

## BOROUGH OF KETTERING

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<b>Report Originator</b>	Strategic Management Team	Fwd Plan Ref A15/032	
<b>Wards Affected</b>	All	17th February 2016	
<b>Title</b>	<b>BUDGET PROPOSALS FOR 2016/17 AND PREPARING FOR THE MEDIUM TERM</b>		

Portfolio Holder – Cllr J Smith

### 1. PURPOSE OF REPORT

The purpose of this report is two-fold – firstly to provide any updates to the budget that have occurred since the last meeting, and secondly to report back comments that have been submitted during the budget consultation period (to date) to enable the Executive to: -

- a) reconsider the main budget issues and drivers and consider their impact on the medium term;
- b) make budget recommendations to full Council, including the recommended level of council tax for 2016/17;
- c) Formally approve the level of council house rents that will be charged for 2016/17.

### 2. BACKGROUND

- 2.1. The Executive considered a comprehensive report on its initial budget proposals at its meeting of 13<sup>th</sup> January 2016. The report considered the draft proposals for the General Fund, Capital Programme, and Housing Revenue Account. Members are recommended to refer back to that report for important detailed background to this budget report – although the key budget issues are again referred to in this report, the detail of the budget is not.
- 2.2. The Council's formal budget consultation period has been running since 13<sup>th</sup> January 2016 and will now end on the 1<sup>st</sup> March 2016 (when the Council formally sets the budgets). The date of the Council meeting has been moved from the date originally scheduled as a result of the County Council changing their date to the 29<sup>th</sup> February.
- 2.3. Since the January Executive Committee, the draft budget proposals have been discussed at a number of meetings including the formal Budget Consultation event on 21<sup>st</sup> January 2016.

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- 2.4. Without repeating all of the detail previously reported in the January report, the 'key issues' section of that report is reproduced at Appendix A for context and ease of reference.
- 2.5. Members will appreciate that the strategies the Council has adopted over the past few years has resulted in the authority being in a much better shape than many others. In Kettering, our approach ensured that the Council was able to pro-actively deal with the challenges faced through: -
- ♦ Anticipating and influencing major 'Big Ticket' items;
  - ♦ Having a well motivated and flexible workforce that is pro-actively delivering change.
- 2.6. These have allowed us to develop and deliver the strategies necessary to deal with changing financial circumstances including such things as
- ♦ establishing (and sticking to) budget guiding principles;
  - ♦ developing a budget delivery solution that suited KBC;
  - ♦ finding innovative methods of service delivery.
- 2.7. The financial strategies key '*guiding principles*' supplemented by the '*Modelling for Recovery Principles*', the '*Budget Containment strategies*' and 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).*

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### **Modelling for Recovery principles:**

1. *Wherever possible, continue with all planned investments and programmes, to protect the local economy and lever in other investments;*
2. *Given the strength of our Treasury position we should consider debt funding as a means of programme delivery or stimulus – if this can be shown to be sustainable and have a wider economic benefit;*
3. *Organise our fiscal structures and business models to attract and retain the maximum amount of revenue within the local economy;*
4. *To ensure all possible avenues are used within procurement rules to source locally;*
5. *Protect the performance of Council services which come under particular strain;*
6. *Work closely with partners in the voluntary, public and private sectors, to ensure optimum efficiency*

### **Budget Containment Strategy:**

1. *Where a specific grant which funds a specific service is withdrawn, the service stops;*
2. *Where grant funding reduces, which Kettering Borough Council passports through to another organisation, the reduced sum continues to be passported, providing the end recipient organisation feels it can still provide a value-added service at that funding point.*
3. *Where a function is transferred to another provider, the Council leaves all service-provision discussions, including any top-up funding, with the new provider;*
4. *The Council would ordinarily neither seek to buffer nor profit from tax changes.*
5. *The Council should not substitute itself as a provider / funder of services when another public provider cuts such a service.*

### **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;*

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- *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.*

### **3. BUDGET CONSULTATION - COMMENTS**

- 3.1 The budget consultation period will now run until the 1<sup>st</sup> March 2016 - when a meeting of Full Council will consider and set the budgets and the level of Council Tax for 2016/17.
- 3.2 Comments that have been made through the main consultation meetings are summarised in Appendix B, as detailed below;

<b>Appendix B</b>	<b>Comments From</b>
1	Statutory Budget Consultation Meeting
2	Monitoring and Audit Committee
3 – 5	Geographical Forums
6	Tenants Forum (to be circulated separately)
7	Research and Development Committee (to be circulated separately)

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### **4. GOVERNMENT GRANT SETTLEMENT 2016/17**

- 4.1 The Government announced the provisional grant settlement on 17<sup>th</sup> December. Following a period of consultation, the Government announced the final grant settlement figures for 2016/17 on 8<sup>th</sup> February.
- 4.2 The final settlement confirmed that Kettering Borough Councils core grant for 2016/17 is £3,471,000 – this is unchanged from the provisional figure and represents a cash reduction in grant of £687,000 (16.5%) when compared to 2015/16.
- 4.3 The grant announcement also provided ‘indicative’ figures for the three years 2017/18 to 2019/20. These were also unchanged from those previously provided in December. The Government has said that any Council that wishes to agree to the ‘four year’ grant totals must do so by 14<sup>th</sup> October 2015 – further details will be made available in due course by the Government about what this means in practice.
- 4.4 Although the ‘core grant’ figures in the final settlement are unchanged to those in the provisional settlement - the Government have provided additional funding nationally of £150m in both 2016/17 and 2017/18. This is to ease the pace of reductions during the first 2 years of the settlement for councils with the sharpest reductions in Revenue Support Grant. The additional funding has been made available in the form of a transitional grant. For this Council the additional funding is £50,000 for each of these years and this is reflected in the Council’s Medium Term Financial Strategy (Table 2). In the past when the Council has received short term grants of this nature we have budgeted for them outside of the base budget (because they are not an on-going source of income) – the same practice has been applied to the transitional grant.

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**5. UPDATE OF KEY ISSUES AND BUDGET PROJECTIONS**

5.1 The budget figures have continued to be resilience tested during the budget period and have remained the same as those presented in the January report with the exception of the Transitional Grant as detailed in 4.4. This is shown in line 8d. The budget model (prior to the consideration of any change in council tax) is reproduced in Table 2.

<b>TABLE 2 - MEDIUM TERM FINANCIAL FORECAST</b>							
		<b>Zone of "Predictability"</b>		<b>Zone of "Unpredictability"</b>			<b>Severe Unpredictability</b>
		<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
		<b>Forecast £000</b>	<b>Forecast £000</b>	<b>Forecast £000</b>	<b>Forecast £000</b>	<b>Forecast £000</b>	<b>Forecast £000</b>
<b>1</b>	<b>Net Council Budget</b>	<b>11,696</b>	<b>11,497</b>	<b>10,612</b>	<b>10,449</b>	<b>10,207</b>	<b>9,803</b>
<b>2</b>	<b>Forecast Resources:</b>						
	<b>Government Grant</b>						
<b>2a</b>	Revenue Support Grant	(1,736)	(1,161)	(546)	(171)	250	0
<b>2b</b>	Business Rates	(2,244)	(2,310)	(2,355)	(2,425)	(2,503)	(2,000)
	<b>Total Government Grant</b>	<b>(3,980)</b>	<b>(3,471)</b>	<b>(2,901)</b>	<b>(2,596)</b>	<b>(2,253)</b>	<b>(2,000)</b>
	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)
	<b>Total Resources</b>	<b>(10,117)</b>	<b>(9,975)</b>	<b>(9,417)</b>	<b>(9,175)</b>	<b>(8,896)</b>	<b>(8,707)</b>
<b>3</b>	<b>Budget (Surplus) / Deficit</b>	<b>1,579</b>	<b>1,522</b>	<b>1,195</b>	<b>1,274</b>	<b>1,311</b>	<b>1,096</b>
<b>4</b>	<b>Savings Identified</b>	<b>(1,579)</b>	<b>(1,522)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>5</b>	<b>Savings - To be Identified</b>	<b>0</b>	<b>0</b>	<b>(1,195)</b>	<b>(1,274)</b>	<b>(1,311)</b>	<b>(1,096)</b>
<b>6</b>	<b>Budget (Surplus) / Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>GENERAL FUND WORKING BALANCE</b>							
		<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>7</b>	<b>Estimated Opening Balance</b>	<b>(1,415)</b>	<b>(1,505)</b>	<b>(1,555)</b>	<b>(1,605)</b>	<b>(1,605)</b>	<b>(1,605)</b>
<b>8a</b>	Council Tax Grant 14/15	(65)	0	0	0	0	0
<b>8b</b>	Council Tax Grant 15/16	(65)	0	0	0	0	0
<b>8c</b>	Town Centre Initiatives	40	0	0	0	0	0
<b>8d</b>	Transitional Grant	0	(50)	(50)	0	0	0
<b>9</b>	<b>Estimated Closing Balance</b>	<b>(1,505)</b>	<b>(1,555)</b>	<b>(1,605)</b>	<b>(1,605)</b>	<b>(1,605)</b>	<b>(1,605)</b>

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### Notes to Medium Term Financial Forecast

- 1 **Net Council Budget** – This represents the net expenditure prior to the Budget Framework savings.
- 2 **Forecast Resources** – These are the Council's main funding streams (excluding fees and charges which are incorporated into Line 1). This illustrates the significant reduction in Central Government funding. To enable the total resources required to balance the budget to be identified, no assumptions have been made regarding future council tax increases. The small increase in revenue each year reflects anticipated housing growth in the borough.  
  
*The 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

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*budget. This has been used to fund the free parking days in the last two years – the funding effectively ends in March 2016.*

**8d Transitional Grant** – *This relates to additional funding that has been made available in the form of a transitional grant from Government to ease the pace of reductions during the first 2 years of the settlement for councils with the sharpest reductions in Revenue Support Grant.*

5.2 The Council's latest Medium Term Financial Forecast (Table 2) 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). These were confirmed as part of the 2016/17 final settlement.

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

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.

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.



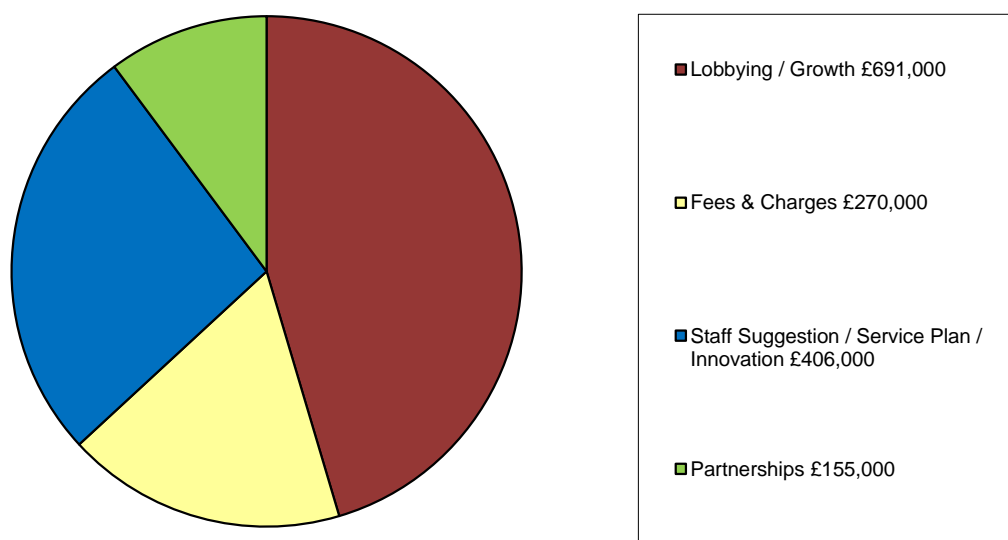
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The Business Rates Retention Scheme will have completely changed by 2020/21. The scale of the financial challenges from this point onwards will be dependent on how the Business Rates Retention Scheme operates over the next five years.

- 5.3 From Table 2 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 1:

**Chart 1 - Identified Framework Savings for next Year (2016/17)**



- 5.4 Based upon the figures in the model (Table 2) 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);

<b>2017/18</b>	<b>£1,195,000</b>
<b>2018/19</b>	<b>£1,274,000</b>
<b>2019/20</b>	<b>£1,311,000</b>
<b>2020/21</b>	<b>£1,096,000</b>

- 5.5 As previously outlined in the report, the figures are predicated on a number of budget assumptions that will require careful monitoring as we move forward. They are also dependent upon the Council sticking to the budget guiding principles and associated rules that were previously outlined in Section 2. 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:

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

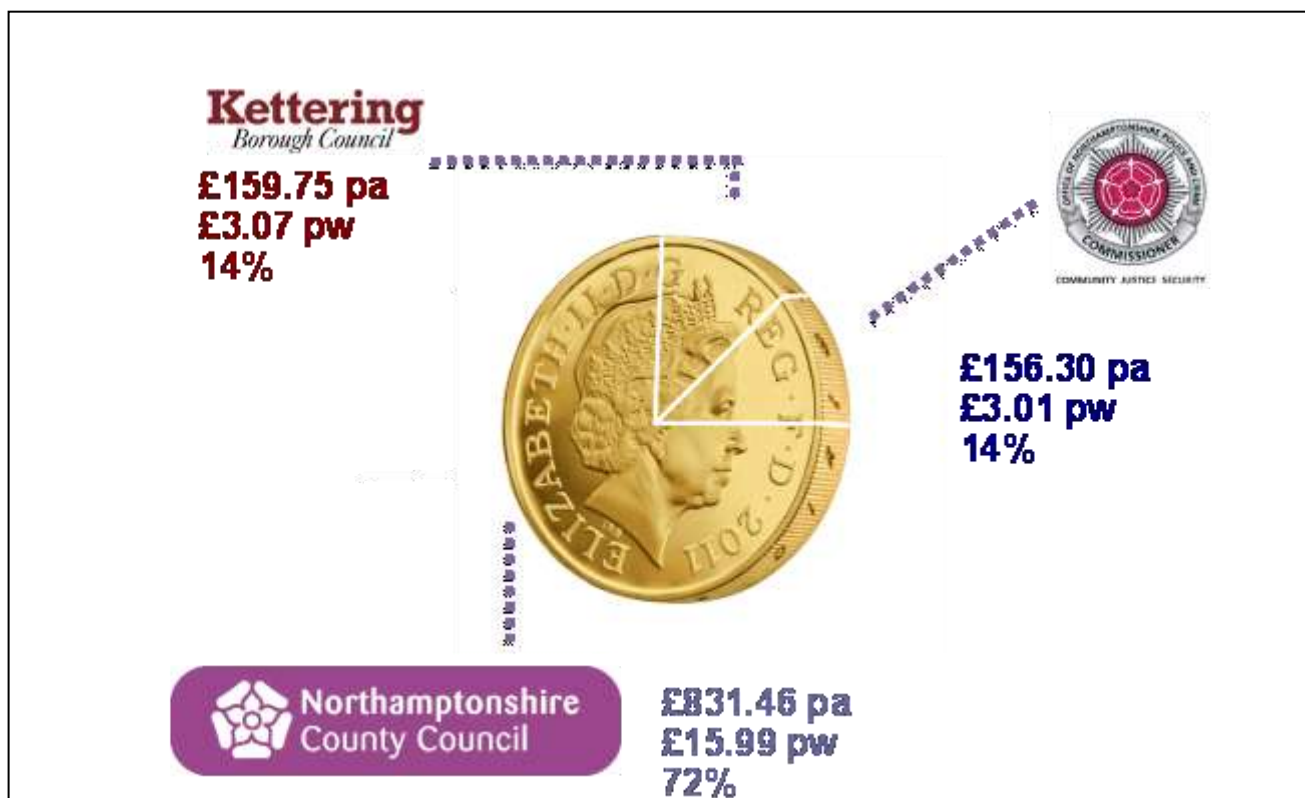
- 5.6 Members should be aware that the indicative savings levels for the period 2017/18 onwards are subject to a number of high level assumptions. One of these is about the potential level of government grant. Whilst the Government provided indicative allocations for 2017/18 – 2019/20 these are subject to Council's submitting efficiency plans – at this stage it is still unclear what is required.
- 5.7 A further high level assumption is around New Homes Bonus. As previously reported the Government have made it clear that it will be looking to transfer **at least £800m** from the current New Homes funding base (to pass over for adult social care funding) – whilst changes will not take place until 2017/18 – it will not be clear until later in 2016 how these will be phased in. The Council has revised its New Homes Bonus assumptions and the MTFS has had a reduction in budget of £275,000 in 2018/19 and 2019/20.
- 5.8 Line 6 is the sum that is required to achieve a balanced budget. Every 1% increase in council tax equates to around £60,000. Formal decisions on each year's council tax increases can only be taken by Council at the March budget setting meeting after the consideration of a report from its officers. Council Tax is covered in this report at Section 6.

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### 6. COUNCIL TAX SETTING

6.1 The following illustration was used at the recent budget consultation meeting and serves to remind members of the relative size of the council tax figures that are under consideration.



NB – The above figures are based on Band B Council Tax Charged in 2015/16

6.2 At this meeting of the Executive Committee, members are required to recommend a level of council tax for 2016/17 to full Council for consideration.

6.3 When doing so, members must have regard to: -

- The medium term financial projections for the council's General Fund budget (statutory requirement)
- The advice of its officers
- The financial (and business) risks that face the authority in the medium term.

6.4 Members are reminded that the financial projections shown in Table 2, are presented on the basis of the current level of council tax – no assumptions or allowance has been made in the figures at this point, for any change in council tax levels. As such, the figures show a 'base position', prior to member consideration of the level of council tax for 2016/17.

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6.5 Based upon the figures in the budget model (Table 2), the following levels of budget savings will be required to balance the budget in the medium term: -

<b>2017/18</b>	<b>£1,195,000</b>
<b>2018/19</b>	<b>£1,274,000</b>
<b>2019/20</b>	<b>£1,311,000</b>
<b>2020/21</b>	<b>£1,096,000</b>

6.6 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;

<b>Table 3 – Efficiency Savings</b>	<b>£000</b>
2010/11	1,260
2011/12	1,910
2012/13	1,330
2013/14	950
2014/15	1,330
2015/16	1,580
<b>Total</b>	<b>8,360</b>
2016/17	1,520
<b>Total</b>	<b>9,880</b>
<b>% Cash Savings (Net Budget)</b>	<b>99%</b>

6.7 Members are reminded that each 1% increase in council tax equates to about £60,000 of ongoing income to the council's council tax yield.

6.8 Table 4 summarises the real terms impact of Council Tax freezes. If the current rate of inflation is used as a reference point, in effect local residents have experienced a real terms reduction in their local council tax for Kettering Borough Council during the year as a result of the Council decision to have a 0% increase from 2011/12. If the Council were to levy a similar level of increase into the medium term, further real terms reductions would be experienced by council tax payers at the same time as the Council having to deal with its own inflationary pressures (eg, utility bills) and deliver significant levels of ongoing efficiency savings.

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<b>Table 4</b>	<b>Actual / Estimated Inflation Rate</b>	<b>Council Tax Increase</b>	<b>Cumulative Real Terms Reduction</b>
2011/12	4.80%	0.00%	4.80%
2012/13	2.70%	0.00%	7.50%
2013/14	2.50%	0.00%	10.00%
2014/15	1.50%	0.00%	11.50%
2015/16	0.10%	0.00%	11.60%
2016/17	1.00%	0.00%	12.60%

- 6.9 The Government have offered no incentive to those Councils who freeze Council Tax in 2016/17. This is the first time since 2011/12 that the Government have not provided an incentive. This reflects a change in policy and the additional yield from Council Tax is something the Government is now assuming in its income estimates for local government – indeed for District Councils such as Kettering, the Government are not assuming any increase in Council Tax for 2016/17 but are assuming increases for each year thereafter.
- 6.10 When announcing the final Local Government Finance Settlement for 2016/17 on 8<sup>th</sup> February, the Government also changed the referendum limits for Councils in relation to Council Tax setting. In previous years, the referendum limit had been set at 2% for Shire Districts – the referendum limit from 2016/17 is now the greater of 2% or £5 (Band D).
- 6.11 For Kettering Borough Council, the referendum limit is £5. This is the equivalent of a 2.4% increase and would generate additional council tax income of £152,250 during 2016/17.
- 6.12 The Council's medium term financial projections illustrated in Table 2 show the position prior to any changes in the level of Council Tax. Any change in the level of Council Tax charged would have the effect of changing the resultant savings gap for the year.
- 6.13 The Executive Committee are required to make a formal Council Tax recommendation to full Council for consideration at the meeting on 1<sup>st</sup> March 2016.
- 6.14 Although through this budget process members will only be setting a level of council tax for 2016/17, this should be done by reference to the medium term and the risks faced.

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### 7. DRAFT CAPITAL PROGRAMME (2016/17 – 2020/21)

7.1 The draft Capital Programme was reported to the Executive as part of the initial budget proposals in January and has since been the subject of consultation and further review. The programme is summarised in Table 5.

<b>Table 5- Capital Programme</b>	<b>Draft Budget 2016/17</b>	<b>Indicative Estimate 2017/18</b>	<b>Indicative Estimate 2018/19</b>	<b>Indicative Estimate 2019/20</b>	<b>Indicative Estimate 2020/21</b>
	£'000	£'000	£'000	£'000	£'000
<b>Expenditure</b>					
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
	<b>7,654</b>	<b>7,199</b>	<b>6,262</b>	<b>6,057</b>	<b>6,272</b>
<b>Financing</b>					
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
	<b>7,654</b>	<b>7,199</b>	<b>6,262</b>	<b>6,057</b>	<b>6,272</b>

7.2 There are no changes to the draft capital programme reported to the January Executive.

7.3 The financing 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. A capital programme of around £7.7m is not inconsiderable for a District Council of Kettering's size and no doubt a continued boost to the local economy. To put this into context, although the capital programme is not funded from Council Tax receipts, the level of the programme is around £1.5m greater than the amount of income we receive in Council Tax each year.

7.4 Any further comments that have been made during the consultation period (to date) are provided at Appendix B. The Executive are required to note the comments made and consider whether they wish to take any action on any specific issues raised.

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### 8. DRAFT HOUSING REVENUE ACCOUNT (2016/17)

8.1 The draft HRA budget was reported to the previous meeting of this committee and is reproduced in summary below;

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

8.2 In accordance with the Council's Constitution, although the Executive will be recommending the HRA budget for 2016/17 to full Council for approval, this meeting of the Executive will formally approve the level of Council housing rents for 2016/17.

8.3 Following the Government's announcement last year that social housing rents would decrease by 1% per annum for the next four years – the housing revenue account business plan has been remodelled to take account of this change.

8.4 As outlined in previous committee reports, the impact of the change is that approximately **£5m** of income will be lost over the first four years of the business plan as a result of this change – this figure goes up to **£65m** when considered over the 30 year life of the business plan. These are very significant sums of money – and are effectively reductions that have had to be made to the medium capital investment plans of the Council.

8.5 Although the legislation and regulations around housing rents is complex, in simple terms the Council has little option but to implement the rent levels that are being imposed by central government – these being a 1% reduction for each of the next four years.

8.6 The Government have announced that a local authority provider which did not implement a 1% reduction on 1 April would need to make a deeper reduction later in the year in order to comply with the requirement of a 1% rent reduction.

8.7 The draft budget included an average rent decrease of 1.00% (equivalent to £0.82 per week).

8.8 It has recently been reported that the Government may allow local authorities to apply the old rent setting formula in relation to supported accommodation only for 2016/17 (eg, sheltered housing). There are no further details on this at the current time. If this were the case, the Council would have the option to increase these rents by CPI+1% (equates to an increase of 0.9%) – this would generate an additional £30,000 of income. Given the current uncertainty over this coupled with the lateness of this development, we are not recommending that supported accommodation rents are treated any differently to other council housing rents – ie, they should also be

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reduced by 1%. However, once the situation becomes clearer we may need to bring a report back to committee to reconsider this specific item.

- 8.9 The rent levels for 2016/17 will be discussed at the Tenants Forum when it meets on the 11<sup>th</sup> February 2016. Any comments made by the Tenants Forum will be reported to members of the Executive before this meeting.



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### 9. STATUTORY OFFICERS COMMENTS

- 9.1 To comply with best practice, the Council's Statutory Officers have a responsibility to provide a commentary on the budget (and the underlying assumptions) in the report that is considered by full Council on 1 March 2016.
- 9.2 Members are reminded that the Council has identified and delivered efficiency measures of £8.4m over the six year period 2010/11 – 2015/16, and further efficiency measures of £1.5m have been identified for 2016/17. The total over the past seven years amounts to £9.9m.
- 9.3 **Based on the assumptions applied to the Council's Medium Term Financial Strategy, in the years after 2016/17 the Council will need to deliver additional annual on-going savings in the region of £1¼m – this adds up to around £5m over the medium term which is on top of the £9.9m ongoing savings achieved since 2010. This is a very significant challenge. The Council will need to ensure that progress is made on its strategy of 'commercial investments' and it will also need to adhere to its existing suite of guiding principles and continue to resist taking on additional revenue spending.**
- 9.4 The level of uncertainty about major income sources into the medium term (eg, New Homes Bonus) is very real and potentially very significant. If the Council is to deliver a balanced budget in the medium term, in addition to making progress on 'commercial investments' it will need to seriously 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).
- 9.5 Should members feel minded to go forward with a council tax freeze for 2016/17, it should be done in the context of the challenges and uncertainty faced in the coming years. It is important that members are aware of the impact such a strategy would have on the 2017/18 savings target (and the savings target for future years) due to its compound nature, it is also important that there is a full understanding of the impact, savings of this magnitude will have on capacity.
- 9.6 The Government have offered no incentive to those Councils who freeze Council Tax in 2016/17. This is the first time since 2011/12 that the Government have not provided an incentive. This reflects a change in policy compared to previous years. The Government have assumed that District Council's (such as Kettering) will increase their Council Tax by the referendum limits from 2017/18.
- 9.7 The technical consultation on 2016/17 Local Government Finance settlement states that 'new responsibilities will be matched by the transfer of equivalent spending power'. The indicative grant levels for the following years assumes that all local authorities will increase their Council Tax levels up to the threshold each year. The stronger the Council Tax yield – the greater the flexibility to deal with the future.
- 9.8 Members should be aware that the indicative savings levels for the period 2017/18 onwards are subject to a number of high level assumptions – these include

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assumptions about the future level of Government Grant and also income from the New Homes Bonus Scheme. Revenue Support Grant effectively becomes a 'negative' amount in 2019/20 and the Council is also modelling to reduce reliance on New Homes Bonus income to around 1/3<sup>rd</sup>.

- 9.9 When considering the medium term, members should be aware of the scope of changes that are likely to take place re: business rates. The Government intend to allow local authorities to retain a greater share of business rates to (a) help with the phasing out of revenue support grant, and (b) enable local authorities to take on new government spending burdens. When implementing the changes over the coming years, it would not be surprising if the recent trend of transferring risk from central to local government continues – this will need to be carefully mapped.
- 9.10 It is important to note that, although members have a statutory duty to consider the medium term when setting the 2016/17 budget and council tax, they will only be setting the budget and council tax for 2016/17 at this point. Levels of council tax for future years cannot be set in advance by the council. Each future year's decision can only be taken at the appropriate time, once all of the financial and business risks have been analysed, understood and discussed.
- 9.11 Collectively, the council has done an impressive job of turning a 'paper based exercise' into reality in delivering the savings targets over recent years. However these unprecedented times are likely to continue over the next four years at least (2017/18 – 2020/21) and it is this period that provides the greatest challenge, particularly when we consider that some £9.9m of efficiency savings have already been identified and further efficiencies in the region of £5m are required over the next four years to deliver a balanced budget.
- 9.12 This four year period for the reasons outlined earlier also bring the greatest levels of uncertainty, risk and difficulty. The risks are unprecedented for the local government sector as a whole and in coming to a decision about council tax for 2016/17 members will need to consider the careful balance that needs to be struck between providing sufficient financial flexibility to deal with the challenges faced.

### **10 CONSULTATION AND CUSTOMER IMPACT**

- 10.1 The formal budget consultation period is from 13<sup>th</sup> January 2016 (where the Executive received the draft budgets) to 1<sup>st</sup> March 2016 when the Council sets its Council Tax for 2016/17. Comments from this consultation process are attached at Appendix B.

### **11 POLICY IMPLICATIONS**

- 11.1 As outlined in the report.

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### 12 USE OF RESOURCES

12.1 As outlined in the report.

### 13. RECOMMENDATIONS

13.1 That the Executive agrees to: -

- a) Extend the formal budget consultation period until 1<sup>st</sup> March 2016;
- b) Receives the comments received from the consultation process (to date) as detailed at Appendix B;
- c) Approve that the average weekly council house rent be reduced by 1.00% to £80.96 (on a 52 week year) for 2016/17 (effective from 1<sup>st</sup> April 2016).

13.2 That the Executive recommends to Council: -

- a) The Revised General Fund Budget (2015/16) and Draft General Fund Budget for (2016/17) – as detailed at Appendix A – Section 1\*;
- b) A preferred level of Council Tax (Band D equivalent) for 2016/17 and associated Medium Term Financial Forecast;
- c) The Capital Programme (2015 - 2021) – as detailed at Appendix A - Section 2\*;
- d) The Housing Revenue Account Estimates for 2016/17 – as detailed at Appendix A - Section 3\*.

*\* Please note that these references to Appendix A refer to the 'Draft Budget Booklet – 2016/17) that was circulated as Appendix A to the January Budget report to the Executive Committee on 13 January 2016.*

#### Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

#### Previous Reports/Minutes:

Monthly Durable Budget Reports

Budget Consultation (Jan 16)

Monitoring and Audit (Jan 16)

Research and Development (Feb 16)

Geographic Forums (Feb 16)