

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 1 of 17
Report Originator	Strategic Management Team	Fwd Plan Ref A14/041	
Wards Affected	All	10th June 2015	
Title	MAINTAINING A DURABLE BUDGET		

1. PURPOSE OF REPORT

The main purpose of the report is to:

- a. Provide a update / reminder of the Council's medium term financial strategy, associated guiding principles, and illustrate the financial modelling and the estimated levels of efficiency savings required for future years;
- b. Highlight the success of the Council's financial strategy, in particular through the delivery of efficiency savings;
- c. Provide a summary of the key points that will be made by the Council when responding to the Government on the current Business Rates Review consultation document;

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

2.2 The case study in this report highlights a further success that the Council has achieved through successful bidding for external funding.

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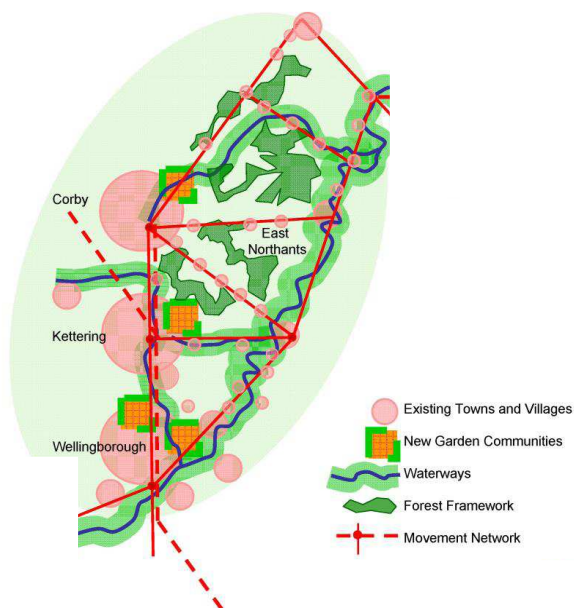
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Case Study – Attracting External Funding

A successful bid was submitted to the Government by Kettering Borough Council on behalf of a partnership of local councils comprising the Borough and District Councils of Corby, East Northamptonshire, Kettering and, Wellingborough, as well as Northamptonshire County Council.

The funding, which amounts to £750,000 will be used to help deliver responsible, managed and infrastructure-led growth across the North of Northamptonshire. This growth includes housing, education, leisure, transport, retail and business growth.

The money provided by the Government will be used to help fund joint delivery arrangements, overseen by a joint committee of councillors across North Northamptonshire, which will coordinate the delivery of the sustainable urban extensions and related infrastructure. The joint delivery unit is modelled on the highly successful North Northamptonshire Joint Planning Unit which has been in place for 10 years.



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3. BACKGROUND

3.1 At the March Executive meeting Members approved that the budget delivery framework used in the five previous budget rounds be used for the preparation of the 2016/17 budgets. Specifically, members approved;

“that the same methodology be applied to the formulation of the 2016/17 budget as it applied to the 2015/16 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 Council’s success in delivering a balanced budget over the past five years has come from the Budget Delivery Framework and particularly from the Staff Suggestions and Innovation Framework which have contributed annually to around 40% of the total savings target.

3.3 Savings of this magnitude are however becoming increasingly difficult to maintain and around 65% of the savings identified for 2015/16 have been generated through the lobbying / growth framework. It is going to become increasingly important to review the frameworks in future years as the reality of being able to deliver a balanced budget in the Medium Term (2016/17 – 2019/20) is looking increasingly fragile.

3.4 The opportunities for commercial investment were considered by the Executive at the March meeting and Members endorsed the adaption of our current financial strategy to embrace a systematic and measured approach towards developing a balanced portfolio of revenue generating assets. This approach is going to become increasingly important if the Council is to continue to deliver a balanced budget.

3.5 At a meeting of full Council on 22nd April 2015, the following was resolved in relation to future asset management and governance arrangements – further work will be required on this over the coming weeks / months;

RESOLVED that;-

The Council endorse the following in respect of Asset Management arrangements;-

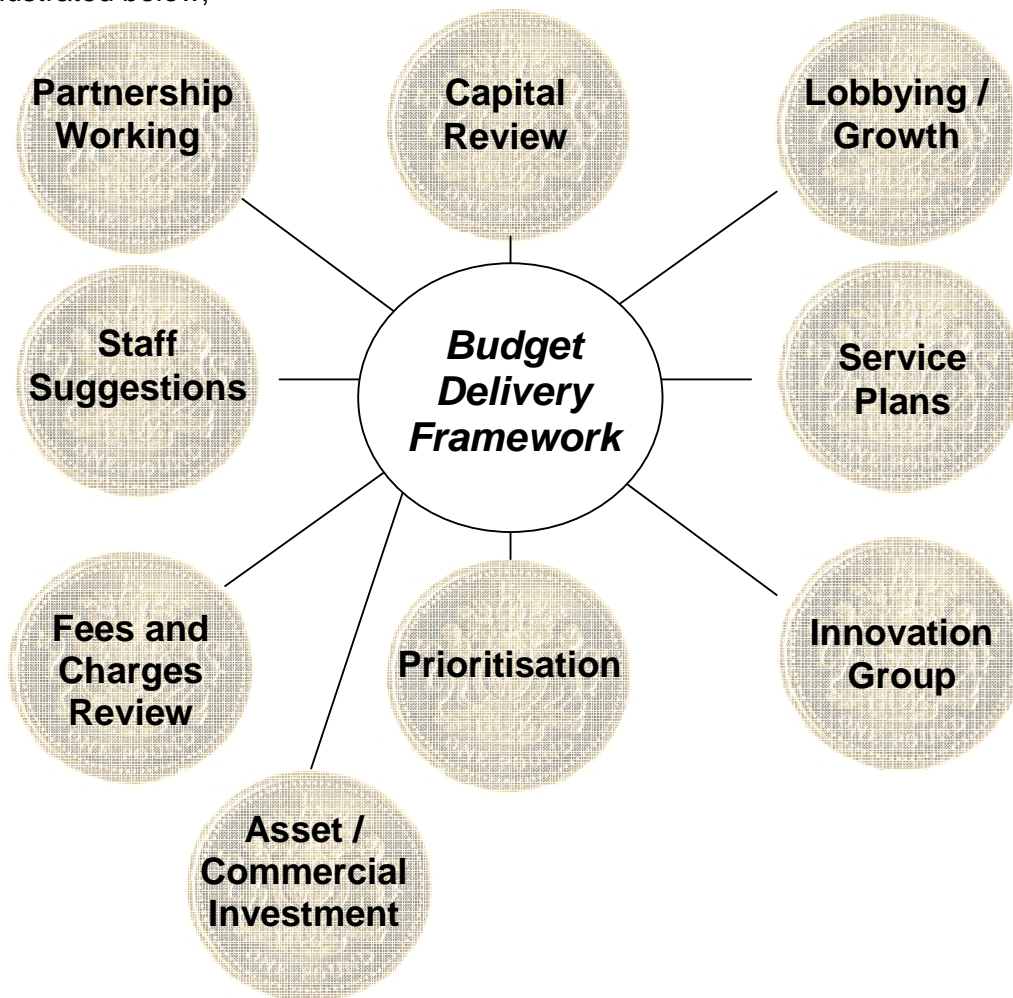
- a. That, following the Council elections, senior councillors of all groups consider collectively the best method of ensuring appropriate governance arrangements for asset investment and optimisation;*
- b. In the meantime, an Asset Management Optimisation Sub Committee be established comprising senior members;*

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- c. *That such a body be established to facilitate wider membership;*
- d. *That such a body comprise members appointed by position (i.e. the leader, Deputy Leader, Finance Portfolio Holder) and senior members of other groups;*
- e. *That the report template for the Asset Optimisation Sub Committee explicitly reflects and addresses the stewardship requirements of Section 123 of the 1972 Local Government Act – requirement to secure best value from public assets.*

3.6 This Budget Delivery Framework 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 now consists of nine workstreams following the addition of the Asset / Commercial Investment Framework – as illustrated below;



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

Financial Strategy Guiding principles:

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

Prioritisation 'Golden Rules':

1. *Revenue Impact – The item should have a positive **material and causal** impact on the Council's revenue budget over the medium term. The impact should be material in nature.*
2. *Fit with Key Priorities - There should be a direct and causal impact upon the achievement of the Council key priorities of;*
 - *Better Town Centres*
 - *Better Jobs*
 - *Better Educational Offer*
3. *Risk and Return Profile - The item / project should fit the Council's risk and return appetite and also complement the overall portfolio of investment / assets.*
4. *Investment Leverage - The item / project should ideally act as either an 'invest to save' type project or one that 'pump primes' other significant investment into the borough.*
5. *Self Sufficiency - Given the continuing trend of reduction in central government grants, priority will be given to projects that assist in the Council moving further towards financial self-sufficiency.*
6. *Strategic Partnerships - The item should generally have a positive impact on the Council's strategic partnerships and the Council's long term strategic ambitions for the borough – eg, town centre development. In particular – items that support and help develop 'scope' rather than 'scale' will be prioritised.*

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4 **BUDGET UPDATE 2014/15**

GENERAL FUND

- 4.1 The Council is on course to complete the detailed closure of the financial accounts for 2014/15 within the statutory deadlines.
- 4.2 This is a very technical process that requires much care and attention. The draft accounts must be compiled by the end of June and then be submitted for external audit validation.
- 4.3 The Council has agreed with our external auditors that the external audit process will start on 29th June – a little ahead of the statutory deadline. This follows the trend that the Council has established in recent years of being one of the first local authorities to be audited so that the process can be concluded swiftly and attention given to looking forward. The external audit opinion must be published by 30th September.
- 4.4 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. The approach taken by this Council and the resilience testing applied has been extremely successful.
- 4.5 Members will recall that when the 2014/15 revenue budget was approved, efficiency savings of £1,429,000 were required. As previously reported to this Committee, the Council has identified ongoing budget savings of £1,329,000 and further in year savings of £100,000 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.
- 4.6 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.

HOUSING REVENUE ACCOUNT

- 4.7 The projected outturn for the Housing Revenue Account is expected to be generally in line with the budget.

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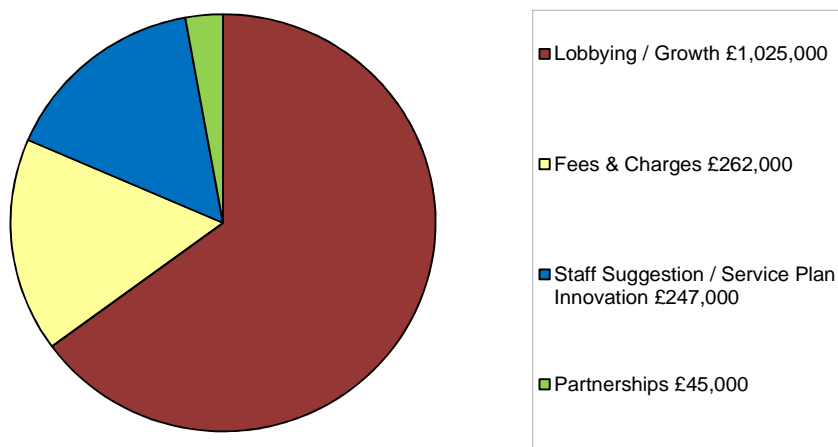
CAPITAL PROGRAMME

4.8 The Capital Programme for 2014/15 is currently estimated to be generally in line with the programme approved by Council on the 25 February 2015 (after taking account of scheme slippage to 2015/16).

GENERAL FUND 2015/16

4.9 As reported to the Council in the February 2015 budget report, The Council's budget delivery framework will need to deliver £1,579,000 of savings in 2015/16 to maintain a balanced budget. The savings have been identified in full and are in the process of being delivered. As previously reported to members, the Council remains confident that it can deliver the identified savings for 2015/16 – these are summarised in Chart 1:

Chart 1 - Identified Framework Savings for next Year (2015/16)



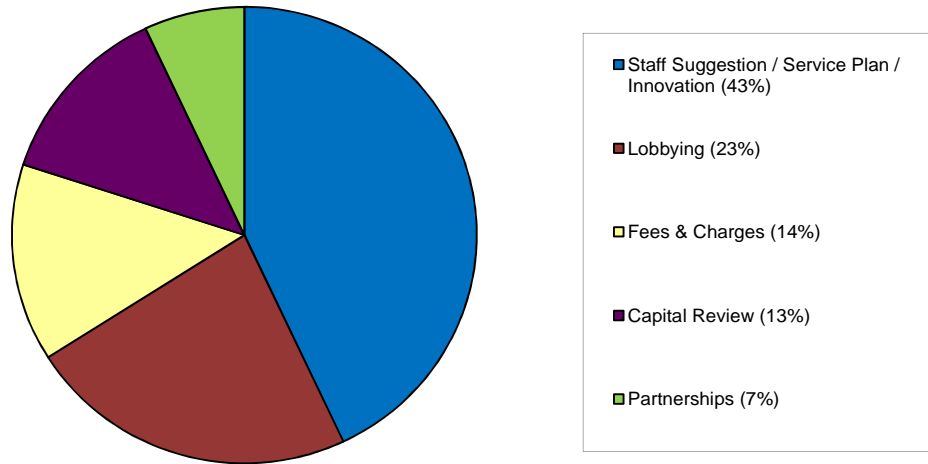
4.10 It has previously been reported that savings of this magnitude are becoming increasingly difficult to maintain. Around 65% of the savings identified for 2015/16 have been generated through the lobbying framework. It is going to become increasingly important to consider further frameworks in future years as the reality of being able to deliver a balanced budget in the Medium Term (2016/17 – 2019/20) is looking increasingly fragile – the consideration of commercial investment opportunities will become a key element.

4.11 Chart 2 details where the average framework savings had been identified since the frameworks were implemented back in 2010 to 2014/15.

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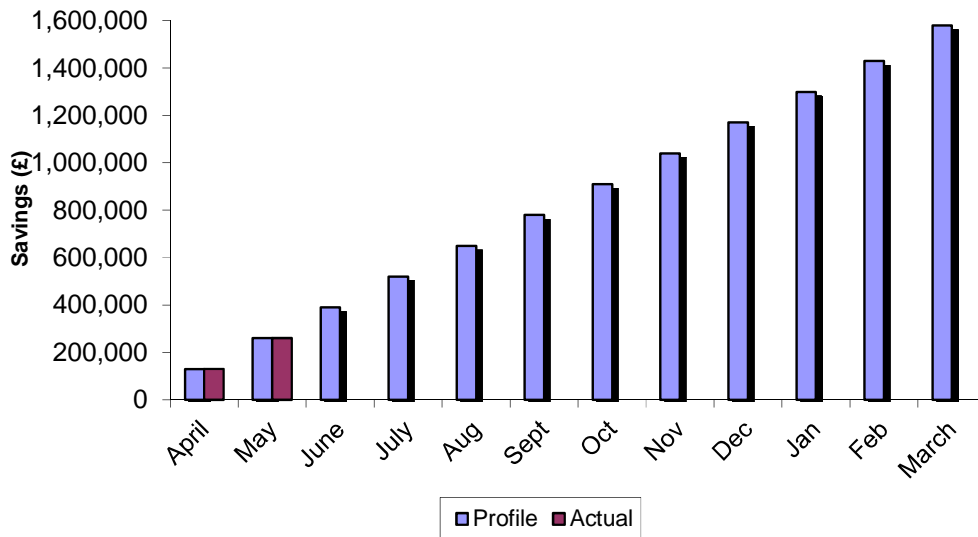
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Chart 2 - Total Identified Framework Savings



4.12 Chart 3 shows the actual realisation of the 'cash' savings against the target for the year. It can be seen that as well as the £1.580m having now been identified and embedded into the budget it is also on schedule in terms of its cash delivery throughout the year.

Chart 3 - 2015/16 Savings Monitoring - Cash Realised



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- 4.13 Whilst it is recognised that Chart 3 is somewhat simplistic, it highlights the fact that the required level of savings are actually being delivered 'on target' throughout the year as on-going budget savings.
- 4.14 Officers are currently progressing with the detail of the 2016/17 budget and when budget savings have been identified and resilience tested they will be incorporated into the budget at the earliest opportunity this approach will allow for further in year savings to be generated.
- 4.15 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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5 THE MEDIUM TERM FINANCIAL STRATEGY

5.1 The Council's Medium Term Financial Strategy is reproduced in Table 1. The forecast comprises the following 'Zones'

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

The level of government funding has previously been announced for last year (2014/15) and the actual levels of funding were confirmed in February 2015 for this year (2015/16).

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

The levels of savings required (Table 1 – Line 6) 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 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 is unlikely to be achievable in the medium term, indeed any one element of this will put additional pressure on existing levels of service and resources.

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TABLE 1 - MEDIUM TERM FINANCIAL FORECAST

		Zone of "Predictability"		Zone of "Unpredictability"			
		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000
1	Net Council Budget	12,020	11,696	11,012	10,189	9,695	9,203
2	Forecast Resources:						
	Government Grant						
2a	Revenue Support Grant	(2,367)	(1,736)	(1,070)	(441)	153	716
2b	Business Rates	(2,137)	(2,244)	(2,311)	(2,380)	(2,451)	(2,525)
	Total Government Grant	(4,504)	(3,980)	(3,381)	(2,821)	(2,298)	(1,809)
	Council Tax / Coll'n Fund	(50)	(100)	(100)	(100)	(100)	(100)
	Income From Council Tax	(5,879)	(6,037)	(6,067)	(6,098)	(6,129)	(6,160)
	Total Resources	(10,433)	(10,117)	(9,548)	(9,019)	(8,527)	(8,069)
3	Budget (Surplus) / Deficit	1,587	1,579	1,464	1,170	1,168	1,134
4a	Council Tax Grant	(158)	0	0	0	0	0
5	Budget Frameworks	(1,329)	(1,579)	0	0	0	0
6	Savings - To be Secured	(100)	0	(1,464)	(1,170)	(1,168)	(1,134)
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)	(1,595)	(1,595)	(1,595)	(1,595)
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	Council Tax Grant 15/16	0	(65)	0	0	0	0
4e	Town Centre Initiatives	40	40	0	0	0	0
9	Estimated Closing Balance	(1,505)	(1,595)	(1,595)	(1,595)	(1,595)	(1,595)

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

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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 are a combination of the average percentage and cash reduction over the past five years;

2016/17	Reduced by 6.50% then reduced by £340,000
2017/18	Reduced by 6.50% then reduced by £340,000
2018/19	Reduced by 6.50% then reduced by £340,000
2019/20	Reduced by 6.50% then reduced by £340,000

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.*

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 Council Tax Grant 2015/16 - *This is a grant the Council receives from central government for one year in return for freezing Council Tax in 2015/16. A Council Tax Freeze has ongoing implications as an increase in Council Tax generates income year on year.*

4e Town Centre Initiatives – *This relates to parking incentives and / or other town centre related items. Due to the short term nature this is being funded from the General Fund working balance rather than forming part of the base budget.*

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 2015/16.*

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- 5.2 Based upon the figures in the Council's Medium Term Financial Strategy (Table 1) 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);

2016/17	£1,464,000
2017/18	£1,170,000
2018/19	£1,168,000
2019/20	<u>£1,134,000</u>
Total	<u>£4,936,000</u>

- 5.3 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 3. 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

- 5.4 Members should be aware that the indicative savings levels for the period 2016/17 onwards are subject to a number of high level assumptions. One of these is about the potential level of government grant. As previously reported the grant announcement did not provide local authorities with individual settlements for 2016/17 or future years. The ability to plan with greater certainty can be better met if there is a move back to multi-year funding announcements. This announcement effectively moves back to single year settlements which are not ideal for Medium Term Financial planning. The assumptions regarding future levels of government grant are detailed in Note 2 to the Council's Medium Term Financial Strategy (Table 1).

- 5.5 Following the recent General Election the Chancellor has announced that there will be a second budget in 2015 that will be held on 8 July 2015. It is very unusual to have two budgets in a year, and it had been widely assumed that the first major fiscal announcements from the new Government would come in a Spending Review in the Autumn.

- 5.6 Whilst there is much speculation as to what the announcements centre on, the announcements are likely to be on a national scale rather than about individual authorities

- 5.7 The key question and clearly the most important one for local government is what is the scale of the cuts that the sector will experience over the next 5 years - the key announcements will be reported in due course when they are available.

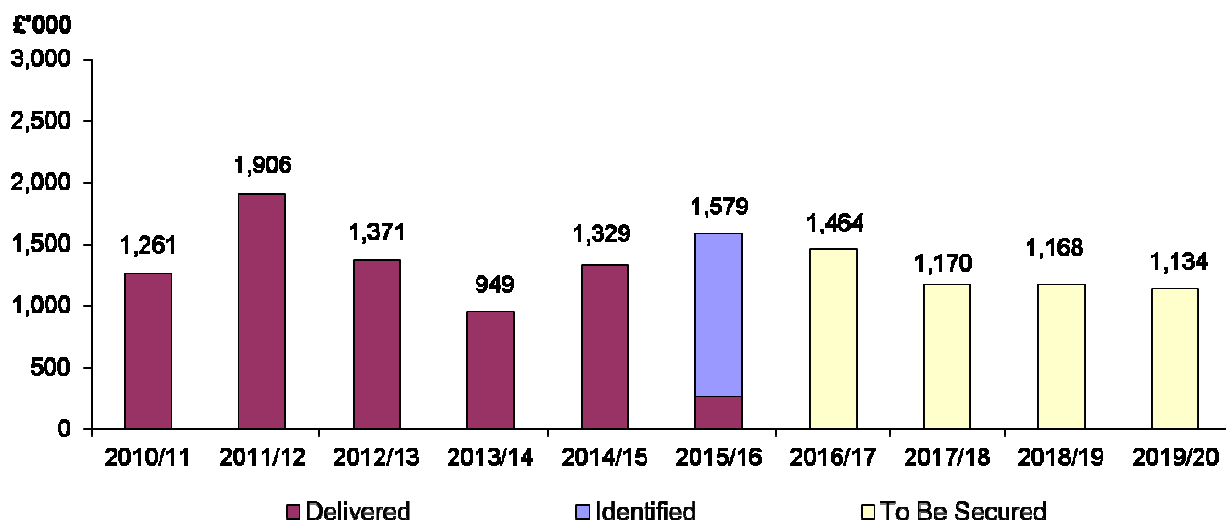
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5.8 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing savings targets going forward are at least of a similar scale to those already met, the following chart shows:

- Savings of £6.780m have been identified and delivered between 2010/11 – 2014/15;
- Savings of £1.580m have been identified but need to be delivered in 2015/16;
- Savings of around £5m need to be identified and delivered over the next four years (2016/17 – 2019/20).

Efficiency Savings



5.9 The above Chart will be updated during the year to reflect the delivery of the savings identified in 2015/16 and to show the savings identified in 2016/17.

6 BUSINESS RATES CONSULTATION

6.1 The Government introduced the Business Rates Retention Scheme in April 2013 following a detailed consultation process. Members were advised at the time that KBC representatives were actively involved in a number of national working groups at that time and had some positive influence on the outcome of the scheme.

6.2 Since that time, the Government have undertaken a consultation exercise on how the administration of the Business Rates scheme operates – a consultation that KBC responded to.

6.3 Prior to the General Election, the Government announced that they intended to undertake a further review of the Business Rates system – starting with a consultation paper that looked at some ‘terms of reference’ including some initial

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high level questions. The deadline for responses is 12th June 2015. The outcome of the review is anticipated to be published in the Budget 2016.

- 6.4 By reference to Table 1 earlier in the report, members will appreciate that income from Business Rates has become an important source of income to local government – accordingly it is important that the Council continues to actively engage with the LGA, the DCN and the Government on any future changes to the scheme.
- 6.5 KBC will be assisting the District Councils Network work up a response to the consultation (as well as doing our own response). A draft of the response is included at **Appendix B** for committee endorsement of the key points.

7. NATIONAL GOVERNMENT POLICY

- 7.1 Following the General Election 2015, it is anticipated that there will be a number of announcements from the new Government over the coming weeks / months.
- 7.2 The Council will need to closely monitor any new or changed national policies so that the Council can evaluate the likely impact upon the Council and the associated financial strategies and budgets.
- 7.3 The Queen's Speech on the 27th May outlined a number of policy changes – more details are expected in due course and will be reported to members through subsequent monthly budget reports to this committee.
- 7.4 The Government has announced that an Emergency Budget will take place on 8th July – the implications of this will be reported in due course when they are available.

8. CONSULTATION AND CUSTOMER IMPACT

- 8.1 None as a direct consequence of this report. However members are reminded that the formal budget consultation period is from 13th January 2016 to 24th February 2016 when the Council sets its Council Tax for 2016/17. Comments from the consultation process will be reported to the Executive for consideration at its meeting on 17th February 2016.

9. POLICY IMPLICATIONS

- 9.1 As outlined in the report.

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10. USE OF RESOURCES

10.1 As outlined in the report.

11. RECOMMENDATIONS

11.1 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 delivery of efficiency savings for 2014/15 and 2015/16.
- d. Endorse the key points contained in the draft Business Rates Review consultation response at Appendix B.

Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports