

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 1
Report Originator	Strategic Management Team	<i>Fwd Plan Ref No: A15/030</i>	
Wards Affected	All	13 January 2016	
Title	BUDGET PROPOSALS FOR 2016/17 AND PREPARING FOR THE MEDIUM TERM		

Portfolio Holder: Cllr J Smith

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 2016/17 (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;
- c) provide an illustration of the Council's medium term financial projections.

2 INTRODUCTION / CONTENTS

- 2.1 As in previous years, the Provisional Local Government Finance Settlement was announced by the Government shortly before Christmas. The settlement provided provisional figures for 2016/17 and indicative figures were also provided for the three year period 2017/18 to 2019/20 – however it is far from clear what the financial landscape will be for local authorities over this period.
- 2.2 When announcing the Provisional Finance Settlement, the Government effectively commenced the formal consultation process on the draft figures. Whilst the draft grant figures for 2016/17 are firm proposals, the indicative figures for the following three years are available for local authorities only if they agree some form of 'efficiency plan' with the Government – no details have yet been provided about what such an agreement would contain.
- 2.3 Alongside the above announcement, the Government also issued a formal consultation paper about the future operation of the New Homes Bonus Scheme. Members will recall that a number of years ago that the Government top-sliced a significant amount of funding from the core annual grant and instead paid authorities a separate sum that was entirely dependent upon the number of additional new homes delivered each year. Authorities with a good track record of delivering growth (like Kettering Borough Council) have done comparably well out of this incentive based system since the scheme was introduced.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 2
------------------	------------------	----------------	---------------

- 2.4 The consultation on the future of the New Homes Bonus is a key consultation for authorities such as Kettering. The Council's medium term financial strategy has made assumptions about future levels of NHB funding and therefore the outcome of the consultation could have a significant impact upon it. Although the consultation paper has a number of different options within it, one of the key issues is that the Government have stated that it will be making savings of at least £800m nationally (this money will transfer to adult social care funding). This suggests that overall, the national pot could reduce by up to 2/3rds of its current level - the potential impact of this is covered in sections 6.19 to 6.25 and 7.13 to 7.17.
- 2.5 The Government have also indicated there will be a consultation on the implementation on the 100% Business Rates Retention Scheme (in summer 2016). Again this is a major issue for this Council and one that will require resourcing properly.
- 2.6 The Councils budget is predicated on a number of assumptions, one being the level of government grant. This still remains uncertain from 2017/18 despite indicative figures being provided. There is a need to further understand how some of the material budgets such as New Homes Bonus and retention of '100%' of Business Rates income will work moving forward. When this is understood, there will be a need to try and influence the national design of such schemes.
- 2.7 Although it is very important that the Council keeps its attention firmly focused upon the 2016/17 budget setting and delivery process, there are a number of significant issues which could impact upon the budget model from 2017/18 onwards that make the medium term position less clear or predictable.
- 2.8 The assumptions within the Council's Medium Term Financial Strategy will continue to be reviewed and amended where necessary. However there is much work to be undertaken to fully understand what this all means from 2017/18. What will actually happen will only become clearer as time progresses – however the level of volatility is probably greater than at any point in the past owing to the uncertainties around New Homes Bonus and Business Rates and the government are also considering transferring some new responsibilities to local government.
- 2.9 To help Members navigate this report, it contains five sections:

Section A 'Budget Strategy' (pages 4 to 10) – Provides specific reference to the Council's:

Context	Page 4
Policy Position	Page 7
Guiding Principles	Page 8

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 3
------------------	------------------	----------------	---------------

Section B 'The current year's Budget Position (2015/16)' (pages 11 to 16)

– Provides the detail to the current year's budget position.

Section C 'Next year's draft Budget Position (2016/17)' (pages 17 to 28)

draft budget

Section D 'Medium Term Financial Landscape' (pages 29 to 36) –

Provides details to the following technical aspects of the budget process:

National Financial Landscape	Page 29
Local Government Grant Settlement	Page 31
Medium Term Financial Forecast	Page 35

Section E 'The Medium Term Prospects' (pages 37 to 39) – Provides an update on the Council's Medium Term Financial Strategy

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

The report contains the following appendices

- A – Draft Budget Booklet
- B – Budget Consultation Timetable
- C - Key Messages from the 2015/16 Budget Process

Committee	EXECUTIVE	Item 10	Page 4
------------------	------------------	---------	--------

Section A: Budget Strategy

3 CONTEXT / BACKGROUND

- 3.1 The Council's budget strategy is well known to members through the monthly 'maintaining a durable budget' reports to the Executive Committee.
- 3.2 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.
- 3.3 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, revenue contributions, capital receipts and borrowing.
Housing Revenue Account	All revenue expenditure and income on activities related to being a housing landlord.

- 3.4 The Council has an established policy position from which it considers its budget – this includes a number of guiding principles / rules which ensure that the Council has a robust medium term financial strategy. A reminder of the policy position is provided later in this section, before we do that, below is a reminder of some of the key messages from **last year's budget process** (as a reference point). The full list of the key messages is provided at Appendix C.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 5
-----------	------------------	---------	--------

SOME OF THE KEY MESSAGES FROM THE LAST BUDGET PROCESS – A REMINDER

3.5 When the Council set its budget for 2015/16 in February 2015, the following points were outlined at that time:-

- ◆ *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 its overall support for the voluntary sector;*
- ◆ *The changes to the national landscape continue to bring greater uncertainty and volatility to future projections.*
- ◆ The Council needs to continue its **excellent track record of delivering budget savings** to balance the budget for 2015/16, where £1,579,000 of identified savings need to be delivered.
- ◆ 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 2015/16 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. This financial discipline is a pre-requisite of any future financial strategy.

The Medium Term

2016/17 and Beyond

- ◆ Based upon the assumptions applied, the future years' budgets would require ongoing year on year savings of the following (on top of the £8.5m ongoing savings achieved since 2010);

2016/17	£1,464,000
2017/18	£1,170,000
2018/19	£1,168,000
2019/20	£1,134,000

- ◆ The Council will need to continue to develop a more commercial approach to ensure that its income base remains buoyant. Given the medium term picture, the Council's Chief Executive (in their role as Head of Paid Service) is giving consideration to how the organisation can best meet

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 6
------------------	------------------	---------	--------

these challenges – this is likely to be the subject of a separate report in due course.

- ◆ Hitherto, the Council has been able to close the budget gap without increases in Council Tax, cuts to front-line services, or cuts to voluntary sector funding. The scope for closing projected budget gaps without deploying some of these options looks increasingly doubtful in the medium term - although it is difficult to say exactly at which point (due to the national political situation).

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 7
-----------	------------------	---------	--------

4 POLICY POSITION

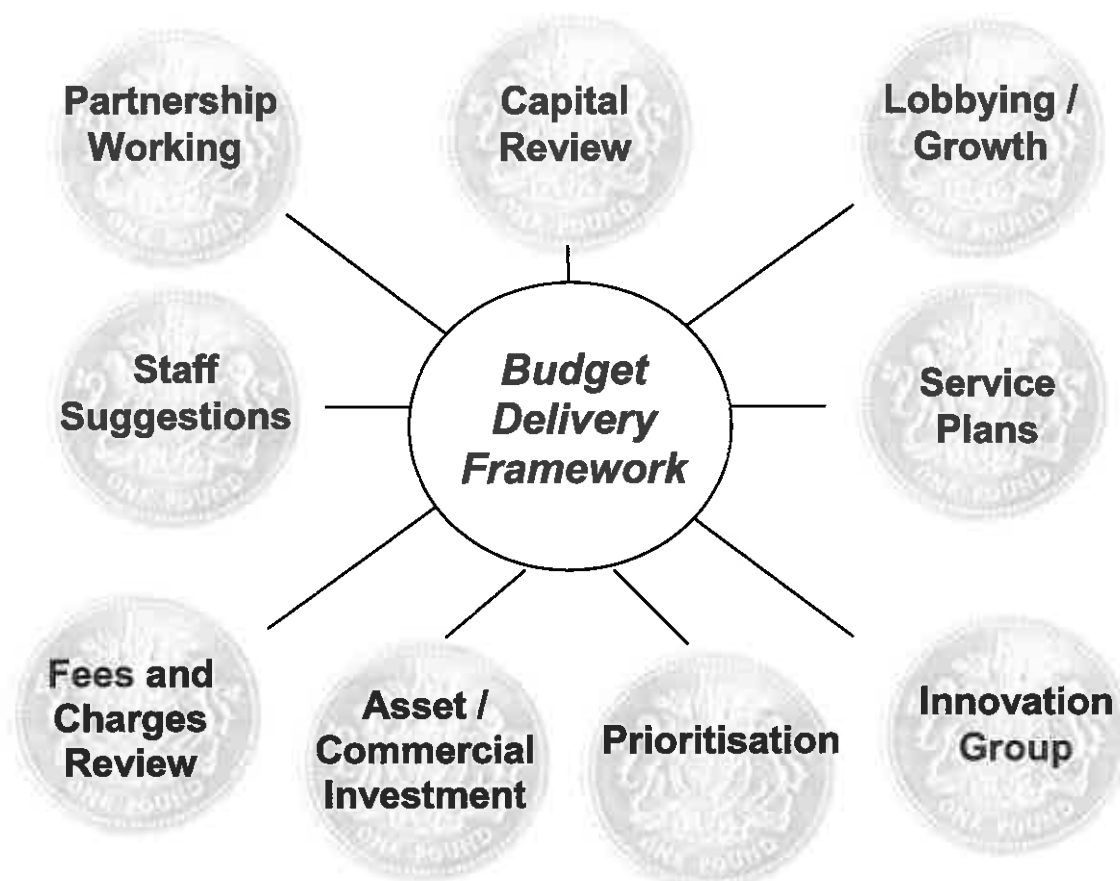
- 4.1 At the March 2015 Executive meeting Members agreed that the budget delivery framework used in the five previous budget rounds be used for the preparation of the 2016/17 budgets. Specifically, members approved;

“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”*

- 4.2 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. The framework now consists of nine workstreams following the addition of the Asset / Commercial Investment Framework at the June Executive meeting – as illustrated in the following chart;

Committee	EXECUTIVE	Item 10	Page 8
-----------	------------------	---------	--------



4.3 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 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;

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 9
------------------	------------------	---------	--------

- 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.*

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 10
------------------	------------------	---------	------------

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.*
- 4.4 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 five years. This will continue for maintaining a durable budget into the medium term.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 11
-----------	------------------	---------	------------

Section B: The Current Year's Budget Position (2015/16)

5 CURRENT YEAR'S BUDGET (2015/16) – 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 2015/16	Projected Outturn 2015/16	Variance (Underspend) / Overspend
	£	£	£
Net Expenditure	10,117,000	10,117,000	0

5.3 From the most recent budget process, Members will recall that additional ongoing savings of £1,579,000 were required for this year (2015/16).

5.4 As previously reported to this Committee, the Council has identified ongoing budget savings of £1,579,000. The budget delivery framework has continued to be used in order to identify these savings and are summarised in Chart 1:

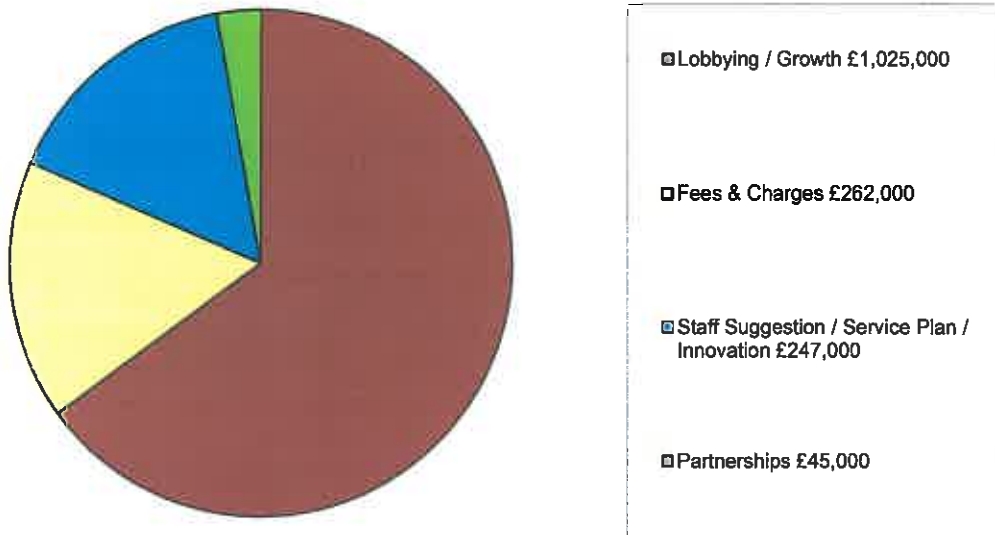
5.5 The Council has had to manage a significant financial pressure during 2015/16 as a result of a reduction in income for recycling commodities – this results from a general fall in both national and global prices and has created an in year pressure of around £250,000. This has generally been offset by an increase in the volume of planning applications. These changes have been reflected in the Council's revised budget and will continue to be closely monitored.

5.6 There has also been additional pressures on the homelessness budget as demand continues to increase. Although the current budget is sufficient to deal with the current pressures – it is nonetheless a specific service pressure that members should be aware of. The proactive measures that the Council has taken in recent years, has meant that the pressures currently being felt are significantly less than would otherwise have been the case.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 12
------------------	------------------	----------------	----------------

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



- 5.7 During the budget process, members were informed of a number of 'big ticket' items, these have previously been reported within the Council's swing-o-meter. 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.
- 5.8 A direct consequence of the early delivery of savings for 2016/17 and a number of one-off items is that the Council has some flexibility to help deal with specific risks that are identified in the medium term. 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 New Homes Bonus, business rates income / welfare reform and providing continued opportunity for 'invest to save' type schemes.
- 5.9 The search for savings is a continuous process, as is their implementation. They are implemented once resilience tested and the trend over the past number of years is that the Council has been successful in delivering savings early.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 13
------------------	------------------	---------	------------

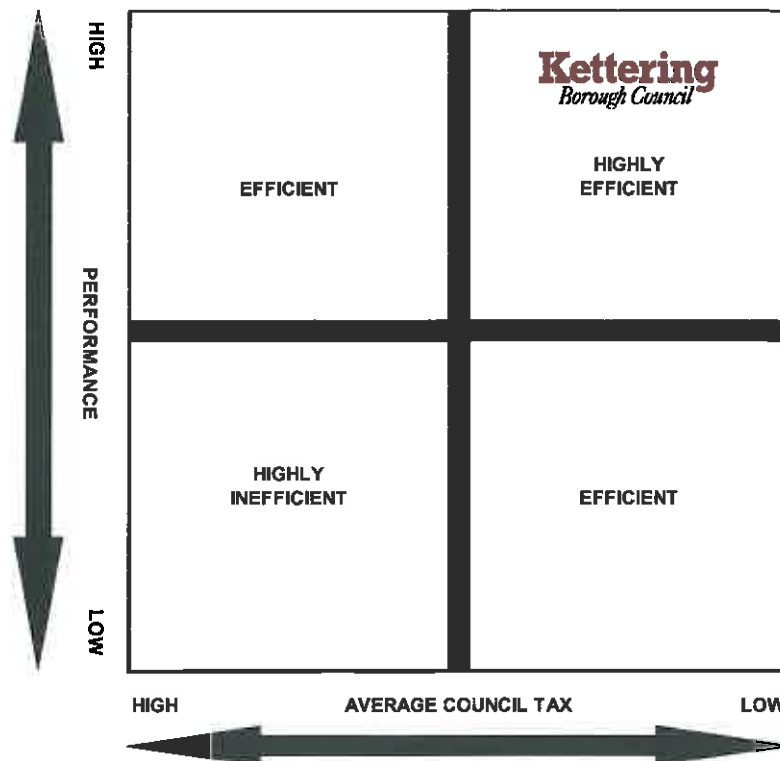
- 5.10 The General Fund working balance is estimated to be £1.5m at 31st March 2016. This is generally in line with best practice and in line with the current policy position.
- 5.11 Through its proactive approach, the Council is delivering a balanced budget and is also able to have a resilient reserve 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 where budget savings are identified in full. The Council does however use any in-year flexibility to supplement its earmarked reserves when specific risks are identified – to this end the council's reserves will be supplemented to deal with the specific current risks of (a) Business Rates Appeals, and (b) future national changes in New Homes Bonus funding.
- 5.12 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 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.
- 5.13 The Council's impressive record in identifying and delivering efficiency savings over the past seven years, including the year under consideration (2016/17), are around **£9.880m** - 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
2014/15	1,330
2015/16	1,580
Total	8,360
2016/17	1,520
Total	9,880
% Cash Savings (Net Budget)	99%

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 14
------------------	------------------	---------	---------

- 5.14 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 seven year period (as detailed in Table 3) the efficiency savings will be equivalent to around the Council's draft net budget (which stands at £9.975m for 2016/17).
- 5.15 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 £9.975m in the past seven years, the Council's level of council tax charged remains below the national average and performance remains above average.
- 5.16 Members will recall the following illustration that summarises the Council's overall position as being a 'high performing / low cost' local authority.



- 5.17 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 since 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 a low cost local authority has been a significant achievement and has not happened by accident.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 15
------------------	------------------	---------	---------

5.18 To achieve this position with no reduction in front line services has been a difficult but ultimately successful piece of work to date.

CAPITAL PROGRAMME – Latest Estimate

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

Table 4 - Capital Programme	Current Budget 2015/16	Projected Outturn 2015/16	Variance (underspend) / overspend
	£'000	£'000	£'000
Expenditure			
HRA Schemes	5,463	5,312	(151)
General Fund Schemes	3,411	2,795	(616)
	8,874	8,107	(767)
Financing			
Government Grants	706	650	(56)
Prudential Borrowing	3,073	1,671	(1,402)
Revenue Contribution	3,912	4,855	943
Capital Receipts	1,183	931	(252)
	8,874	8,107	(767)

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

5.21 The HRA Capital Programme following Full Council approval reflects the use of 1 4 1 capital receipts which facilitate the delivery of 8 new social housing units by Waterloo Housing Association and through the use of 1 4 1 receipts and external borrowing for the Council to purchase up to 5 special needs units from Waterloo Housing Association. The main General Fund variance as previously reported relates to the timing for the delivery of the Fleet maintenance facility being later than anticipated.

5.22 Table 4 illustrates that based upon the latest estimates for 2015/16; prudential borrowing of £1.671m will be required to finance the programme – the reduction in borrowing results from a higher Revenue Contribution. Borrowing is in accordance with the Prudential Code and 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.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 16
------------------	------------------	---------	---------

Housing Revenue Account – Latest Estimate

5.23 The updated projected outturn for the Housing Revenue Account is shown in Table 5. The Housing Revenue Account is currently projected to come in £100,000 less than budget. The main variance relates to income being around £40,000 greater than budget. This results from improved void times and the number of Right to Buy sales being lower than budgeted.

Table 5 HRA	Current Budget	Projected Outtrn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,954	15,897	(57)
Gross Income	(15,954)	(15,997)	(43)
Net Expenditure	0	(100)	(100)

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

5.25 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)

5.26 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.

5.27 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.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 17
-----------	------------------	---------	------------

Section C: Next Year's Budget Position (2016/17)

6 DRAFT BUDGET – 2016/17

- 6.1 The consideration of the draft budgets for 2016/17 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 2016/17

- 6.3 As well as delivering the identified framework savings for 2015/16, work has continued throughout the year on identifying savings for the following year – 2016/17. The detailed work on the budget has now been completed and the total savings required to deliver a balanced budget has increased slightly from £1,464,000 to £1,522,000. The main change being a greater reduction in Government Grant than projected.
- 6.4 The previous budget report to this Committee in December outlined that savings of £1,300,000 had already been identified – at the time this meant that additional on-going savings of £164,000 were required to 'balance the budget'. Following the completion of the detailed draft budget process and the provisional grant settlement this was further increased by £58,000. It is pleasing to report that additional on-going savings of £222,000 have been identified - meaning that the Council will be in a position to set a 'balanced budget' for 2016/17 – subject of course to successfully delivering the savings during the year **and** members not increasing the savings target during the budget process.
- 6.5 Following on from the successful delivery of the required framework savings for 2015/16, 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 2017.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 18
------------------	------------------	---------	---------

TABLE 6 - MEDIUM TERM FINANCIAL FORECAST			
		Zone of "Predictability"	
		2015/16	2016/17
		Forecast £000	Forecast £000
1	Net Council Budget	11,696	11,497
2 Forecast Resources:			
Government Grant			
2a	Revenue Support Grant	(1,736)	(1,161)
2b	Business Rates	(2,244)	(2,310)
Total Government Grant		(3,980)	(3,471)
Council Tax / Coll'n Fund		(100)	(250)
Income From Council Tax		(6,037)	(6,254)
Total Resources		(10,117)	(9,975)
3	Budget (Surplus) / Deficit	1,579	1,522
4	Savings Identified	(1,579)	(1,522)
5	Savings - To be Identified	0	0
6	Budget (Surplus) / Deficit	0	0
GENERAL FUND WORKING BALANCE			
		2015/16	2016/17
		£000	£000
7	Estimated Opening Balance	(1,415)	(1,505)
8a	Council Tax Grant 14/15	(65)	0
8b	Council Tax Grant 15/16	(65)	0
8c	Town Centre Initiatives	40	0
9	Estimated Closing Balance	(1,505)	(1,505)

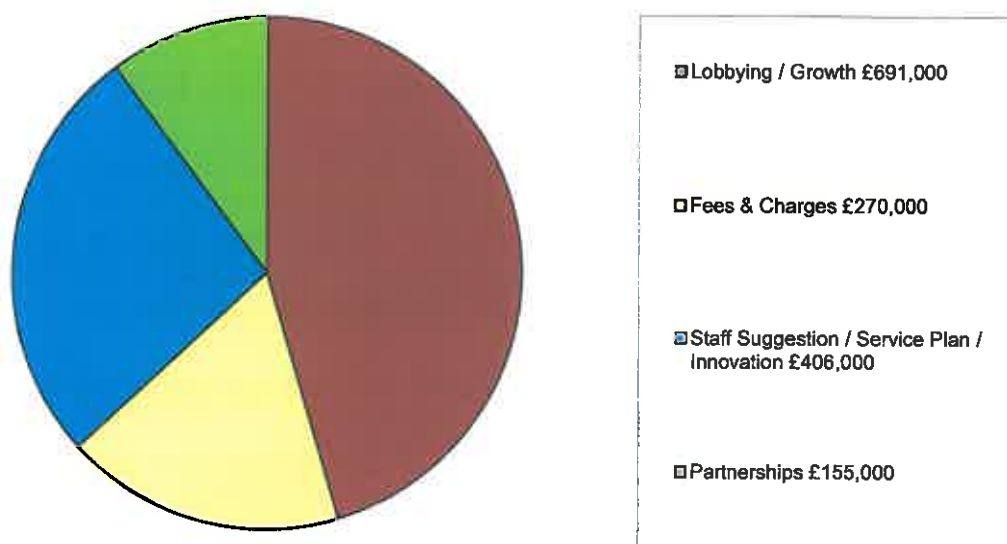
6.6 The Council has a statutory duty to consider the medium term financial projections when setting its budget for 2016/17.

6.7 From Table 6 it can be seen that the Council's budget delivery framework will need to deliver £1,522,000 of savings in 2016/17 to maintain a balanced budget. The assumptions will need to be kept under close review during 2016/17. The identified savings are summarised in Chart 2:

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 19
------------------	------------------	----------------	--------------------

Chart 2 - Identified Framework Savings for next Year (2016/17)



- 6.8 The Council's success in delivering a balanced budget over the past six years has come from the Budget Delivery Framework (as outlined in Section 4) and particularly from the Staff Suggestions and Innovation Framework which prior to 2015/16 annually contributed to around 40% of the total savings target. Looking forward, it is important to note that in both 2015/16 and 2016/17 the biggest contributing workstream becomes Lobbying / Growth – this includes income that is generated as a direct result of nudges and changes to national policy (such as New Homes Bonus and Business Rates) which is harvested as new homes and businesses are delivered on the ground.
- 6.9 Table 7 summarises how the £1,522,000 for 2016/17 has been identified and compares this to the savings of £1,579,000 identified for 2015/16. 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).

BOROUGH OF KETTERING

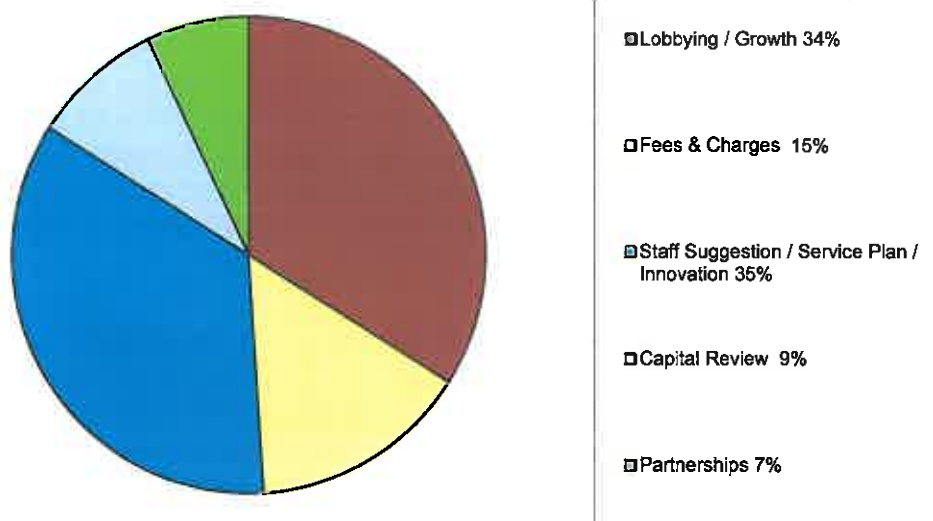
Committee	EXECUTIVE	Item 10	Page 20
------------------	------------------	---------	---------

Table 7 – Identified Framework Savings	2015/16		2016/17	
	£'000	%	£'000	%
Staff Suggestions / Service Plan / Innovation	(247)	15	(406)	28
Fees and Charges	(262)	17	(270)	17
Partnerships	(45)	3	(155)	10
Lobbying	(1,025)	65	(691)	45
Total Identified Framework Savings	(1,579)	100	(1,522)	100

6.10 Around half of the savings identified for 2016/17 have been generated through the lobbying framework. As previously mentioned future work streams and particularly that of commercial / asset investment is going to become increasingly important in future years – something which is currently being progressed through the Flexible Resources Working Group.

6.11 Chart 3 details where the total framework savings have been identified since the frameworks were implemented back in 2010.

Chart 3 - Total Identified Framework Savings



6.12 Prior to the provisional grant settlement the Council had been modelling a reduction in government grant of around £600,000 (15%) for 2016/17. The Council's provisional grant settlement for 2016/17 was a cash reduction in grant of £687,000 (16.5%). Further details regarding the provisional grant settlement are provided in Section D.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 21
------------------	------------------	----------------	--------------------

6.13 The Council will need to continue to keep its key budget assumptions under review throughout 2016/17. These continue to be unprecedented times and the assumptions used are again likely to require amendment through the year to respond to changes in national policy, in particular;

- Inflation
- Growth
- Local economic impact
- National economic impact
- Impact from other authorities

6.14 If the Council is to continue to set a balanced budget it is becoming increasingly clear that the success it has achieved from existing frameworks will need to have a revised emphasis, including more attention being given to possible commercial investment opportunities if the Council is to reduce reliance on central government funding and to become more self-sufficient.

6.15 The Council continues to explore new fiscal arrangements to facilitate an asset acquisition strategy and types of governance models that best meets the needs of the business as it moves to a more self-sufficient business model. The changes will be subject to future reports to the Executive and / or Full Council.

6.16 Some of the major service risks and pressures the Council face in 2016/17 and the years thereafter are highlighted in the following paragraphs.

Service Pressures

Other Public Sector Providers

6.17 The Council is seeing a number of public sector providers facing significant financial challenges, it is important the Council continues to adhere to the principles which it has set and does not deviate from these, particularly with regard to the Budget Containment Strategy principles and in particular point 5 which is reproduced below:

- 5. The Council should not substitute itself as a provider / funder of services when another public provider cuts such a service.*

6.18 It is clear that Northamptonshire County Council face significant financial challenges going forward – this Council has produced a consultation response to NCC that is in line with its guiding principles and policy position.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 22
------------------	------------------	---------	---------

New Homes Bonus

- 6.19 Members may recall that in July 2013 the Government undertook a consultation on NHB with a view to £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. This Council worked closely with CLG officials and has consistently and persistently said that the funding should come from anywhere other than New Homes Bonus. This was recognised and the Government announced in the 2013 Autumn Statement that it has decided not to 'top slice' the New Homes Bonus for those authorities outside of London.
- 6.20 A further review evaluating New Homes Bonus was undertaken by the Government during 2014 and key findings include that the policy was delivering to the key principles of being "powerful" "simple" "transparent" and "flexible". Despite this a further consultation has been issued that seeks to transfer **at least £800m** from New Homes Bonus to help pay for adult Social Care budgets at County Council level.
- 6.21 The Government are not proposing changes for 2016/17 but the implications from 2017/18 onwards could be significant. Table 8 reminds members of the strategy that was approved in September 2013 in relation to the use of new homes bonus funding to support the Council's base budget.

Table 8 - Current New Homes Bonus Strategy						
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	%	%	%	%	%	%
Year 1 - 2011/12	100%	100%	100%	100%	100%	100%
Year 2 - 2012/13	0%	50%	50%	75%	80%	83%
Year 3 - 2013/14	0%	0%	25%	50%	60%	64%
Year 4 - 2014/15	0%	0%	0%	25%	40%	47%
Year 5 - 2015/16	0%	0%	0%	0%	20%	30%
Year 6 - 2016/17	0%	0%	0%	0%	0%	13%
Amount incorporated into GF Budget	£343,000	£612,000	£697,000	£1,012,000	£1,234,000	£1,407,000
% of NHB included in the budget	100%	70%	57%	63%	58%	54%

- 6.22 Although the Council has not brought 100% of the new homes bonus funding into the base budget, the cash totals that are being applied are significant in terms of their absolute value. It is estimated that the Council will receive around £2.6m in New Homes Bonus in 2016/17 and around £1.4m (54%) is included in the Council's General Fund Budget. If the Government were to reduce the New Homes Bonus funding immediately by around two thirds the Council would receive around £870,000 – which would result in an additional budget pressure

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 23
------------------	------------------	----------------	--------------------

of around £540,000 whilst requiring all the New Homes Bonus funding to be brought into the base budget.

- 6.23 The NHB consultation is a key issue for the Council. The outcome will have a direct and real impact on the medium term financial strategy. Most commenters are predicting that District Councils will see a reduction in NHB of somewhere between 1/3 and 2/3 over the years from 2017/18. Although it is not possible to predict the outcome of the consultation at this stage (it is important to give consideration to the possible range of financial implications that it may have).
- 6.24 The Council in previous years prudently created a specific reserve to help 'smooth' the impact of any funding reductions in the future (should that occur). The comments earlier in the report about supplementing reserves for this purpose are important to note – especially in relation to possible changes to NHB, Business Rates and core grants.
- 6.25 There are a number of other pressures the Council will face in both the short and the medium term the key ones are summarised in Table 9.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 24
------------------	------------------	---------	---------

Business Risk	Issue	Possible Financial Range
Business Rate Appeals	The authority continues to carefully monitor the financial implications of the growing number of business rate appeals nationally. There was a significant increase in appeals lodged at the end of March 15 and these continue to be cleared. Appeal costs continue to be an issue that could have significant financial implications to local authorities.	+ £500,000
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 however is demand led and currently continues to experience pressures.	+ £200,000
Recycling Commodities	The market price for the various commodities that the Council recycles is becoming more volatile. This is an area that the Council will continue to monitor closely.	+ £200,000
Council Tax Support	Members will be aware of this issue from the report considered by Full Council in December 2015. It continues to be an area that requires careful budget monitoring.	+ £100,000
Utilities Cost	The assumptions used will need close monitoring during the year in case of further changes. A 1% change in these costs is around £10,000.	+/- £50,000

DRAFT CAPITAL PROGRAMME (2016/17 – 2020/21)

- 6.26 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 2016/17 together with indicative funding for the following four years.
- 6.27 Members are required to approve the capital programme for 2016/17 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.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 25
------------------	------------------	---------	---------

6.28 The draft capital programme for 2016/17 – 2020/21 is detailed in Appendix A – Section 2. The high level summary is reproduced in Table 10.

Table 10 - Capital Programme	Draft Budget 2016/17	Indicative Estimate 2017/18	Indicative Estimate 2018/19	Indicative Estimate 2019/20	Indicative Estimate 2020/21
	£'000	£'000	£'000	£'000	£'000
Expenditure					
HRA Schemes	3,887	4,059	3,345	3,170	3,385
General Fund Schemes	3,767	3,140	2,917	2,887	2,887
	7,654	7,199	6,262	6,057	6,272
Financing					
Capital Receipts	717	1,006	446	483	425
Prudential Borrowing	3,387	2,682	2,557	2,527	2,527
Revenue Contribution	3,310	3,291	3,039	2,827	3,100
Grants and Contributions	240	220	220	220	220
	7,654	7,199	6,262	6,057	6,272

6.29 From reference to Table 10 it can be seen that:

- ◆ The draft programme for 2016/17 is £7.654m
- ◆ The indicative programme from 2017/18 – 2020/21 is around £6.5m per annum.
- ◆ In line with the Council's prioritisation guiding principles, a global capital budget sum of £2,000,000 has been included in the Capital Programme each year from 2016/17. This will provide a source of funding for the Council to use when pursuing commercial property deals or investments that yield a positive revenue return. Individual projects will of course be subject to the normal approval process. If the Council is to achieve the revenue yield to support the budget going forward the level of investment that is likely to be required over the coming years will be significantly higher than £2m per annum. Such investment opportunities will be the subject of separate reports to the Executive and / or Full Council owing to the scale of investment.
- ◆ Also in line with the Council's prioritisation guiding principles and asset / commercial investment workstream – it is likely that should any major investment opportunity arise during the year they will be the subject of specific reports to both Executive and / or Full Council. As such budgets would need to be incorporated at the point of Council approval.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 26
------------------	------------------	---------	---------

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 2015/16 to 2020/21 assumes funding from Right to Buy receipts of £100,000 per annum.

6.31 **Borrowing** – the estimate for borrowing for 2016/17 is £3.387m. The revenue impact of borrowing (be it external or internal) in 2016/17 is included in the revenue budgets. Members are reminded of the earlier comments made in paragraph 5.22.

DRAFT HOUSING REVENUE ACCOUNT (HRA) 2016/17

6.32 A summary of the draft HRA budget for 2016/17 is included at Appendix A - Section 3 of the budget booklet. The high level summary is reproduced in Table 11:

Table 11 - Housing Revenue Account	Draft Budget 2016/17
	£'000
Gross Expenditure	15,809
Gross Income	(15,809)
Net Expenditure	0

6.33 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.

6.34 The Government announced in summer 2013 that from 2015/16 social rents would rise by CPI plus 1% each year for ten years, previously social rents were rising by RPI plus 0.5% plus £2. Members will recall that in the Chancellor's

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 27
------------------	------------------	----------------	--------------------

Budget Statement on 8 July 2015 it was announced that social rents would reduce by 1% a year for the next four years which was clearly at odds with the ten year rent setting formula.

- 6.35 The differential impact on the rental income in the Council's Medium Term Financial Strategy on the previous formula (CPI + 1%) vs a reduction of 1% for four years is in the order of **£65m** (cash) over the life of the Business Plan.
- 6.36 The impact in the first year is in the order of £500,000 (cash) – the rental income in the Housing Revenue Account reflects the 1% rent reduction (this is the income assumed in the income figure in Appendix A Section 3). 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.
- 6.37 The reduced rental income (as a result of the change in Government policy) has meant that the HRA business plans are being redrafted. Consequently revenue funding for the capital programme has reduced – the impact being that the capital programme has been revised accordingly. More work is required to look more closely at the capital investment requirements in the medium term for the housing stock – as such the programme may need to be amended further in due course.
- 6.38 The draft budget will be discussed by the Tenants' Forum at its meeting of 11th February 2016 along with the proposal for rent setting. This will be reported back to the Executive meeting on 17th February 2016 for approval.
- 6.39 Sections 5.25 – 5.27 referred to the new 'self-financing' system of housing finance and the borrowing strategy undertaken to finance this transaction. 2016/17 is the fifth year of the self-financing system and whilst it enables the Council to benefit from the greater certainty as the Council repays debt and interest on the loans opposed to receiving an annual subsidy determination which was usually notified in December, there has been significant financial implications from a new rent setting formula as outlined above.
- 6.40 The subsidy payments have 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. The housing debt at 31st March 2015 was £65.9m. The 2015/16 budget provides for a further debt repayment of £3.5m which would reduce the debt to £62.4m at 31st March 2016.
- 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.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 28
------------------	------------------	---------	------------

- 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 composition of the draft budget for 2016/17.

Committee	EXECUTIVE	Item 10	Page 29
------------------	------------------	----------------	--------------------

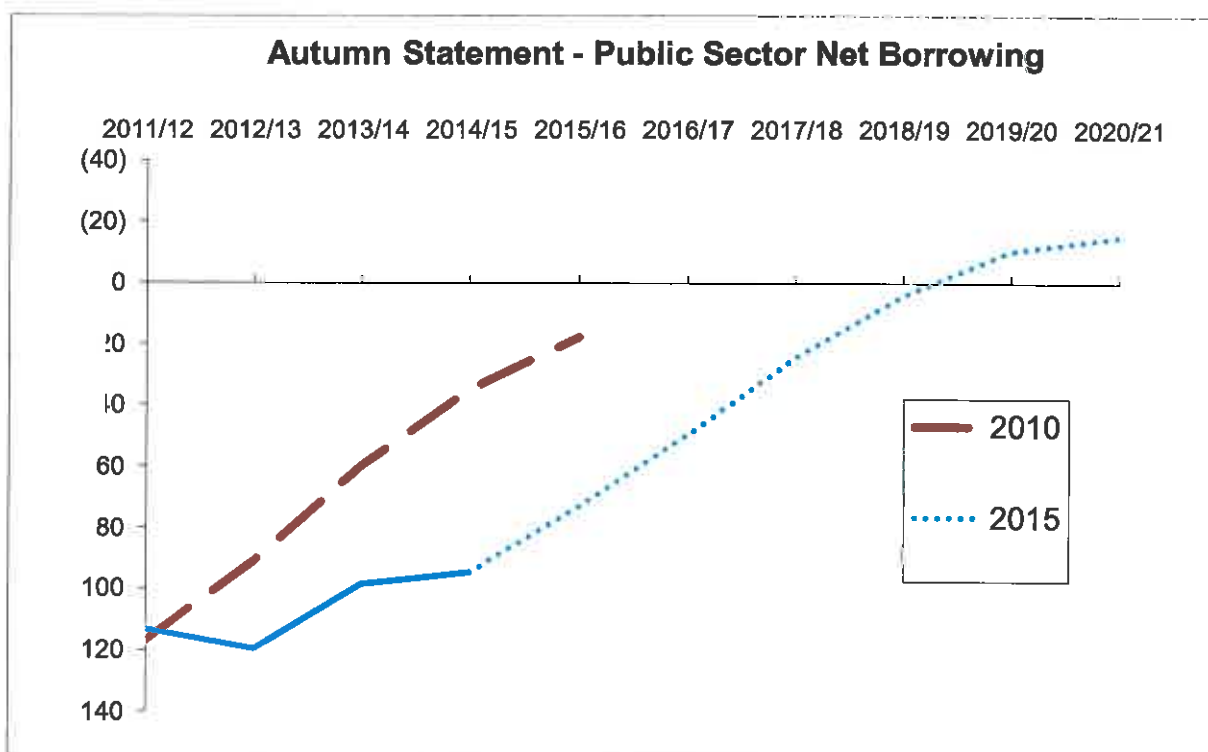
Section D – Medium Term Financial Landscape

7.1 This section makes the link between the national financial landscape and the Council’s resultant medium term financial position.

National Financial Landscape

7.2 There continues to be much uncertainty about local government funding in the medium term despite the announcement of a four year settlement. This section looks at two key national economic indicators (Public Sector Net Borrowing and Gross Domestic Product).

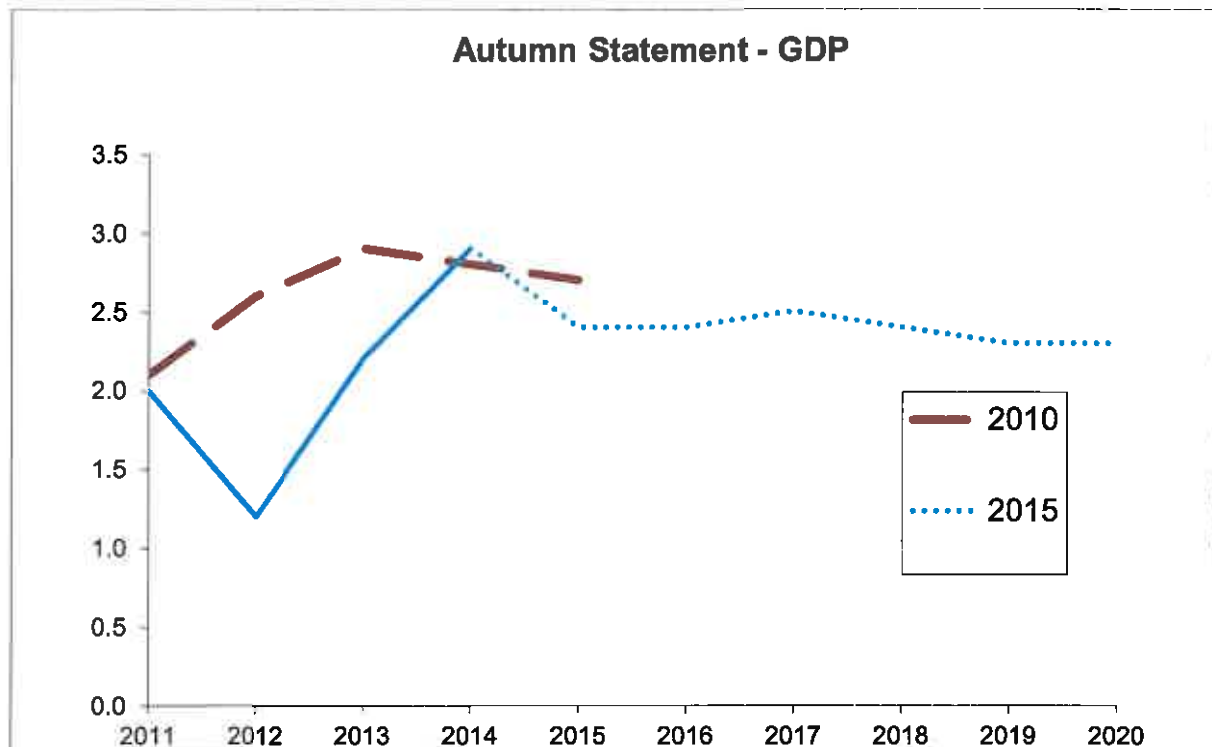
7.3 The following chart summarises the changes in Public Sector Net Borrowing between the 2010 and 2015 Autumn Statement. This illustrates that the rate of reduction in borrowing has not been as great as predicted at the beginning of the previous parliamentary term reductions are however being made and these are significant in cash terms.



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

BOROUGH OF KETTERING

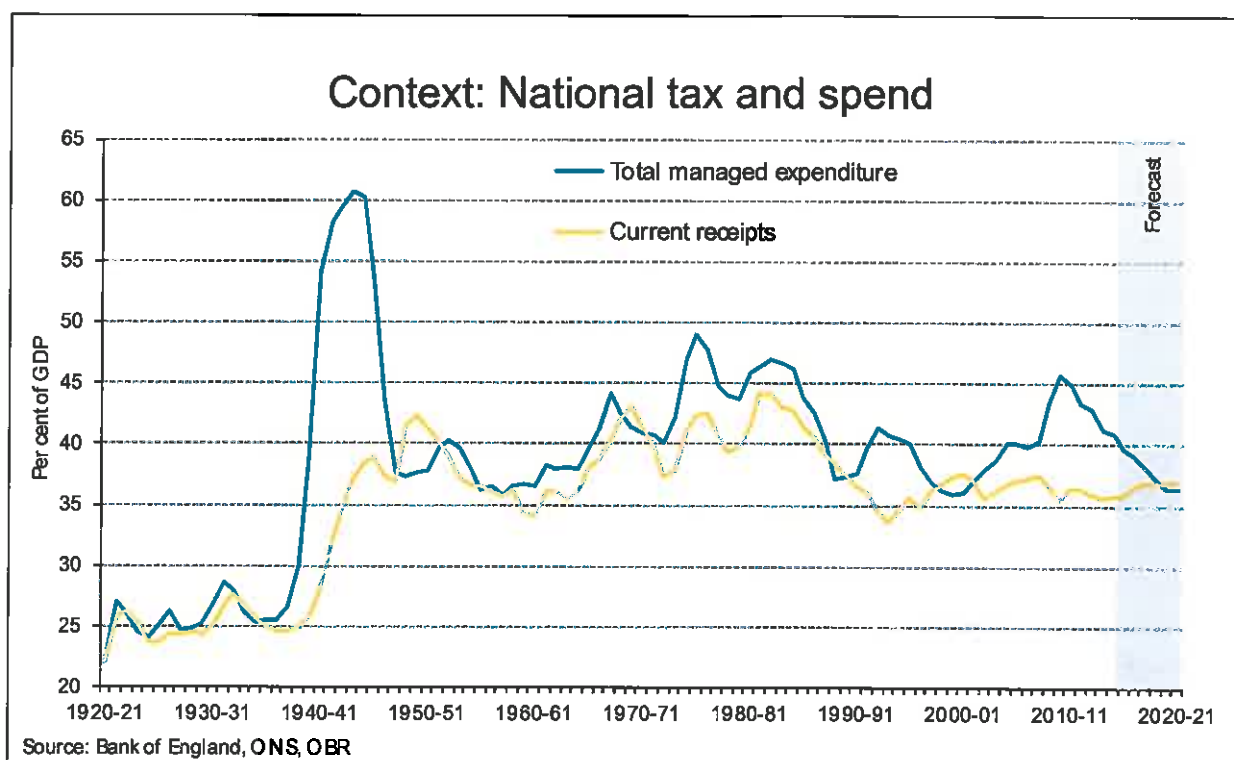
Committee	EXECUTIVE	Item 10	Page 30
------------------	------------------	---------	---------



- 7.5 Whilst the economy continues to show signs of recovery as GDP is slightly higher than anticipated. Public Sector Borrowing has not reduced as previously anticipated, This will result in unfavourable conditions for local government and the public sector in the coming years until the Public Sector Net Borrowing position has been significantly reduced.
- 7.6 The following graph is interesting context in that it analyses the gap between income and expenditure going back many years, of particular interest is the current position and forecast trend of the total managed expenditure line from 2010 to 2021 which shows a significant reduction in the public sector as emphasised by GDP and Public Sector Borrowing.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 31
------------------	------------------	----------------	----------------



Local Government Grant Settlement

- 7.7 The Council's provisional grant settlement for 2016/17 is £3,471,000; this represents a cash reduction in grant of £687,000 (16.5%) from 2015/16 and this is reflected in the Council's Medium Term Financial Forecast (Table 15).
- 7.8 The grant announcement provided indicative individual settlements for 2017/18 to 2019/20. Whilst the advance notice is broadly welcome these are only indicative figures at this stage and come with some currently unknown caveats.
- 7.9 The Government have made an offer that any Council can take up a four year settlement to 2019/20 as long as they agree an "efficiency plan" with the Government – (it is not clear what this means), therefore we must be cautious over the period 2017/18 to 2019/20 and await clarification of what this actually means.
- 7.10 Now that the provisional settlement for 2016/17 and indicative figures for 2017/18 – 2019/20 have been announced the Council has remodelled the medium term grant assumptions. Table 13 compares the grant levels the Council had been modelling prior to the provisional financial settlement and the figures included in the recent announcement. The Government have changed the presentation of the data that makes up the grant settlement – as such to enable a like for like comparison the grant figures previously included in the Council's Medium Term Financial Strategy have been rebased.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 32
------------------	------------------	---------	---------

TABLE 13 GRANT ASSUMPTIONS			
	<i>Previous MTFs</i>	<i>Revised MTFs</i>	<i>Difference</i>
Year	£'000	£'000	£'000
2016/17	(£3,494)	(£3,471)	£23
2017/18	(£2,932)	(£2,901)	£31
2018/19	(£2,409)	(£2,596)	(£187)
2019/20	(£1,920)	(£2,253)	(£333)
2020/21	(£1,462)	(£2,000)	(£538)

7.11 The figures in Table 13 compare the levels of grant that the Council had previously assumed in the medium term financial strategy to the provisional levels recently announced by the Government. When considered in isolation the figures for the years 2017/18 – 2020/21 are of limited value at the present time – this is because we need to consider the possible range of reductions in the NHB funding alongside those to have a full picture.

7.12 Though we do not know what the reduction in NHB funding will be at the present time, it is sensible to make some assumptions so the Council's financial strategy can be re-modelled.

NEW HOMES BONUS

7.13 As mentioned in the previous paragraphs, the future operation on the New Homes Bonus scheme will have a significant impact on the Council's medium term budget position.

7.14 The current formal Government consultation on the future options for the scheme closes in March 2016. Although it is not clear how the scheme will operate, the Government have been clear that it will be looking to take out at least £800m from the current funding base (to pass over for Adult Social Care funding). Based on the options in the consultation paper, most commenters expect funding to District Councils to reduce by between 1/3 and 2/3 of its current level. Changes will not take place until 2017/18 – how any changes will be phased in is not currently known.

7.15 Although figures for 2016/17 are known, the figures for the period 2017/18 – 2020/21 are not. We should know more information once the consultation has finished and firm proposals come forward – this is expected to be later in 2016. In the meantime the following revised assumptions / numbers have been used in the medium term financial strategy.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 33
------------------	------------------	---------	---------

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2020/21 £'000	2021/22 £'000
MTFS Dec 15	1,407	1,407	1,407	1,407	1,407
Revised MTFS	1,407	1,407	1,132	857	857
Difference	0	0	275	550	550

7.16 What this means is that the MTFS has had a further reduction of £275,000 in budget in 2018/19 and 2019/20. It is important to note that we will need to revise the budget figures for 2017/18 to 2021/22 once the new scheme is announced – however the Council can at least consider the 2016/17 budget in the knowledge that the figure is already known.

7.17 It would not be surprising if the Council has to reduce its budget assumptions for NHB in the medium term – this could have the impact of increasing the required savings target. Although it may be premature to go further than the assumption in Table 14, members may wish to debate whether we should.

BUSINESS RATES

7.18 The Government announced in the Autumn Statement 2015 that it would effectively end paying any Revenue Support Grant by 2020 and would move to a new system of 100% retention of Business Rates.

7.19 It is anticipated that a formal consultation will start later in 2016 about how the new system will operate. The Government have been clear that they have not yet started this work and that it will be a major project with radical outcomes – they have however said that new responsibilities will be given to Local Government as part of a new system.

7.20 This is a major issue / risk for the Council and one that the authority must get involved with from the outset. Previously, KBC have helped shape the format of changes to the Business Rates scheme to the advantage of all authorities in the County – much work and resource will be required once more.

7.21 The potential ramifications of changes to the Business Rates scheme should not be understated – there have been very few (if any) major changes in funding mechanisms over recent years that have actually resulted in local authorities being better off financially in the medium term – housing finance being one very good example. It would be prudent to assume the same in relation to Business Rates.

COUNCIL TAX

7.22 Since 2010, the Government have heavily encouraged local authorities to freeze their Council Tax each year. This resulted in the introduction of an annual referendum threshold (generally 2%) together with annual Council Tax

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 34
------------------	------------------	----------------	--------------------

Freeze grants as an incentive for those Councils that did not increase their Council Tax.

- 7.23 The provisional grant settlement 2016/17 signalled a major policy change by the Government in relation to Council Tax levels – there is no longer an emphasis (or indeed any incentives) to freeze Council Tax from 2016/17. When calculating the provisional settlement, the Government have assumed that all Shire Counties will increase their Council Tax by the threshold amount for 2016/17. The indicative grant levels for the period 2017/18 – 2020/21 also assumes that all local authorities will increase their Council Tax levels up to the threshold each year.
- 7.24 The Council's medium term financial strategy (shown in Table 15) is shown prior to the consideration of any Council Tax increases. Members will need to consider the medium term financial projections, the resultant savings that are required each year and the overall level of uncertainty and risks when considering Council Tax levels for 2016/17 (and subsequent years). The stronger the Council Tax yield – the greater the flexibility to deal with the future.
- 7.25 As a result of the above changes, the updated Medium Term Financial Strategy (and supporting notes) is shown in Table 15.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 35
------------------	------------------	---------	---------

TABLE 15 - MEDIUM TERM FINANCIAL FORECAST

		Zone of "Predictability"		Zone of "Unpredictability"			Severe Unpredictability
		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
		Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000
1	Net Council Budget	11,696	11,497	10,612	10,449	10,207	9,803
2	Forecast Resources:						
	Government Grant						
2a	Revenue Support Grant	(1,736)	(1,161)	(546)	(171)	250	0
2b	Business Rates	(2,244)	(2,310)	(2,355)	(2,425)	(2,503)	(2,000)
	Total Government Grant	(3,980)	(3,471)	(2,901)	(2,596)	(2,253)	(2,000)
	Council Tax / Coll'n Fund	(100)	(250)	(200)	(200)	(200)	(200)
	Income From Council Tax	(6,037)	(6,254)	(6,316)	(6,379)	(6,443)	(6,507)
	Total Resources	(10,117)	(9,975)	(9,417)	(9,175)	(8,896)	(8,707)
3	Budget (Surplus) / Deficit	1,579	1,522	1,195	1,274	1,311	1,096
4	Savings Identified	(1,579)	(1,522)	0	0	0	0
5	Savings - To be Identified	0	0	(1,195)	(1,274)	(1,311)	(1,096)
6	Budget (Surplus) / Deficit	0	0	0	0	0	0
GENERAL FUND WORKING BALANCE							
		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
		£000	£000	£000	£000	£000	£000
7	Estimated Opening Balance	(1,415)	(1,505)	(1,505)	(1,505)	(1,505)	(1,505)
8a	Council Tax Grant 14/15	(65)	0	0	0	0	0
8b	Council Tax Grant 15/16	(65)	0	0	0	0	0
8c	Town Centre Initiatives	40	0	0	0	0	0
9	Estimated Closing Balance	(1,505)	(1,505)	(1,505)	(1,505)	(1,505)	(1,505)

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

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 36
------------------	------------------	---------	------------

increases. The small increase in revenue each year reflects anticipated housing growth in the borough.

The future levels of government grant; for the period 2017/18 – 2019/20 are based on indicative figures provided as part of the 2016/17 provisional financial settlement. The financial landscape changes significantly from 2020/21 when the Business Rates Retention Scheme is reset. The figure for 2020/21 is currently a best estimate.

- 2a / 2b Revenue Support Grant / Business Rates** - *Following the introduction of the Business Rates Retention Scheme the local share of business rates will be uplifted by RPI each year until the system is reset in 2020 this is shown in line 2b. The full reduction in grant is therefore applied to the element that is provided through the Revenue Support Grant, which is detailed in Line 2a. This Council's Revenue Support Grant reduces to nil in 2019/20. The Government have made an adjustment in 2019/20 whereby the grant is reduced by £250,000 this is reflected in line 2a.*
- 3 Budget (Surplus) / Deficit** – *This illustrates the gap between the budget and the total resources available before identifying budget framework savings.*
- 5 Savings to be identified** – *This identifies the total resources that are required to balance the budget in future years after 2016/17.*
- 8a 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.*
- 8b 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.*
- 8c 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. This has been used to fund the free parking days in the last two years – the funding effectively ends in March 2016.*

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 37
------------------	------------------	---------	---------

Section E – The Medium Term Prospects

- 8.1 This section brings together the Council's financial model for the General Fund for the period up until 2020/21.
- 8.2 The revised Medium Term Financial Strategy is shown at Table 15.
- 8.3 The figures in the model are shown prior to the consideration of any increase in the 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 budget process includes a full review of the Medium Term Financial Strategy and has resulted in a number of assumptions being remodelled, (including the level of government grant and levels of NHB). The level of savings needed over the four year period 2017/18 – 2020/21 has increased from £4.596m to £4.876m. This is illustrated in Table 16:

Table 16 – Medium Term Financial Savings	December Executive	Current MTFS	Difference
	£000	£000	£000
2017/18	(1,170)	(1,195)	(25)
2018/19	(1,168)	(1,274)	(106)
2019/20	(1,134)	(1,311)	(177)
2020/21	(1,124)	(1,096)	28
Total Savings – to be secured	(4,596)	(4,876)	(280)

- 8.5 Whilst Table 16 illustrates that the projected savings required over the four year period 2017/18 – 2020/21 are around £4.9m. Members are reminded that since 2010/11 the Council **has delivered savings of £9.9m** (as detailed in Table 3). Hitherto, the Council has been able to close the budget gap without increases in Council Tax, cuts to front-line services, or cuts to voluntary sector funding. The scope for closing the projected budget gaps will be dependent on progressing the asset / commercial investment work stream whilst also reconsidering future levels of Council Tax.
- 8.6 The Council's latest Medium Term Financial Forecast is shown in Table 15. The forecast comprises the following 'Zones'
- ◆ **Zone of Predictability** – this year and next (2015/16 – 2016/17)

The level of government funding has previously been announced for this year (2015/16) and provisional levels of funding were announced in December 2015 for next year (2016/17).

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 38
-----------	------------------	---------	------------

♦ **Zone of Unpredictability – Medium Term (2017/18 – 2019/20)**

Reference to the budget deficit figures (Table 16) illustrates the significant challenge that the Council faces in the medium term.

The overall scale of budget reduction continues to be very significant. Collectively 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 will be more challenging – the Council will need to carefully consider its main sources of income (Council Tax, Fees and Charges) at the same time as progressing its commercial investment projects whilst also 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.

As detailed in the report, there are significant pressures and risks over the medium term in relation to the following:

- New Homes Bonus Funding
- Business Rates Review

♦ **Zone of Severe Unpredictability – Medium Term (2020/21)**

The Council would need to identify and deliver further savings of around £1.1m in 2020/21.

The Business Rates Retention Scheme will have completely changed by 2020/21. The scale of the financial challenges from this point onwards will be dependent on how the Business Rates Retention Scheme operates over the next five years.

- 8.7 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 2016/17.
- 8.8 The Council tax level for 2016/17 will be considered by the Executive in February but can only be set by full Council at its meeting on 24th February

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 39
------------------	------------------	----------------	--------------------

2016, 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 6.17 – 6.25.

- 8.9 A term commonly referred to by Central Government as 'Spending Power' has again been used as part of the financial settlement. As we have said on numerous occasions that whilst what is being communicated maybe theoretically correct these have little or no relevance to the level of cash that we actually receive in grant. This Council is showing a reduction in spending power of 0.4% in 2016/17 which is clearly at odds with what is happening in a cash sense.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 40
-----------	------------------	---------	------------

9 SUMMARY & CONCLUSIONS

2015/16

- 9.1 The Council has continued to use its own specific 'budget delivery framework' for the delivery of savings. The challenge was to turn the 'paper based savings exercise' into reality so that the £1,579,000 of savings were actually delivered – this is being successfully delivered.
- 9.2 Since 2010, the Council will have delivered a total of £8.4m of savings by the end of March 2016. The delivery of savings of this magnitude will become increasingly more difficult to achieve.

2016/17

- 9.3 Taken in isolation, most of the main issues are 'known' for 2016/17 at this stage.
- 9.4 The Council had budgeted for a grant reduction of 15% for 2016/17 the provisional figure from the Government was a reduction of 16.5%. This represents a significant reduction in grant and a continued challenge for 2016/17.
- 9.5 Prior to the consideration of any council tax increase, it is estimated that **£1,522,000 of savings will be required**. We will start 2016/17 in a similar position to 2015/16 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 2016/17. The remaining savings have also been identified and the Council is confident that these will be delivered during 2016/17 – provided the Council remains focused and sticks to its collection of golden rules.
- 9.6 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. It remains important that the guiding principles are followed if the council is to remain in a relatively good financial position. This financial discipline is a pre-requisite of any future financial strategy.
- 9.7 **A capital programme of around £7.7m** is a significant commitment given the decrease in Government grant funding.
- 9.8 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

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 41
------------------	------------------	---------	------------

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

2017/18 and Beyond

- 9.9 Assumptions have been made for future levels of government grant (and other funding changes) these are based on indicative figures provided as part of the 2016/17 financial settlement. These should be treated with caution at the moment until details are provided about what the efficiency plan requirement is
- 9.10 The levels of uncertainty in the medium term are very significant. The review of NHB is likely to result in significant reductions and the major review of business rates is also likely to bring radical change.
- 9.11 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.
- 9.12 Based upon the assumptions applied, the future years' budgets would require ongoing year on year savings of the following (on top of the £9.9m ongoing savings achieved since 2010);

2017/18	£1,195,000
2018/19	£1,274,000
2019/20	£1,311,000
2020/21	£1,046,000

- 9.13 The Council continues to develop a more commercial approach to ensure that its income base remains buoyant and continues to explore new fiscal arrangements to facilitate an asset acquisition strategy and types of governance models that best meets the needs of the business as it moves to a more self-sufficient business model.
- 9.14 Hitherto, the Council has been able to close the budget gap without increases in Council Tax, cuts to front-line services, or cuts to voluntary sector funding. The scope for closing projected budget gaps will be dependent on progressing the commercial investment workstream whilst also reconsidering future levels of Council Tax.
- 9.15 There are a number of other pressures the Council will face in both the short and the medium term. More immediate pressures are likely to be around New Homes Bonus funding, Business Rates and other possible pressures include:

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 42
------------------	------------------	---------	---------

Business Risk	Possible Financial Range
New Homes Bonus	+£1,750,000
Business Rate Appeals	+£500,000
Homelessness	+£200,000
Recycling Commodities	+£200,000
Council Tax Support	+£100,000
Utilities Cost	+£50,000

Other Considerations

- 9.16 The projections in all years rest on the Executive's adherence to the "*Guiding Principles*" the "*Modelling for Recovery Principles*" the "*Budget Containment Strategies*" and the "*Prioritisation Golden Rules*" (para 4.3).
- 9.17 As pointed out in previous years budget reports 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 The settlement is far from straightforward and it is unclear what the financial landscape will be over the medium term.
- 9.20 The assumptions within the Council's Medium Term Financial Strategy will continue to be reviewed and amended where necessary. However there is much work to be undertaken to fully understand what this all means from 2017/18. What will actually happen will only become clearer as time progresses – however the level of volatility is probably greater than at any point in the past owing to the uncertainties around New Homes Bonus and Business Rates and the government are also considering transferring new responsibilities to local government.
- 9.21 The following sentiment has been made in previous years budget reports, but nonetheless still remains increasingly valid - 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.

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 43
------------------	------------------	----------------	--------------------

10 CONSULTATION AND CUSTOMER IMPACT

10.1 The formal budget consultation period is from 13th January 2016 to 24th February 2016 when the Council sets its Council Tax for 2016/17. The budget timetable is detailed at Appendix B. Comments from the consultation process will be reported to the Executive for consideration at its meeting on 17th February 2016.

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

That the Executive Committee:

13.1 Note the current budget position for 2015/16.

13.2 Recognise that the budget delivery framework has identified savings that will enable a balanced budget to be achieved for 2016/17.

13.3 Recognise that the task of balancing the budget in future years is becoming increasingly difficult especially in the light of increasing service pressures, reduced national funding, proposed changes to New Homes Bonus, Business Rates and reduced capacity.

13.4 That the Executive refers the draft budgets for 2016/17 (as contained in the separate budget booklet) to Scrutiny for comment in accordance with the Council's Constitution.

13.5 Members note the implications of the financial settlement and the need to review the key areas of uncertainty (such as New Homes Bonus and Business Rates) within the budget and revise assumptions as the financial landscape becomes clearer.

Background Papers:

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

Previous Reports/Minutes:

Monthly Durable Budget Reports
(April 2010 to date)