Committee	**EXECUTIVE**	Item 11	Page 1
Report Originator	Strategic Management Team	Fwd Plan Ref A16/005	
Wards Affected	All	13th July 2016	
Title	**MAINTAINING A DURABLE BUDGET**		

Portfolio Holder – Councillor Jan Smith

1. PURPOSE OF REPORT

The purpose of the report is to:

a) Provide Members with a case study on the success the Council has had in attracting external funding;

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

c) Provide a revised medium term budget model illustrating the levels of savings that may be required over the coming years and highlight the significant financial challenges facing the Council;

d) Illustrate the latest budget model, the delivery of efficiency savings for 2016/17 and the estimated level of budget savings that may be required over the next few years.

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
- Refuse and Recycling

External Funding

In 2015 Kettering Borough Council successfully obtained funding of around £67,000 from England Athletics to provide 8 floodlights at Kettering Town Harriers Athletics track.

Kettering Borough Council worked with the athletic club in providing advice and project management skills to deliver this scheme. The future maintenance and running costs are the responsibility of the athletics club.

The floodlights were officially turned on in April 2016 and have proved to be successful with the club in attracting new members which was previously one of the barriers in terms of attracting elite performers to the club.

The club will benefit significantly from being able to provide athletics all year round rather than just the lighter nights as in previous years.

3. BACKGROUND

3.1 At the March Executive meeting members approved that the budget delivery framework used in the six previous budget rounds be used for the preparation of the 2017/18 budgets. Specifically, members approved;

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'

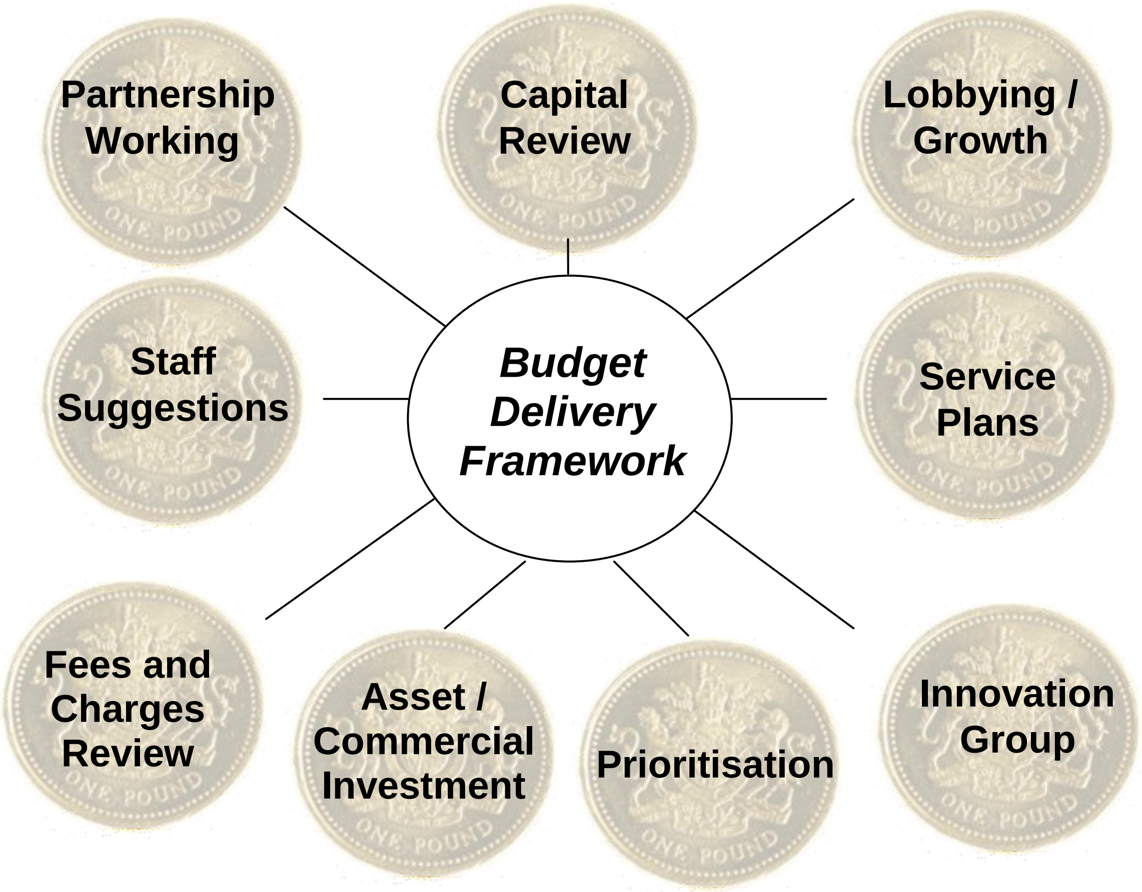
- the existing nine workstreams

3.2 The Council's success in delivering a balanced budget over the past number of years has come from the Budget Delivery Framework and particularly from the Staff Suggestions and Innovation Framework which have contributed annually to around a third of the total savings target.

3.3 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.

3.4 The Council's success in delivering a balanced budget over the past number of 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.

3.5 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 not fall below 10% of net revenue expenditure;*

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

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

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

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

Modelling for Recovery principles:

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

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

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

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

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

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

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 has been updated to reflect the fact that we have effectively 'closed' the 2015/16 financial year and now incorporates the financial year 2021/22.

4.2 The forecast comprises the following 'Zones'

- **Zone of Predictability** – covers the current financial year (2016/17) for which the level of government funding has been confirmed.

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

  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 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 - The conclusions of the recent national consultation exercise are expected shortly.

  - Business Rates Review – a consultation on 100% Business Rates Retention is expected shortly.

- **Zone of Severe Unpredictability** – Medium Term (2020/21 – 2021/22)

  The Council would need to identify and deliver further savings of around £1.1m in 2020/21 and £768,000 in 2021/22.

  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	
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000
1	**Net Council Budget**	**11,497**	**10,612**	**10,449**	**10,207**	**9,803**	**9,539**
2	**Forecast Resources:**						
	Government Grant						
2a	Revenue Support Grant	(1,161)	(546)	(171)	250	0	0
2b	Business Rates	(2,310)	(2,355)	(2,425)	(2,503)	(2,000)	(2,000)
	Total Government Grant	**(3,471)**	**(2,901)**	**(2,596)**	**(2,253)**	**(2,000)**	**(2,000)**
	Council Tax / Coll'n Fund	(250)	(200)	(200)	(200)	(200)	(200)
	Income From Council Tax	(6,254)	(6,316)	(6,379)	(6,443)	(6,507)	(6,571)
	Total Resources	**(9,975)**	**(9,417)**	**(9,175)**	**(8,896)**	**(8,707)**	**(8,771)**
3	**Budget (Surplus) / Deficit**	**1,522**	**1,195**	**1,274**	**1,311**	**1,096**	**768**
4	**Savings Identified**	**(1,522)**	**0**	**0**	**0**	**0**	**0**
5	**Savings - To be Identified**	**0**	**(1,195)**	**(1,274)**	**(1,311)**	**(1,096)**	**(768)**
6	**Budget (Surplus) / Deficit**	**0**	**0**	**0**	**0**	**0**	**0**

GENERAL FUND WORKING BALANCE

		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		£000	£000	£000	£000	£000	£000
7	**Estimated Opening Balance**	**(1,415)**	**(1,425)**	**(1,435)**	**(1,435)**	**(1,435)**	**(1,435)**
8a	Town Centre Initiatives	40	40	0	0	0	0
8b	Transitional Grant	(50)	(50)	0	0	0	0
9	**Estimated Closing Balance**	**(1,425)**	**(1,435)**	**(1,435)**	**(1,435)**	**(1,435)**	**(1,435)**

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 figures from 2020/21 are 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.*

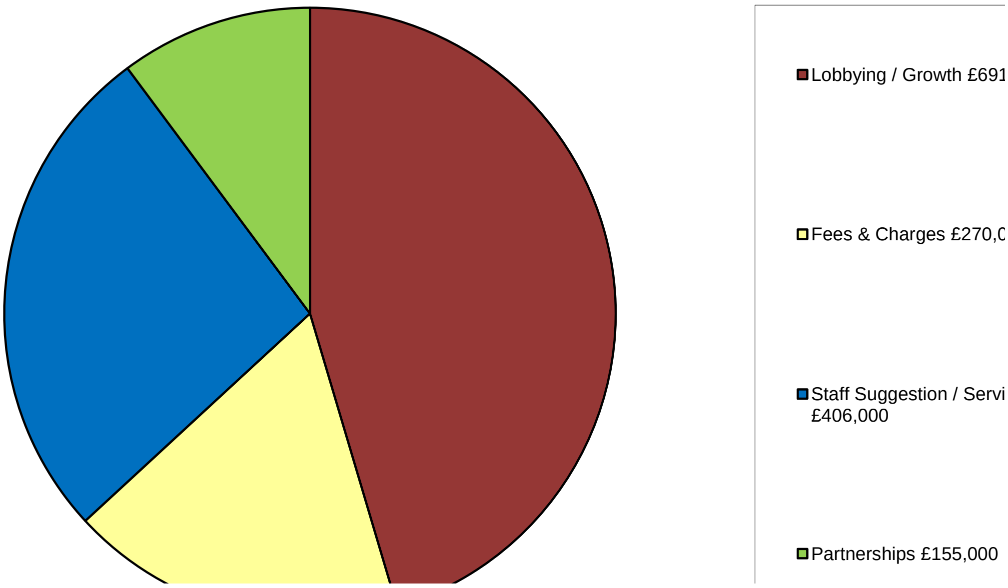
5 ***Savings to be identified*** *– This identifies the total resources that are required to balance the budget in future years after 2016/17.*

8a ***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.*

8b ***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.*

4.3 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 the current Year (2016/17)



4.4 Table 2 illustrates that around 2/3 of the total savings targets are being delivered through additional income and around 1/3 are being delivered through reduced expenditure.

Table 2 – Framework Savings 2016/17

Framework	**Additional Income £'000**	**Reduced Expenditure £'000**	**Total £'000**
Lobbying / Growth	673	18	691
Fees & Charges	270	0	270
Staff Suggestion / Service Plan / Innovation	41	365	406
Partnerships	27	128	155
Total	**1,011**	**511**	**1,522**

4.5 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**
2021/22	**£ 768,000**

4.6 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.

4.7 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 incurred a reduction in budget of £275,000 in both 2018/19 and 2019/20. – The Government undertook a consultation on New Homes Bonus, which will operate from 2017/18 and will be responding to this in the summer.

4.8 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.

HOUSING REVENUE ACCOUNT 2016/17 – CURRENT FINANCIAL YEAR

4.9 A summary of HRA monitoring at 30th June is shown in Table 3. The Housing Revenue Account is currently projected to come in on budget.

Table 3 - HRA	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,809	15,809	0
Gross Income	(15,809)	(15,809)	0
Net Expenditure	0	0	0

CAPITAL 2016/17 – CURRENT FINANCIAL YEAR

4.10 A summary of the projected Capital Programme outturn monitoring statement as at 30th June 2016 is shown in Table 4 this now reflects the brought forwards following Executive approval at the June meeting.

Table 4 - Capital	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Expenditure			
HRA Schemes	4,936	4,936	0
General Fund Schemes	4,421	4,021	400
	9,357	8,957	400
Financing			
Capital Receipts	926	926	0
Prudential Borrowing	4,539	4,139	400
Revenue Contribution	3,587	3,587	0
Grants & Contributions	305	305	0
	9,357	8,957	400
Net Expenditure	0	0	0

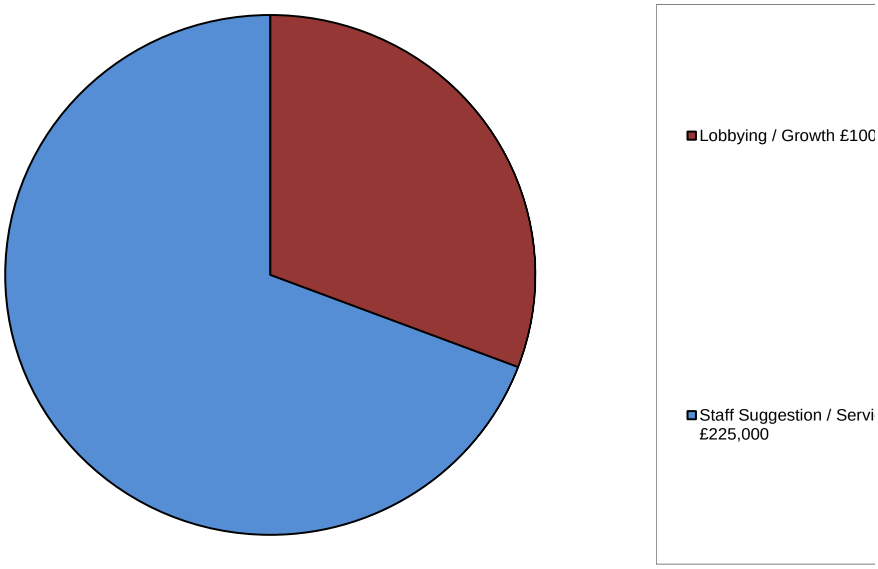
4.11 The capital programme is currently projected to come in £400,000 lower than budget – this variance relates to the Fleet Maintenance Facility scheme which has currently been put on hold whilst the Council reviews alternative options.

GENERAL FUND – 2017/18

4.12 As well as monitoring framework savings identified for 2016/17 work continues on identifying savings for the following year – 2017/18. Members are reminded of the current Medium Term Financial Forecast which required an additional £1,195,000 of savings to balance the budget in 2017/18.

4.13 Savings of £325,000 have been identified, these relate to further growth of £100,000 from the Business Rates Retention Scheme and £225,000 from the flexible resourcing review. A further £870,000 is required in order to deliver a balanced budget for 2017/18. Chart 2 illustrates how the identified savings are to be delivered.

Chart 2
Identified Framework Savings for next Year (2017/18)



4.14 Table 5 illustrates how the savings identified to date are to be delivered - around 2/3 of the total savings targets are to be delivered through reduced expenditure and around 1/3 is to be delivered through increased income.

Table 5 – Framework Savings 2017/18			
Framework	**Additional Income £'000**	**Reduced Expenditure £'000**	**Total £'000**
Lobbying / Growth	100	0	100
Staff Suggestion / Service Plan / Innovation	0	225	225
Total	**100**	**225**	**325**

4.15 The Council's Strategic Risk Register includes risks to this Council arising from the actions or impact suffered by another authority. The risk around funding for Disabled Facility Grants (DFG's) not following function was highlighted to Members as part of the June's Durable Budget Report. The report made reference that a number of years ago the government chose to move the funding for Disabled Facility Grants (DFG's) to counties whilst the statutory delivery responsibility rests with the districts. Whilst we saw no logic in that and said so as an authority and via national organisations nonetheless the proposal was put in place.

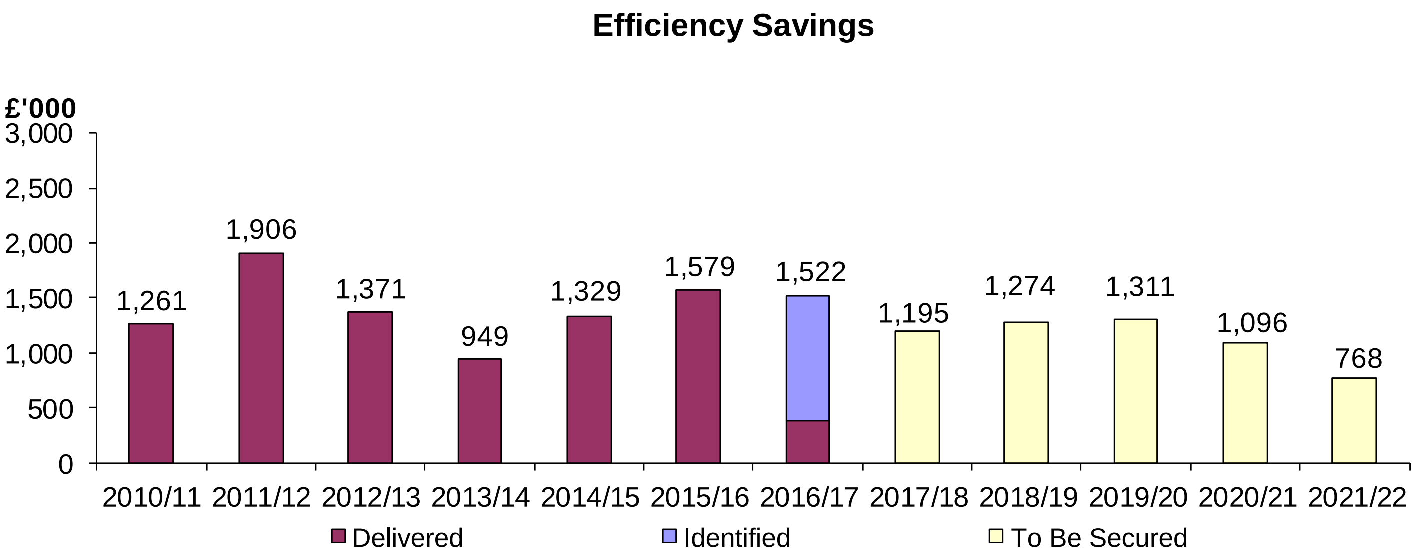
4.16 Nationally the DFG funding for 2016/17 is £394m an increase of £174m from 2015/16. The DFG funding in Northamptonshire for 2016/17 is £3.518m an increase of £1.561m from 2015/16.

4.17 The Department of Health set out nationally how the £394m was to be allocated despite this NCC had originally only confirmed funding allocations for the Shire Districts of £1.957m for 2016/17 (which are the same figures as 2015/16). The Shire Districts made representations to the County Council and shared the advice received from the Department of Health that the allocations should be made in full.

4.18 NCC have since advised that the allocations provided by the Department of Health will be met with the exception of around £300,000 – again advise was sought from the Department of Health and their Policy Advisors have clearly stated that the full amount should be paid to the Shire Districts. This has been shared with the County Council and we are still awaiting confirmation from NCC that the 2016/17 allocations will be made in full as set out by the Department of Health.

4.19 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 £1.522m have been identified but need to be delivered in 2016/17;
- Savings of around £5.6m need to be identified and delivered over the next five years (2017/18 – 2021/22).



5. EU REFERENDUM

5.1 Following the outcome of the EU Referendum, there has been many articles in the local government press speculating on the impact there might be on local government funding.

5.2 Clearly, it is too early to give a commentary of what may happen as a result of the EU Referendum decision. The medium to long term implications are really still speculation at best, but we can start to look at some of the pointers to the shorter term effects.

5.3 For local government, the main financial consequences are likely to be indirect in that they will depend on how any change in economic growth impacts on general taxation, and whether this follows through into changes in public spending (over and above those that are directly planned for).

5.4 Other changes that will need to be looked at in due course include legal areas such as procurement law.

5.5 It has been well publicised from the media that two years are provided for exit. There is a formal process for parliament to trigger that.

5.6 The issue of what funding we get from government in the future and how that is funded and how that's structured, is in any case changing. The government grant based on population is declining and growth based funding – new homes, new business – is now the focus. That too is changing with less emphasis on homes and more on business.

5.7 How the future of local government finance is shaped is something that time will tell – however a number of officers continue to work at a national level in working directly with the LGA/CLG on the 100% Business Rates Retention Scheme.

5.8 There is a huge amount of uncertainty and we will only find out the implications as negotiations between the EU and the UK unfold over the coming months and years. However our finances are in far better shape than most and the Council has a robust Medium Term Financial Strategy and financial planning system that will help stand it in good stead.

6 BUSINESS RATES CONSULTATION

6.1 The Communities and Local Government issued a Business Rates Consultation on Delivering more frequent revaluations – the Council responded to this consultation which closed on 8th July.

6.2 The consultation considers the following key points – which may shape how the 100% Business Rates Retention Scheme operates;

- Delivering more frequent valuations under the current system
- A system of Self-assessment for Business Rates.

Delivering more frequent valuations under the current system

6.3 The Council in their consultation response raises concerns over some fundamental issues. Whilst more frequent revaluations could improve the credibility of the tax, and possibly reduce the incidence of appeals, it could be argued that it could have the reverse impact on the level of appeals – as more frequent revaluations increase the number of appeals. Under existing resource levels at the VOA (Valuation Office Agency), more frequent revaluations may not be feasible.

6.4 More frequent revaluations, by their very nature, could reduce the amount of growth in billing authorities tax bases, which incorporated with 100% business rates retention by local government, could have serious financial consequences.

A system of Self-assessment for Business Rates

6.5 Introducing a self-assessment system for revaluation could potentially lead to a loss of control by the VOA as the onus for determining the value of a hereditament passes to the ratepayer, who has a vested interest in minimising their liability. In addition, it could lead to a loss of standardisation in valuations as whatever parameters and guidance is set by the VOA, it will be subject to a wide variety of interpretations.

6.6 The system could only work if there is adequate inspection by the VOA and sufficient deterrents in place. To establish this, the VOA will need to ensure the correct amount of resources are deployed. The Council has doubts as to whether this will be the case.

6.7 The Council believes that a self-assessment system for the revaluation could seriously damage the credibility of the tax as the principal source of local government funding.

6.8 The government's response to this consultation will be reported back to a future Executive meeting.

7 CONSULTATION AND CUSTOMER IMPACT

7.1 None as a direct consequence of this report. However members are reminded that the formal budget consultation period is from 18th January 2017 to 22nd February 2017 when the Council sets its Council Tax for 2017/18. Comments from the consultation process will be reported to the Executive for consideration at its meeting on 15th February 2017.

8 POLICY IMPLICATIONS

8.1 As outlined in the report.

9 USE OF RESOURCES

9.1 As outlined in the report.

10. RECOMMENDATIONS

That the Executive Committee;

10.1 Note the following;

a. The success that the Council has had in securing external funding;

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

c. The Council's current Medium Term Financial Forecast and the progress being made for the delivery of efficiency savings for 2016/17 and future years;

d. The potential implications and uncertainty that exists from the EU referendum;

e. The Council's response to the Business Rates Consultation on Delivering more frequent Revaluations.

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

Previous Reports/Minutes:
Monthly Durable Budget Reports