

## BOROUGH OF KETTERING

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<b>Report Originator</b>	Strategic Management Team	Fwd Plan Ref A16/010	
<b>Wards Affected</b>	All	21 <sup>st</sup> September 2016	
<b>Title</b>	<b>MAINTAINING A DURABLE BUDGET</b>		

Portfolio Holder – Cllr J Smith

### 1. PURPOSE OF REPORT

The purpose of the report is to:

- a) Provide Members with a reminder of the Council's medium term financial strategy and associated guiding principles;
- b) 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;
- c) Get the approval of the Committee to formally apply for the 'four year funding deal' that the Government outlined earlier this year;
- d) Remind members of the background to (and previous decisions in relation to) the operation of the Council Tax Support scheme; outline the estimated financial position for 2017/18 and seek approval for the options for consultation purposes;
- e) Provide a draft response to the Governments consultations on '100% Business Rates Retention' for endorsement of the key themes.

### 2. BACKGROUND

2.1 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*

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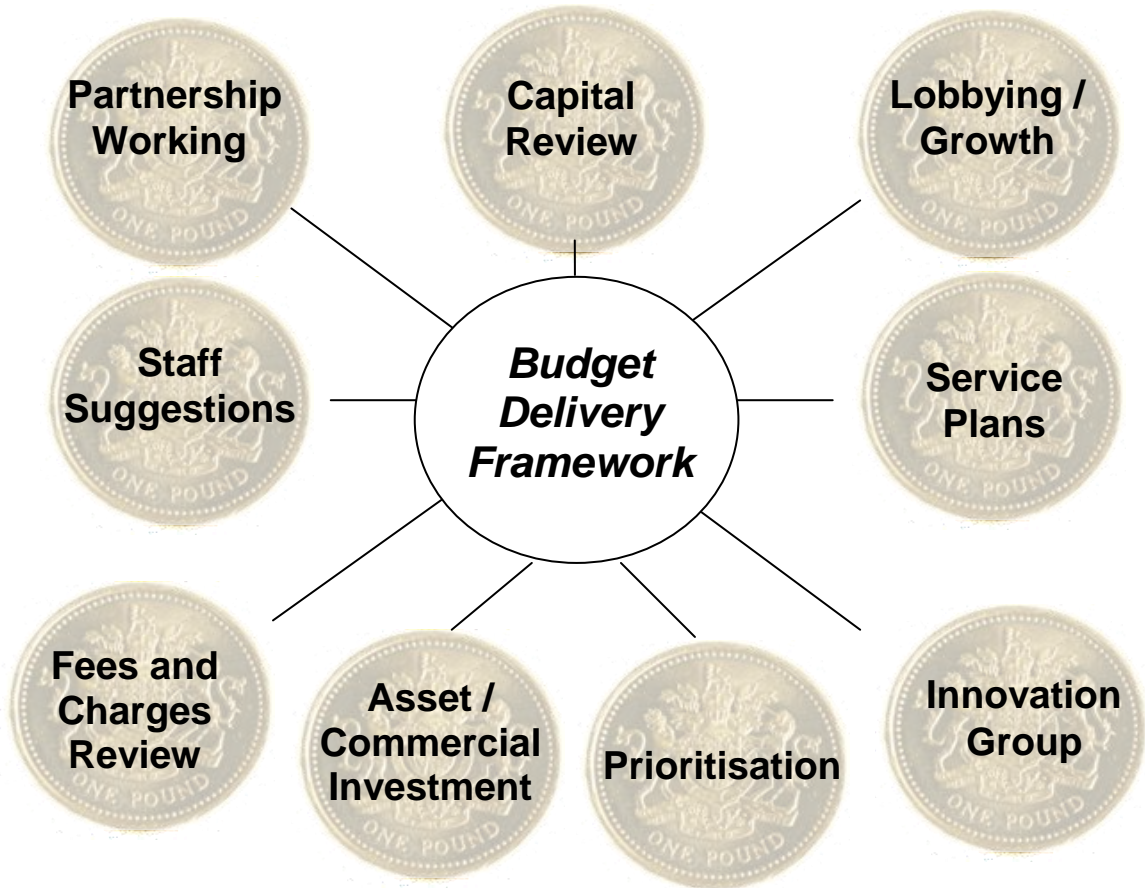
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*- the prioritisation 'golden rules.*

*- the existing nine workstreams*

- 2.2 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.
- 2.3 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.
- 2.4 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 2.5) however savings of this magnitude are becoming increasingly difficult to maintain.
- 2.5 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;

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2.6 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;*

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- 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.*

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

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

3.1 The Council’s Medium Term Financial Strategy is reproduced in Table 1.

3.2 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 was issued in July and closes on 26<sup>th</sup> September 2016 – this is covered in more detail in Section 5.
- ◆ **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.

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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.

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	<b>Net Council Budget</b>	11,497	10,612	10,449	10,207	9,803	9,539	
2	<b>Forecast Resources:</b>							
	<b>Government Grant</b>							
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)	
	<b>Total Government Grant</b>	<b>(3,471)</b>	<b>(2,901)</b>	<b>(2,596)</b>	<b>(2,253)</b>	<b>(2,000)</b>	<b>(2,000)</b>	
	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)	
	<b>Total Resources</b>	<b>(9,975)</b>	<b>(9,417)</b>	<b>(9,175)</b>	<b>(8,896)</b>	<b>(8,707)</b>	<b>(8,771)</b>	
3	<b>Budget (Surplus) / Deficit</b>	1,522	1,195	1,274	1,311	1,096	768	
4	<b>Savings Identified</b>	(1,522)	(485)	0	0	0	0	
5	<b>Savings - To be Identified</b>	0	(710)	(1,274)	(1,311)	(1,096)	(768)	
6	<b>Budget (Surplus) / Deficit</b>	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	<b>Estimated Opening Balance</b>	(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	<b>Estimated Closing Balance</b>	<b>(1,425)</b>	<b>(1,435)</b>	<b>(1,435)</b>	<b>(1,435)</b>	<b>(1,435)</b>	<b>(1,435)</b>	

### Notes to Medium Term Financial Forecast

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

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

*The 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.*

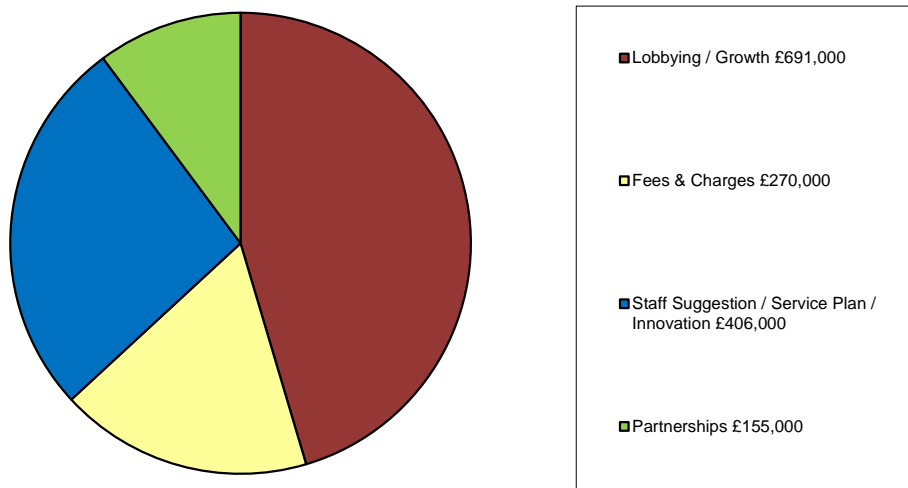
3.3 From Table 1 it can be seen that the Council's budget delivery framework will need to deliver £1,522,000 of savings in 2016/17 to maintain a balanced budget. The assumptions will need to be kept under close review during 2016/17. The identified savings are summarised in Chart 1:



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**Chart 1**  
**Identified Framework Savings for the current Year**  
**(2016/17)**



3.4 Table 2 illustrates that around 2/3 of the total savings targets in 2016/17 are being delivered through additional income and around 1/3 are being delivered through reduced expenditure.

<b>Table 2 – Framework Savings 2016/17</b>			
<b>Framework</b>	<b>Additional Income £'000</b>	<b>Reduced Expenditure £'000</b>	<b>Total £'000</b>
Lobbying / Growth	673	18	691
Fees & Charges	270	0	270
Staff Suggestion / Service Plan / Innovation	41	365	406
Partnerships	27	128	155
<b>Total</b>	<b>1,011</b>	<b>511</b>	<b>1,522</b>

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3.5 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);

<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>
<b>2021/22</b>	<b>£ 768,000</b>

3.6 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.

3.7 The four year settlement put forward by the Government for this Council is summarised in Table 3, these are “**minimum allocations not fixed allocations**” whilst this implies there could be some scope for those who take the four year settlement deals to gain, it is difficult to see the levels of grant changing.

<b>TABLE 3 - FOUR YEAR GRANT SETTLEMENT</b>				
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Revenue Support Grant	(1,161)	(546)	(171)	250
Business Rates	(2,310)	(2,355)	(2,425)	(2,503)
<b>Total Government Grant</b>	<b>(3,471)</b>	<b>(2,901)</b>	<b>(2,596)</b>	<b>(2,253)</b>

3.8 Whilst these arrangements will continue to bring reductions in central government funding, there may be fundamental changes to the underlying needs formulae or further cuts in the total funding that result in non-participants receiving noticeably less funding through changes to top-ups and tariffs so there is a clear incentive to sign-up. If the Council decided not to sign up to the four year settlement grant levels would be determined annually and could be somewhat lower than those detailed in Table 3, this would also adversely impact the Council’s ability regarding Medium Term Financial Planning.

3.9 It is difficult to see what the real benefits and risk of signing up to the four year deal actually are – recent statements from the Government have said that those local authorities that sign up will not be worse off than those that do not sign up which provides a clear indication that it is better to sign up. In the submission the Council will make a number of points about the need to clarify funding levels for the New Homes Bonus as well as clarifying how the deal works in relation to any devolution deals and negative Revenue Support Grant.

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- 3.10 It is probably fair to say that the four-year grant settlement provides increased stability and certainty. Having considered the offer put forward by the Government, the Council (subject to Member approval) will submit an application by the 14<sup>th</sup> October deadline. The submission will be in the form of a simple efficiency plan.
- 3.11 The Government are currently consulting on 100% Business Rates Retention and Business Rates Reforms which includes a funding review of needs and resources. Announcements regarding the review of New Homes Bonus are expected over the coming months.
- 3.12 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.
- 3.13 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

- 3.14 A summary of HRA monitoring at 31<sup>st</sup> August is shown in Table 4. The Housing Revenue Account is currently projected to come in on budget.

<b>Table 4 - HRA</b>	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

- 3.15 A summary of the projected Capital Programme outturn monitoring statement as at 31<sup>st</sup> August 2016 is shown in Table 5.

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Table 5 - Capital	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
<b>Expenditure</b>			
HRA Schemes	4,936	4,936	0
General Fund Schemes	4,479	4,079	400
	9,415	9,015	400
<b>Financing</b>			
Capital Receipts	926	926	0
Prudential Borrowing	4,539	4,139	400
Revenue Contribution	3,587	3,587	0
Grants & Contributions	363	363	0
	9,415	9,015	400
<b>Net Expenditure</b>	0	0	0

- 3.16 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.
- 3.17 The Capital Budget for the General Fund has been increased by £58,500 this reflects the skate park facility in Rothwell which has been fully funded through Section 106 agreements.
- 3.18 There is also a separate report on this agenda for awarding a contract for the refurbishment of Hampden Crescent – if this is approved by the Executive, the capital programme will be amended in the October Durable Budget report to reflect this.

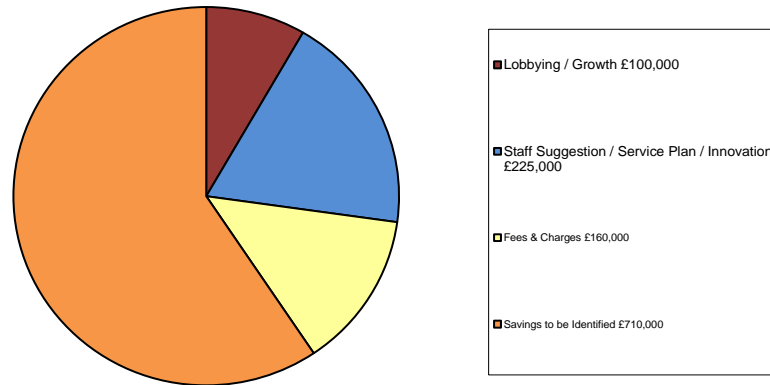
### GENERAL FUND – 2017/18

- 3.19 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.
- 3.20 Savings of £325,000 had been previously identified (as reported to the July Executive) and a further £160,000 has been identified, therefore the identified savings total £485,000. A further £710,000 is required in order to deliver a balanced budget for 2017/18. Chart 2 illustrates how the identified savings are to be delivered and the levels of savings that are required to deliver a balanced budget – to date around 40% of the savings have been identified which is not dissimilar to previous years at this stage of the process.

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



3.21 Table 6 illustrates how the savings identified to date are to be delivered - around 1/2 of the total savings target is to be delivered through reduced expenditure and around 1/2 is to be delivered through increased income

<b>Table 6 – Framework Savings 2017/18</b>			
<b>Framework</b>	<b>Additional Income £'000</b>	<b>Reduced Expenditure £'000</b>	<b>Total £'000</b>
Lobbying / Growth	100	0	100
Staff Suggestion / Service Plan / Innovation	0	225	225
Fees & Charges	160	0	160
<b>Total</b>	<b>260</b>	<b>225</b>	<b>485</b>

### **PUBLIC SECTOR PARTNERS**

3.22 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) was highlighted to Members as part of both the June and July's Durable Budget Report, further updates are included in this report, together with potential risks around green waste.

### **Disabled Facility Grants**

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- 3.23 The Department of Health set out nationally how £394m of DFG funding was to be allocated in 2016/17 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 actual DFG allocations for Northamptonshire were £3.518m a difference of £1.561m. 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.
- 3.24 NCC then advised that the allocations provided by the Department of Health will be met with the exception of around £300,000 – again advice was sought from the Department of Health and their Policy Advisors again clearly stated that the full amount should be paid to the Shire Districts. This was again shared with the County Council. By late July NCC have paid half of full the allocation as set out by the Department of Health.
- 3.25 Together with other Districts and Boroughs, the Council is very clear that legally the County Council have no right to with-hold this money or to pay by instalments without its prior agreement. Kettering Borough Council will continue to try and recover the outstanding monies so that it can be spent correctly on our citizens.

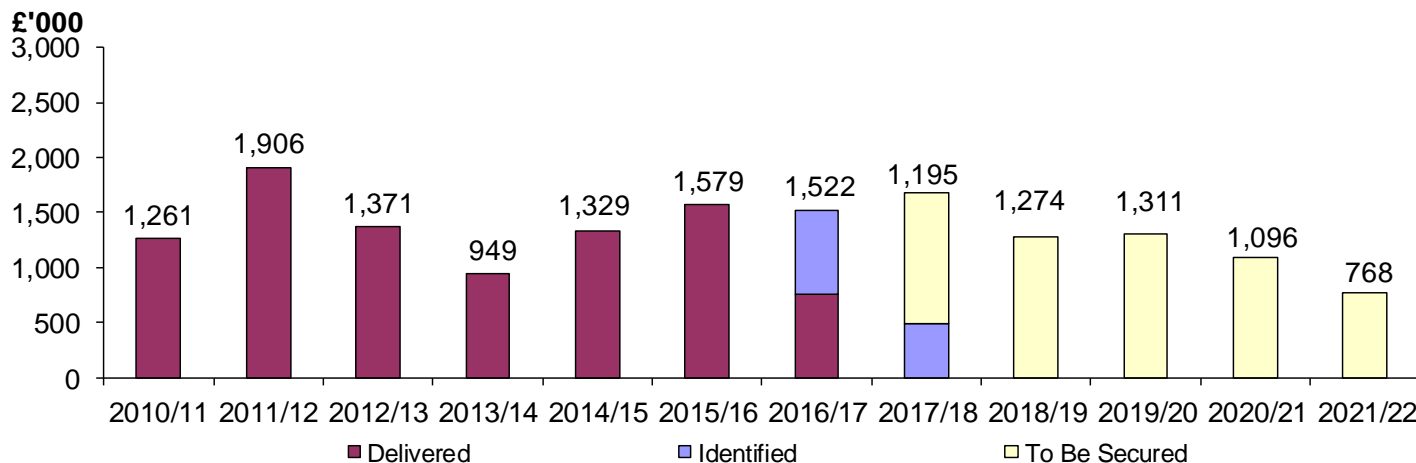
### **GREEN WASTE**

- 3.26 NCC has recently considered a report at its Cabinet about possible changes to the way that Green Waste disposal is undertaken.
- 3.27 Although it is not appropriate in this report to go into detail about that issue, what is clear is that if NCC do proceed along the lines that they have indicated, KBC may be left between £150,000 - £200,000 per annum worse off. As a result, the Council would have to decide if it was financially feasible to continue to offer a Green Waste Collection Service and if so, what such a service would be. A dialogue will continue with NCC on this issue.
- 3.28 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).

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### Efficiency Savings



#### 4 LOCAL COUNCIL TAX SUPPORT SCHEME

##### Background

- 4.1 Members will recall that from April 2013, Council Tax Benefit was replaced with Council Tax Support. Council Tax benefit was 100% funded and was a national welfare scheme through which a maximum relief of 100% could be granted. The Council Tax Support scheme has had its government funding reduced each year since 2013. To comply with Kettering Borough Councils 'Budget Containment Strategy' each year the scheme has to met from reduced Government funding levels – accordingly the proportion of Council Tax of those people on the scheme has had to increase each year.
- 4.2 The Council is required to undertake a public consultation which includes major precepting authorities (i.e., the County Council and the Police Authority), the voluntary sector and the public, annually (whether the scheme is to change or not).
- 4.3 Members have previously endorsed a simple set of additional guiding principles that would help frame the discussion about which option was preferable, when setting the levels of support. These principles were;
- In the medium term, the cost of a local scheme must be contained within the grant made available from the Government (to comply with the existing budget guiding principles)
  - The scheme should incentivise work
  - The impact on working age claimants should as far as possible be minimised through considering changes to Council Tax exemptions and discounts.

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- 4.4 In addition to the above the Council's Budget Containment Strategy (Section 2.6 Page 4) is very clear that when funding stops at a national level for a specific scheme, the Council will not step in the funders place and provide substitute funding.
- 4.5 In previous submissions to the Government, the Council has made the point that schemes relating to Welfare / Benefits should be treated as a national issue and fully funded by Central Government.

### Current Scheme

- 4.6 Table 7 provides a summary of the history of the Council Tax Support scheme since its introduction in 2013/14 to 2016/17.

<b>Table 7 – Summary of Council Tax Support Levels</b>		
<b>Year</b>	<b>Level of Council Tax Support / Benefit</b>	<b>Taper Rate – Amount of Council Tax to Pay</b>
2012/13*	100%	0%
2013/14	91.50%	8.50%
2014/15	85%	15%
2015/16	75%	25%
2016/17	55%	45%

\*Previous Council Tax Benefit Scheme

- 4.7 For the current year (2016/17), the maximum level of support that can be received by those in receipt of Council Tax Support is 55% of their Council Tax bill, i.e. they have to pay 45% of the bill themselves.
- 4.8 The Council has been mindful of its budget guiding principles when setting the 'local scheme'. In effect the Council has made a calculation of how much central government funding has reduced for Council Tax Support each year and approved a scheme that fits within the available funding envelope (without substitute funding). In coming to a decision each year, the Council has sought to adjust other Council Tax discounts and exemptions so that the pressure on the Council Tax Support scheme is minimised – these measures have effectively been fully utilised unless there are any changes to national government policy (eg, Single Persons Discounts).
- 4.9 Although this is a 'Local Scheme' the key variables of it have been determined on a national basis – for example, Pensioners are effectively 'protected'. This means that the liability to pay falls on around 3,300 households of this around 2,000 households are in receipt of the full rebate of 55%.



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- 4.10 It is fair to say that decisions in relation to Council Tax Support have never sat comfortably with Members. The Council has long since argued that welfare schemes (such as this) should be determined and funded nationally. In recent budget rounds members have often referred to the decision on this issue as one of a 'dilemma' rather than a straight forward choice. The Council has though remained true to its guiding principles of not providing substitute funding if another agency / government body reduces funding for a specific purpose.
- 4.11 Members will need to shortly decide on a Council Tax Support for 2017/18. Members are **not** being asked to make that decision as part of this report, what Members are being asked at this stage is to decide on options for consultation. The findings of the consultation process will be reported back to the Executive Committee before the end of 2016 and then subsequently considered by Full Council for a final decision. As part of considerations before then, Members will also need to consider what the impact may be on collection rates (of Council Tax). If further changes are to be considered – the need to have a sustainable medium term budget remains of paramount importance.

### Options Moving Forward

- 4.12 The following table outlines the estimated costs of the scheme (prior to the consideration of any further changes) i.e. if the current 45% 'taper' rate were to continue.

<b>Financial Year</b>	<b>Net Annual Cost of LCTS Scheme (£)</b>	<b>Cumulative 'cash' Impact (£)</b>
2016/17	17,000	(75,000)
2017/18	92,000	17,000
2018/19	133,000	150,000
2019/20	179,000	329,000
2020/21	213,000	542,000
2021/22	213,000	755,000

*\* Table 8 illustrates the cash impact to this Council. Any decisions on the Taper level impact on both the Police and the County Council. The cash impact is based on the respective share of the overall Council Tax Bill. The impact to the Police & Crime Commissioner Northants (PCCN) will be similar to KBC as the PCCN accounts for around 13% of the overall bill. The cost to the County Council will be somewhat greater as their share of the Council Tax Bill is around 73%.*

- 4.13 The data in Table 8 highlights that with a taper rate of 45% there would be an estimated annual shortfall of £92,000 in 2017/18 and an estimated cumulative shortfall of £17,000.

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- 4.14 Looking forward, the Executive is presented with possible options to address the projected shortfall and is being asked which options it wishes to undertake a public consultation exercise upon. To comply with the legislation, any changes that the Council is considering to the operation of the scheme must be subject to an eight week consultation process – as such the Executive are not being asked to make a final decision at this meeting, they are being asked to confirm the options being presented for consultation.
- 4.15 Members will recall that when debating the introduction of the ‘new’ scheme in January 2013, the need to keep the scheme under constant review was highlighted.
- 4.16 The only significant variable the Council has at its disposal (to keep within its budget guiding principles) is to adjust the ‘taper’ (i.e. the amount that people must pay) to ensure that the budget remains in balance. Previously the Council has consulted on the following three options;-

**Option 1** – Adjust the level of the Taper based on the ‘annual cost’ of the Council Tax Support Scheme

**Option 2** – Adjust the level of the Taper based on the ‘cumulative cost’ of the Council Tax Support Scheme over the medium term (5 years) – i.e., to deal with the £17,000 cumulative deficit

**Option 3** - An increase somewhere between Option 1 and Option 2

- 4.17 Table 9 illustrates the three options for 2017/18 further;

<b>Table 9 - 2017/18 Taper Options</b>		
<b>Option</b>	<b>Taper</b>	<b>Notes</b>
1	68%	The taper would need to increase from its current level of 45% to 68%
2	50%	The taper would need to increase from its current level of 45% to 50%
3	Somewhere between 68% and 50%	Basically a compromise / hybrid of the above two options

- 4.18 As explained in previous consultation exercises, taking either option 1 or 2 could be considered to be at opposite ends of the spectrum whilst adhering to the guiding principles on substitute funding. Option 1 would balance the budget annually in one go whereas Option 2 effectively ‘smooths’ the required increase. Option 2, if taken in isolation could create an increased budget pressure for future years. Option 3 is

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a middle ground – when the scheme was determined for the current year, the equivalent of Option 3 was used.

4.19 Unlike previous years we are in all reality moving to a situation where income collection could start to diminish if we keep increasing the Taper Rate – whereby the higher taper rate actually produces a lower yield because of the adverse impact on collection rates. Members may therefore wish to consider a **fourth option** as a ‘one year pilot’ and leave the Taper Rate unchanged in 2017/18. The reasons for this could be as follows:

- It maintains the overall income level
- There is a reducing caseload which could result in a 45% taper being acceptable – although we would only know this in hindsight.
- The changing national financial landscape - the review of Business Rates funding is considering how this scheme could be funded better.

4.20 If Members were minded to consult on the fourth option (i.e. to leave the taper at 45%), if taken in isolation this would be in danger of being out of step with the Council’s ‘Budget Containment Strategy’. However, given that the scheme is approaching a level where overall income collection may start to suffer (which in itself would be against the budget guiding principles of having a sustainable budget) then a degree of common sense and judgement maybe appropriate. We are currently analysing the impact of collection rates for the current year of the 2016/17 scheme. In addition if caseload continues to reduce (something we will only know in hindsight) then Option 4 may be able to be accommodated from within the Budget Containment Strategy – although this would only be a short term solution.

4.21 To summarise, the Members of this committee will need endorse the four options for consultation. The following table brings together the main considerations;

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<b>Table 10 – Summary of Consultation Options</b>	
<p><b>Option 1</b> Taper based on the <u>'annual cost'</u> of the Council Tax Support Scheme</p>	<p>The taper would need to increase from its current level of 45% to 68% to address the estimated funding shortfall of £92,000 for 2017/18.</p> <p>Such an increase in the Taper rates could adversely impact on the Collection Rates</p> <p>A taper of 68% would require lower increases to the taper rates compared to the other Options in future years if the current policy position is to be maintained</p>
<p><b>Option 2</b> Taper based on the <u>'cumulative cost'</u> over the medium term of the Council Tax Support Scheme</p>	<p>The taper would need to increase from its current level of 45% to 50% to address the estimated four year rolling funding shortfall of £17,000 from 2017/18.</p> <p>A lower increase in the Taper rate is less likely to adversely affect the Collection Rate</p> <p>A taper rate of 50% would require higher increases to the taper rates compared to Option 1 and Option 3 in future years if the current policy position is to be maintained</p>
<p><b>Option 3</b> Taper level based <u>between</u> Option 1 and Option 2.</p>	<p>The taper would need to increase from its current level of 45% to between 50% and 68% to address the estimated funding shortfall of between £17,000 and £92,000 from 2017/18.</p> <p>A lower increase in the Taper rate is less likely to adversely affect the Collection Rate</p> <p>A taper rate of between 50% and 68% would require higher increases to the taper rates compared to Option 1 in future years if the current policy position is to be maintained</p>
<p><b>Option 4</b> Continuing with a Taper level frozen of 45%</p>	<p>A freeze in the taper rate – remain at 45%</p> <p>A freeze in the Taper rate is less likely to adversely affect the Collection Rate</p> <p>A freeze in the taper rate would require higher increases to the taper rates compared to the other three options in future years if the current policy position is to be maintained.</p> <p>The caseload would need to continue to decrease in a similar fashion to that of the current year to be realistic.</p>

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4.22 Further information about the four Consultation Options (based on 2016/17 levels for a Band B property - being the average property banding within the borough) are provided in the Table 11;

<b>Table 11 – Taper Options</b>			
<b>Scheme</b>	<b>Reduction (Taper)</b>	<b>Annual Amount</b>	<b>Weekly Amount</b>
Current scheme	45%	£532.92	£10.26
<b>Option 1</b> Taper based on the 'annual cost' of the Council Tax Support Scheme	68%	£805.30	£15.49
<b>Option 2</b> Taper based on the 'cumulative cost' over the funding envelope of the Council Tax Support Scheme	50%	£592.13	£11.39
<b>Option 3</b> Taper based between 50% and 68%	55%	£651.34	£12.53
	60%	£710.56	£13.66
	65%	£769.77	£14.80
<b>Option 4</b> Taper based on the current scheme	45%	£532.92	£10.26

### **Other Technical Changes**

4.23 As a matter of good housekeeping, there are four further technical amendments to be considered as part of the CTS consultation, these are outlined below and would bring the LCTS scheme in line with the nationally designed Housing Benefit (HB) and Universal Credit (UC) schemes and would ensure CTS administration is efficient and consistent with both of these schemes. These changes will only apply to the working age.

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- 4.24 **Amendment 1 - To limit the number of dependent children within the calculation for Council Tax Support to a maximum of two** - within the current scheme, claimants who have children are awarded a dependant's addition of £66.90 per child within the calculation of their applicable amount (this is the amount used as the basis in calculating the level of support). The proposal is to limit this to a maximum of two children from April 2017. This will only affect households who have a third or subsequent child on or after 1<sup>st</sup> April 2017. There will be exceptions where there are multiple births after 1<sup>st</sup> April 2017 adopted children or where households merge. This will lead to a restriction in CTS for customers that have a third or subsequent child on or after 1<sup>st</sup> April 2017.
- 4.25 **Amendment 2 - Reducing the period for which a person can be absent from Great Britain and still receive Council Tax Support to 4 weeks** - within the current scheme, applicants can be temporarily absent from their homes for 13 weeks (or 52 weeks in certain cases) without it affecting their CTS. It is proposed that the Council's LCTS Scheme is amended to 4 weeks when a customer is absent from Great Britain. There will be exceptions for certain occupations such as mariners and the armed forces or where a person has to go abroad due to the death of a close relative. When a person is absent from Great Britain for a period which is likely to exceed 4 weeks, their CTS will cease from when they leave the Country and they would need to re-apply on return.
- 4.26 **Amendment 3 -To remove the element of a Work Related Activity Component in the calculation of the current scheme for new Employment and Support Allowance applicants** - It is proposed that from April 2017, all new applicants of Employment and Support Allowance (ESA) who fall within the Work Related Activity Group will no longer receive the work related activity component within the calculation of CTS. This is a technical change that will not affect the level of CTS.
- 4.27 **Amendment 4 – To remove entitlement to the Severe Disability Premium where another person is paid Universal Credit (Carers Element) to look after them** - Currently when another person is paid Carers Allowance to look after a person in receipt of CTS, a Severe Disability Premium is not included in assessing their Applicable Amounts. This approach avoids paying for the same care twice. This proposed change will align the scheme with HB by treating persons who receive the UC (Carers Element) in the same way as others receiving Carers Allowance - This is a technical change that will not affect the level of CTS.
- 4.28 The four amendments (outlined above) would need to be formally consulted upon through the LCTS consultation process.

## **5 BUSINESS RATES CONSULTATION**

- 5.1 The Communities and Local Government in July 2016 issued a major consultation on its proposals for the implementation of the '100%' Business Rates Retention scheme. The consultation period runs until 26<sup>th</sup> September.

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- 5.2 It has been reported to Members in previous Executive reports that this Council has been successful in getting itself represented at a professional level at 3 of the 4 national working groups looking at this issue.
- 5.3 The current consultation is a very general one aimed mainly at key principles and considering areas that requires changes in primary legislation. As such the questions are fairly general and high level.
- 5.4 A more detailed technical consultation on Business Rates is expected before the end of 2016.
- 5.5 A draft response to the current consultation is included at Appendix B. This is still being worked upon and will be developed further prior to the submission date. The key themes that are contained within the draft submission will not change.
- 5.6 The draft response is based on that drafted by the District Councils Network (adjusted accordingly). Kettering was heavily involved in writing the DCN draft.
- 5.7 The Government has also issued a 'call for evidence' in relation to the future operation of the fair funding review. Although not a consultation as such, the Council will be submitting a focused response that covers the following key themes:
- Role and impact of powerful grant incentives
  - Relative level of needs and there assessment
  - Transitional arrangements – legacy issues unfunded pressures
- 5.8 The government's response to this consultation will be reported back to a future Executive meeting.

### **6 CONSULTATION AND CUSTOMER IMPACT**

- 6.1 The decision taken by Members in relation to this report will inform the Consultation that will take place shortly about the operation of the Local Council Tax Support Scheme for 2017/18.
- 6.2 The draft response to the Governments current consultation on Business rates is also considered.

### **7 POLICY IMPLICATIONS**

- 7.1 As outlined in the report.

### **8 USE OF RESOURCES**

- 8.1 As outlined in the report.

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### 9. RECOMMENDATIONS

That the Executive Committee;

9.1 Note the following;

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

9.2 Agrees to apply for the Government's offer of a 'four year settlement', as outlined in this report.

9.3 Agrees to consult on the four options (outlined in this report) for the operation of the Local Council Tax Support Scheme in 2017/18, together with the four technical changes.

9.4 Endorse the key themes that are contained within the Council's draft response to the Business Rates Consultation as detailed at Appendix B.

#### Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

#### Previous Reports/Minutes:

Monthly Durable Budget Reports