B O R O U G H   O F K E T T E R I N G

Committee	**EXECUTIVE**	Item 10	Page 1
Report Originator	Strategic Management Team	Fwd Plan Ref A15/036	
Wards Affected	All	16th March 2016	
Title	**MAINTAINING A DURABLE BUDGET**		

Portfolio Holder – Cllr J Smith

1. PURPOSE OF REPORT

The purpose of the report is to:

a. Provide Members with a case study on the approach being taken by the Council in managing homelessness;

b. Provide Members with a reminder of the Council's medium term financial strategy and associated guiding principles;

c. Agree the high level budget process for 2017/18;

d. Provide a summary of the key points made by the Council in responding to the Government's New Homes Bonus consultation documents.

2. CASE STUDY

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

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

2.2 The case study in this report highlights the approach being taken by the Council in managing the increase demand in homelessness.

Homelessness - Wellington House

Like all local authorities the Council has seen an increase in homelessness in recent years and between April 2015 and December 2015 there was an 87% increase in statutory homeless applications compared to the same period in the previous year.

In order to proactively manage this increase the Council has since October 2015 used Wellington House which is a purpose-built supported accommodation project owned by Home Housing Association. The facility offers 21 rooms; 16 with shared kitchen and bathroom facilities, and 5 self-contained units.

Wellington House is used to temporarily accommodate vulnerable homeless households (singles and couples) through an agreement that gives the council sole nomination rights in providing support for residents in exchange for £70,000 per annum. The use of Wellington House has enabled the council to keep the use of B&B to a minimum, despite increasing demand.

The agreement represents a financial saving for the council, as well as providing better quality accommodation for vulnerable homeless people and is a good example of the Council doing more for less.

The facility also provides improved temporary housing solutions for our most vulnerable customers and the council has greater control and assurances over the standards of the temporary accommodation offered to single homeless customers. The facility also benefits from CCTV throughout with 24/7 security staffing. Support workers and the Council's LifePlan Advisor provide tailored support to the residents providing them with the skills required for independent living.

3. BACKGROUND

3.1 In terms of setting a balanced budget, the Council's strategy to date has been successful, although it has to be stressed that the budget setting process is a paper exercise and all the changes being proposed have to be realised and delivered over the next year if we are to avoid additional strain being placed on the following years' budgets. The budgets for 2016/17 will be closely monitored throughout the year and any variances will be reported to the Executive as part of the Durable Budget report.

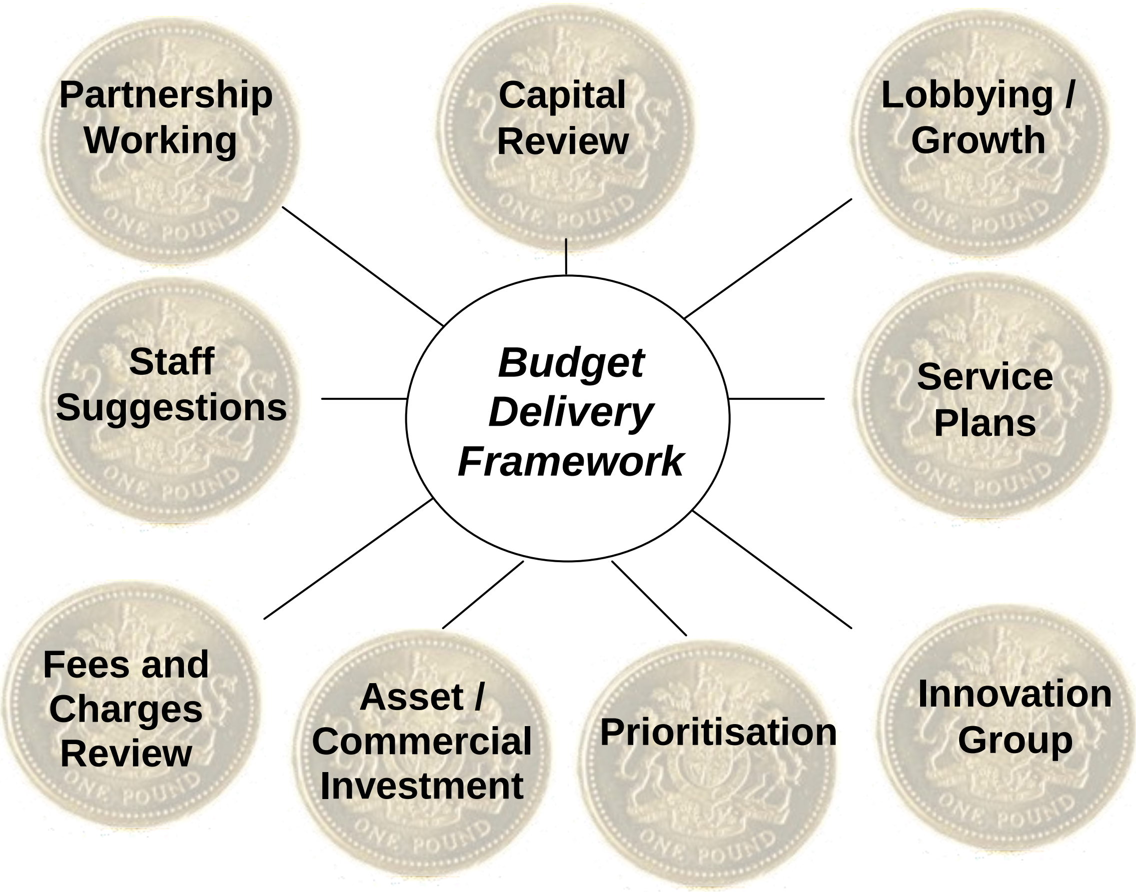
3.2 The Council's success in delivering a balanced budget over the past seven years has come from the Budget Delivery Framework (as outlined in Section 3.5). However, savings of this magnitude are becoming increasingly difficult to maintain.

3.3 It is going to become increasingly important to review the frameworks in future years as the reality of being able to deliver a balanced budget in the Medium Term (2017/18 – 2020/21) is looking increasingly difficult - the consideration of commercial investment opportunities will become a key element.

3.4 The Council has successfully delivered a balanced budget which has been delivered within the parameters approved by the Executive. Given the success of the strategy to date, members are recommended to continue using the existing budget delivery framework for the preparation of the 2017/18 budgets, with increased emphasis for commercial investment opportunities. Specifically, members are recommended to adopt; *"that the same methodology be applied to the formulation of the 2017/18 budget as it applied to the 2016/17 budget with increased emphasis for commercial investment opportunities – within the asset / commercial investment framework with particular reliance on:-*

- the existing guiding principles
- the existing modelling for recovery principles
- the existing budget containment strategy
- the prioritisation 'golden rules.
- the existing nine workstreams"

3.5 The opportunities for commercial investment are going to become increasingly important if the Council is to continue to deliver a balanced budget. The framework consists of nine workstreams and is illustrated below;



3.6 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 <u>not fall below</u> 10% of net revenue expenditure;*

b. *In setting the Council Tax, members should consider the medium term to ensure that a sustainable budgetary position is preserved (with due regard being given to any penalties that might apply);*

c. *The level of household Council Tax to increase each year in line with inflation at least, where the budget is in deficit, to ensure resources remain consistent with budgeted costs;*

d. *When setting the Capital Programme, consideration is given to allocating capital resources to schemes that are beneficial to the Council's overall revenue budget position;*

e. *To maximise the resources available to the Authority, the Council will actively lobby the Government on relevant issues (e.g. grant distribution/ planning fees).*

Modelling for Recovery principles:

1. *Wherever possible, continue with all planned investments and programmes, to protect the local economy and lever in other investments;*

2. *Given the strength of our Treasury position we should consider debt funding as a means of programme delivery or stimulus – if this can be shown to be sustainable and have a wider economic benefit;*

3. *Organise our fiscal structures and business models to attract and retain the maximum amount of revenue within the local economy;*

4. *To ensure all possible avenues are used within procurement rules to source locally;*

5. *Protect the performance of Council services which come under particular strain;*

6. *Work closely with partners in the voluntary, public and private sectors, to ensure optimum efficiency*

Budget Containment Strategy:

1. *Where a specific grant which funds a specific service is withdrawn, the service stops;*

2. *Where grant funding reduces, which Kettering Borough Council passports through to another organisation*, the reduced sum continues to be passported, *providing the end recipient organisation feels it can still provide a value-added service at that funding point.*

3. *Where a function is transferred to another provider, the Council leaves all service-provision discussions, including any top-up funding, with the new provider;*

4. *The Council would ordinarily neither seek to buffer nor profit from tax changes.*

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

Prioritisation 'Golden Rules':

1. *Revenue Impact – The item should have a positive* ***material and causal*** *impact on the Council's revenue budget over the medium term. The impact should be material in nature.*

2. *Fit with Key Priorities - There should be a direct and causal impact upon the achievement of the Council key priorities of;*

   - *Better Town Centres*
   - *Better Jobs*
   - *Better Educational Offer*

3. *Risk and Return Profile - The item / project should fit the Council's risk and return appetite and also complement the overall portfolio of investment / assets.*

4. *Investment Leverage - The item / project should ideally act as either an 'invest to save' type project or one that 'pump primes' other significant investment into the borough.*

5. *Self Sufficiency - Given the continuing trend of reduction in central government grants, priority will be given to projects that assist in the Council moving further towards financial self-sufficiency.*

6. *Strategic Partnerships - The item should generally have a positive impact on the Council's strategic partnerships and the Council's long term strategic ambitions for the borough – eg, town centre development. In particular – items that support and help develop 'scope' rather than 'scale' will be prioritised.*

4. UPDATE OF KEY ISSUES AND BUDGET PROJECTIONS

4.1 The Council's Medium Term Financial Strategy is reproduced in Table 1. 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) these were confirmed as part of the 2016/17 final settlement and are unchanged from the provisional 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 it's 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.

  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.

TABLE 1 - 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)**	**(1,515)**	**(1,525)**	**(1,525)**	**(1,525)**
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	40	40	0	0	0
8d	Transitional Grant	0	(50)	(50)	0	0	0
9	**Estimated Closing Balance**	**(1,505)**	**(1,515)**	**(1,525)**	**(1,525)**	**(1,525)**	**(1,525)**

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 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.*

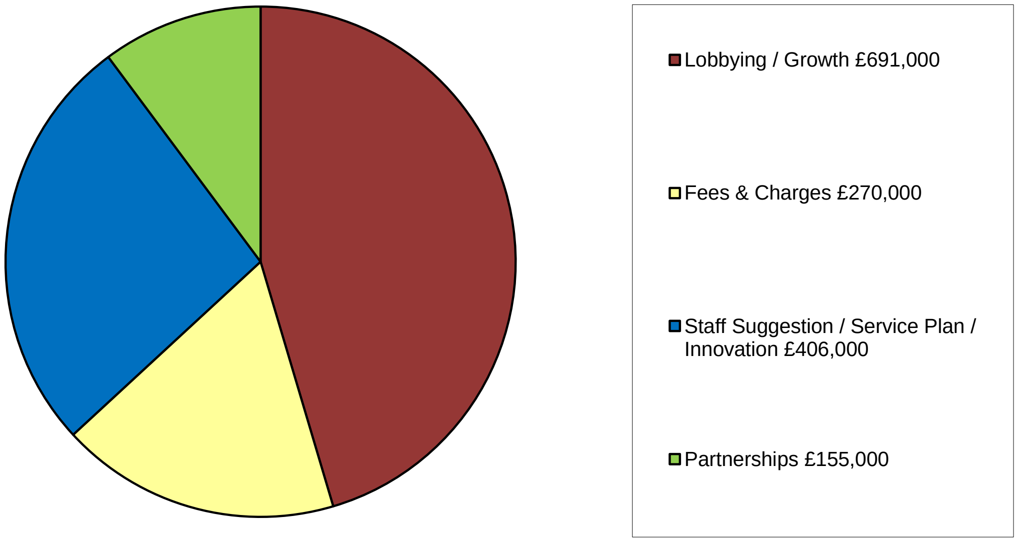
8b ***Council Tax Grant 2015/16*** *- This is a grant the Council receives from central government for one year in return for freezing Council Tax in 2015/16. A Council Tax Freeze has ongoing implications as an increase in Council Tax generates income year on year.*

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.*

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.*

4.2 From Table 1 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)



4.3 Based upon the figures in the model (Table 1) it can be seen that the following levels of savings maybe required over the new few years (prior to the consideration of any increase in council tax);

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

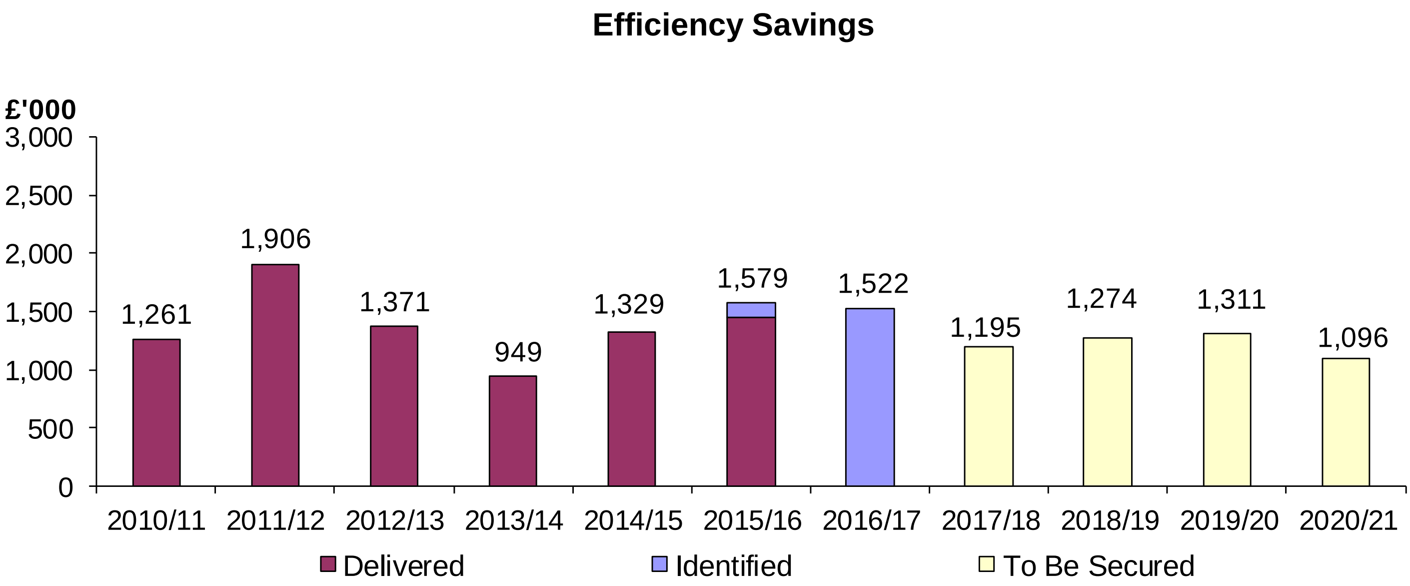
4.4 Members should be aware that the indicative savings levels for the period 2017/18 onwards are subject to a number of high level assumptions. One of these is about the potential level of government grant. Whilst the Government provided indicative allocations for 2017/18 – 2019/20 these are subject to Council's submitting efficiency plans – at this stage it is still unclear what is required.

4.5 A further high level assumption is around New Homes Bonus. As previously reported to the Executive 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. – The Government have consulted on how New Homes Bonus will operate from 2017/18 – this is covered in Section 5.

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

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

- Savings of £8.4m have been identified and delivered between 2010/11 – 2015/16;
- Savings of £1.520m have been identified but need to be delivered in 2016/17;
- Savings of around £5m need to be identified and delivered over the next four years (2017/18 – 2020/21).



5 GOVERNMENT CONSULTATIONS - NEW HOMES BONUS

5.1 The Government introduced the New Homes Bonus scheme in 2011 following a detailed consultation process with Local Government. Members were advised at the time that KBC representatives worked closely with CLG officials in helping devise a ‘simple’ and transparent’ scheme.

5.2 The scheme was intended to reward local authorities for the delivery of new houses through the payment of a bonus. The payment was equivalent of the average council tax in England and for each new home it was payable each year for six years. In two tier areas, the payments were split 80% to District’s and 20% to Counties.

5.3 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.

5.4 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” “fair” “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.

5.5 The Government are not proposing changes for 2016/17 but the implications from 2017/18 onwards could be significant. 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. The Council will receive around £2.6m in New Homes Bonus in 2016/17 and around £1.4m (54%) is included in the Councils 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 of around £540,000 whilst requiring <u>all</u> the New Homes Bonus funding to be brought into the base budget.

5.6 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).

5.7 The Government issued a consultation document in December 2015 which closes on 10 March 2016. The Government have stated that **at least £800m** will be transferred from New Homes Bonus and be transferred to Social Care. The Council's response to the consultation is detailed at Appendix B. The Executive summary is detailed below;

a) Given the significant reduction in national funding for the scheme – it will only remain an incentive for the delivery of housing growth if other changes are made alongside it that allow local authorities to become actively involved in 'unlocking' consented schemes that developers are not currently delivering. The Council would strongly encourage DCLG to consider what other 'levers' can be introduced to allow local authorities to help unlock consented schemes – by doing so local authorities may be incentivised to help deliver more units even though the NHB reward for each unit will be significantly lower than before.

b) It is very important that local authorities that have been delivering housing growth over the past few years are not the ones that are disadvantaged through any changes that are introduced. The NHB was (and is) an incentive for the delivery of housing growth – those that have the best track records for delivering growth must continue to be proportionately better rewarded for delivery into the future, they certainly should not be penalised!

c) The Council supports the principle of having some transition measures as a revised system is introduced. DCLG would be wise to consider the legacy impacts that any changes will have upon recently consented schemes that are currently being built or are about to commence development. Local Planning Authorities that have voted to accept growth in the knowledge that they would benefit from NHB funding must be considered through transitional arrangements. This is particularly important when one considers the longer lead times and greater ambition needed to deliver large urban extensions.

6 CONSULTATION AND CUSTOMER IMPACT

6.1 As outlined in the report.

7 POLICY IMPLICATIONS

7.1 As outlined in the report.

8 USE OF RESOURCES

8.1 As outlined in the report.

9. RECOMMENDATIONS

That the Executive;

a. Note the proactive management the Council has undertaken with regards to homelessness;

b. Note the Council's Medium Term Financial Strategy and associated guiding principles;

c. Approve the budget process for 2017/18 as outlined in Section 3.4;

d. Note and endorses the Council's consultation responses to the Government's New Homes Bonus Consultation.

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

Previous Reports/Minutes:
Monthly Durable Budget Reports