Balance	(1,415)	(1,505)	(1,570)	(1,570)	(1,570)	(1,570)
4b	Council Tax Grant 13/14	(65)	0	0	0	0	0
4c	Council Tax Grant 14/15	(65)	(65)	0	0	0	0
4d	'One-off' Town Centre Initiatives	40	0	0	0	0	0
9	Estimated Closing Balance	(1,505)	(1,570)	(1,570)	(1,570)	(1,570)	(1,570)

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%)
2019/20	(10.0%)

2a / 2b Revenue Support Grant / Business Rates - Following the introduction of the Business Rates Retention Scheme the local share of business rates will be uplifted by RPI each year until the system is reset in 2020 this is shown in line 2b. The full reduction in grant is therefore applied to the element that is provided through the Revenue Support Grant, which is detailed in Line 2a.

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.

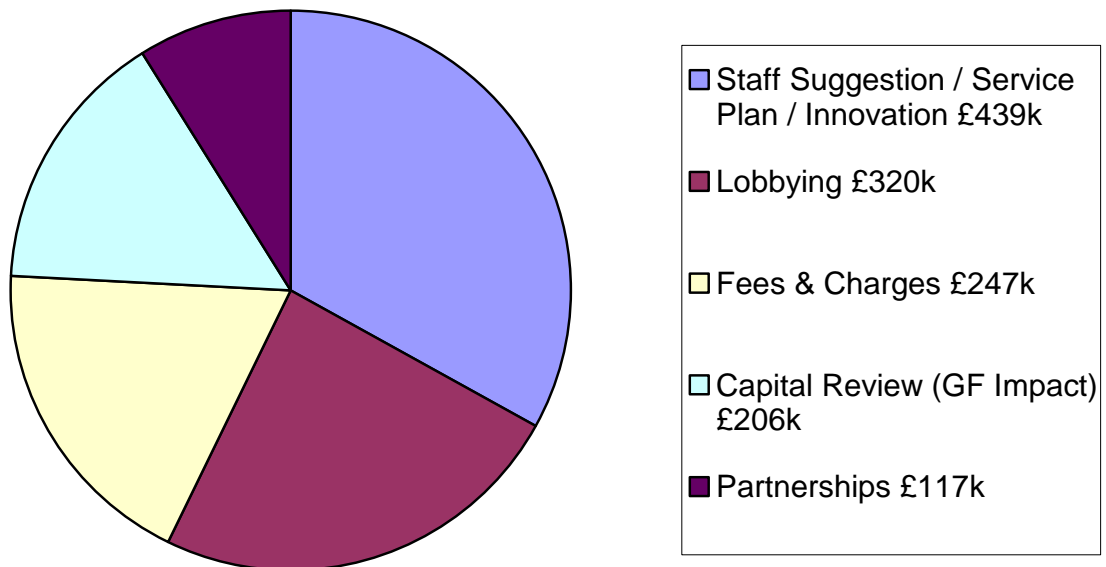
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6 Savings to be secured – This identifies the total resources required to balance the budget in future years after 2014/15.

- 4.2 The Council's medium term budget model will continue to be reviewed as we approach the forthcoming budget process. The key assumptions that underpin the detailed numbers will continue to be reviewed and refined as appropriate.
- 4.3 From the recent budget process, Members will recall that additional ongoing savings of £1,429,000 were required for this year (2014/15).
- 4.4 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 1 below:

Chart 1 - Identified Framework Savings this Year (2014/15)



- 4.5 During the budget process, members were informed of a number of 'big ticket' items. These are typically items of large value that could have a disproportionate impact on the Council's budget if they moved in an adverse fashion. Consequently these are monitored very closely and members and officers may occasionally try to influence (through lobbying) any changes that may take place especially when such changes are triggered through changes in national policy. These items are included in the Council's 'swing-o-meter' as detailed at Appendix A.

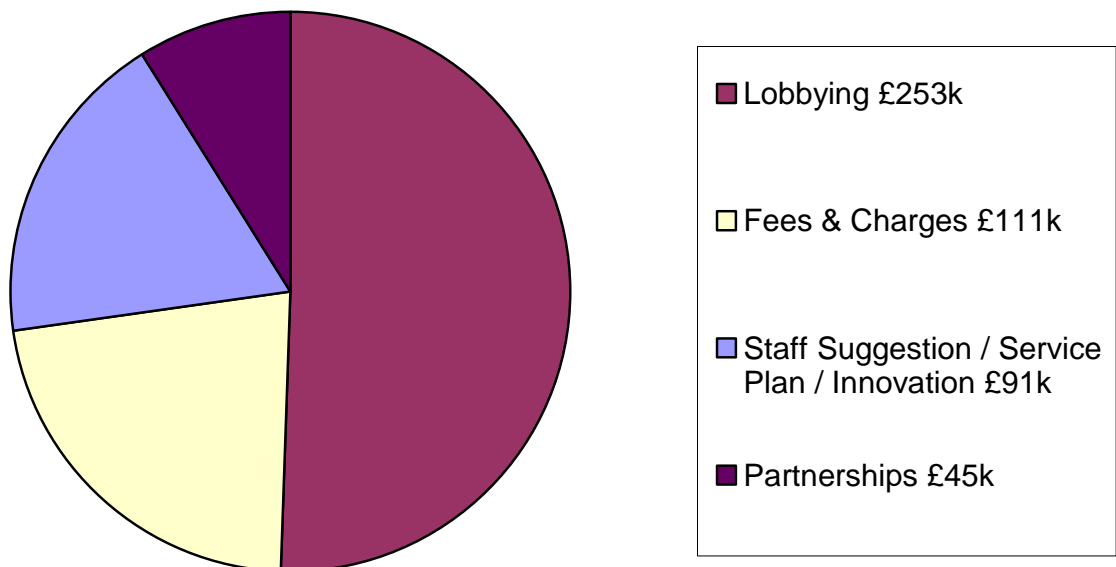
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GENERAL FUND – 2015/16

- 4.6 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. The savings target for 2015/16 has increased by £100,000 and results from the 2014/15 budget having unidentified savings of £100,000 following the Executives decision late in the budget process to implement a new car parking strategy, this takes the total savings target for 2015/16 to £1,564,000.
- 4.7 Savings of £500,000 have been identified. Further savings of £1,064,000 are required in order to deliver a balanced budget for 2015/16 (after allowing for the unidentified savings of £100,000 in 2014/15). Chart 2 illustrates how the identified savings are being delivered:

Chart 2 - Identified Framework Savings for next Year (2015/16)



- 4.8 The budget for 2015/16 should include an element of growth from the Business Rates Retention Scheme the exact amount will be reported as part of a future durable budget report and will follow a review of the 2014/15 accounting treatment to ensure a sustainable amount is included in the budget for future years

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4.9 The Council's impressive record in identifying and delivering efficiency savings in the past five years, including the current year (2014/15), are around £6.8m - as illustrated in Table 2;

Table 2 – 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	6,780
% Cash Savings (Net Budget)	66%

4.10 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 five year period (as detailed in Table 2) the efficiency savings will be equivalent to approximately **66% (85% in real terms)** of the Council's draft net budget (which stands at £10.4m for 2014/15).

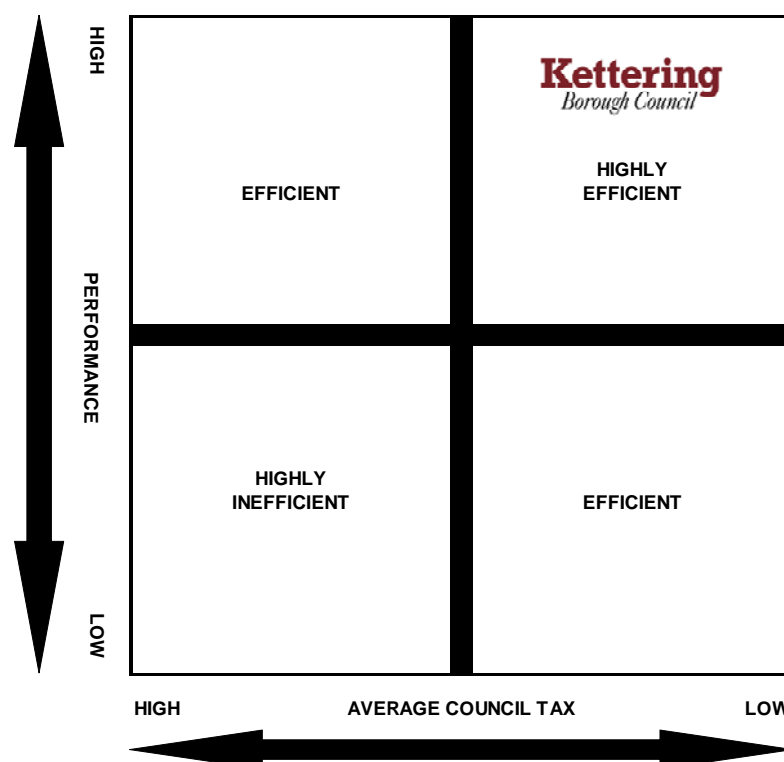
4.11 Members are reminded that **before the efficiency programme** commenced a number of years ago, the Council was charging a level of **Council tax below the national average yet delivering a level of performance that was above the national average.** Despite having to deliver efficiency savings of £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.

4.12 This achievement is particularly commendable given that it has been achieved against the backdrop of no cuts to front line services, no increase in Council Tax and has preserved the overall funding level for the voluntary sector.

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

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HOUSING REVENUE ACCOUNT 2014/15 – CURRENT FINANCIAL YEAR

4.14 A summary of HRA monitoring at 31st August is shown in Table 3. The Housing Revenue Account is currently projected to come in on budget.

Table 3 - HRA	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,533	15,533	0
Gross Income	(15,533)	(15,533)	0
Net Expenditure	0	0	0

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CAPITAL 2014/15 – CURRENT FINANCIAL YEAR

4.15 A summary of the projected Capital Programme outturn monitoring statement as at 31st August 2014 is shown in Table 4.

Table 4 - Capital	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Expenditure			
HRA Schemes	4,115	4,115	0
General Fund Schemes	2,441	2,441	0
	6,556	6,556	0
Financing			
Government Grants	3,424	3,424	0
Prudential Borrowing	2,410	2,410	0
Revenue Contribution	531	531	0
Capital Receipts	191	191	0
	6,556	6,556	0
Net Expenditure	0	0	0

4.16 The capital programme is currently projected to be 'on' budget.

5 TREASURY MANAGEMENT – MID YEAR UPDATE

5.1 The Treasury Management Policy Statement is a high level document, which defines the Council's policies and objectives of its Treasury Management activities.

5.2 To comply with the requirements of best practice, the Treasury Management Strategy is reported to members in advance of the forthcoming financial year, (this was approved by the Executive and Council at the February meetings) and a mid year report that covers the following:

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy (5.3).
- The Council's capital expenditure (prudential indicators) (5.4);
- A review of the Council's investment portfolio, borrowing strategy and compliance with Treasury and Prudential Limits for 2013/14 (5.5 – 5.7).

5.3 The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for 2014/15 were approved by Council on 26 February 2014. There have been no policy changes to either of these strategies.

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- 5.4 The current estimates for capital expenditure and financing arrangements since the capital programme was approved in February 2014 have all previously been reported to the Executive.
- 5.5 The Council's current investment and borrowing portfolios (as at 30 September 2014) are detailed in Table 5. These are in line with the Council's Treasury Management Strategy.

Table 5	
Investment Portfolio	£
Nationwide	2,000,000
Alliance & Leicester	2,658,000
Lloyds	3,500,000
Bank of Scotland	3,182,000
Other	4,000
	11,344,000

Borrowing Portfolio	£
PWLB	68,903,000

- 5.6 The Council's projected closing capital financing requirement (CFR) for 2014/15 is £89.505m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.
- 5.7 Table 6 shows the Council has external borrowings of £68.903m and has utilised cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

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Table 6	2014/15 Original Budget £	2014/15 Current Projection £
Gross Borrowing	68,903,000	68,903,000
Other Long Term Liabilities	6,046,000	4,479,000
Less Investments	761,000	761,000
Net Borrowing	74,188,000	72,621,000
CFR (year end position)	90,730,000	89,505,000
Operational Boundary (External Debt)	99,000,000	99,000,000
Authorised Limit	104,000,000	104,000,000

6 COUNCIL TAX SUPPORT – CONSULTATION TIMELINE

- 6.1 A full update was provided in last month's report about the funding position of the current Council Tax Support Scheme, its history and the options available for the future.
- 6.2 Having considered the information, the Committee agreed to undertake a formal consultation process around two possible options. Currently those affected have to pay up to 15% of the Council Tax liability – the consultation will consider increasing this 'taper' to either 25% or 35% (to balance the budget and comply with the budget 'golden rules').
- 6.3 Following the decision of the Executive a formal consultation process has now commenced and runs from 3 October – 30 November.
- 6.4 The results from the consultation (together with a commentary of associated issues and risks) will be reported to the Executive on 10th December and a final decision on the operation of the scheme will be made by Council at the scheduled December meeting or at a special meeting in January.

7 CONSULTATION AND CUSTOMER IMPACT

- 7.1 None as a direct consequence of this report. However members are reminded that the formal budget consultation period is from 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.

8 POLICY IMPLICATIONS

- 8.1 None as a direct consequence of this report.

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9 USE OF RESOURCES

9.1 As detailed throughout this report.

10. RECOMMENDATIONS

That the Executive;

- a. Note the continued 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 Treasury Management performance for the period 1 April – 30 September;
- d. Note the Council Tax Support Consultation period will run from 3 October to 30 November

Background Papers:

Title of Document: Various

Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports