

BOROUGH OF KETTERING

Committee	EXECUTIVE	Item 10	Page 1
Report Originator	Strategic Management Team	Fwd Plan Ref A16/022	
Wards Affected	All	16 th November 2016	
Title	MAINTAINING A DURABLE BUDGET		

Portfolio Holder – Cllr Lesley Thurland

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) An outline Budget Timetable for 2017/18.

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:-

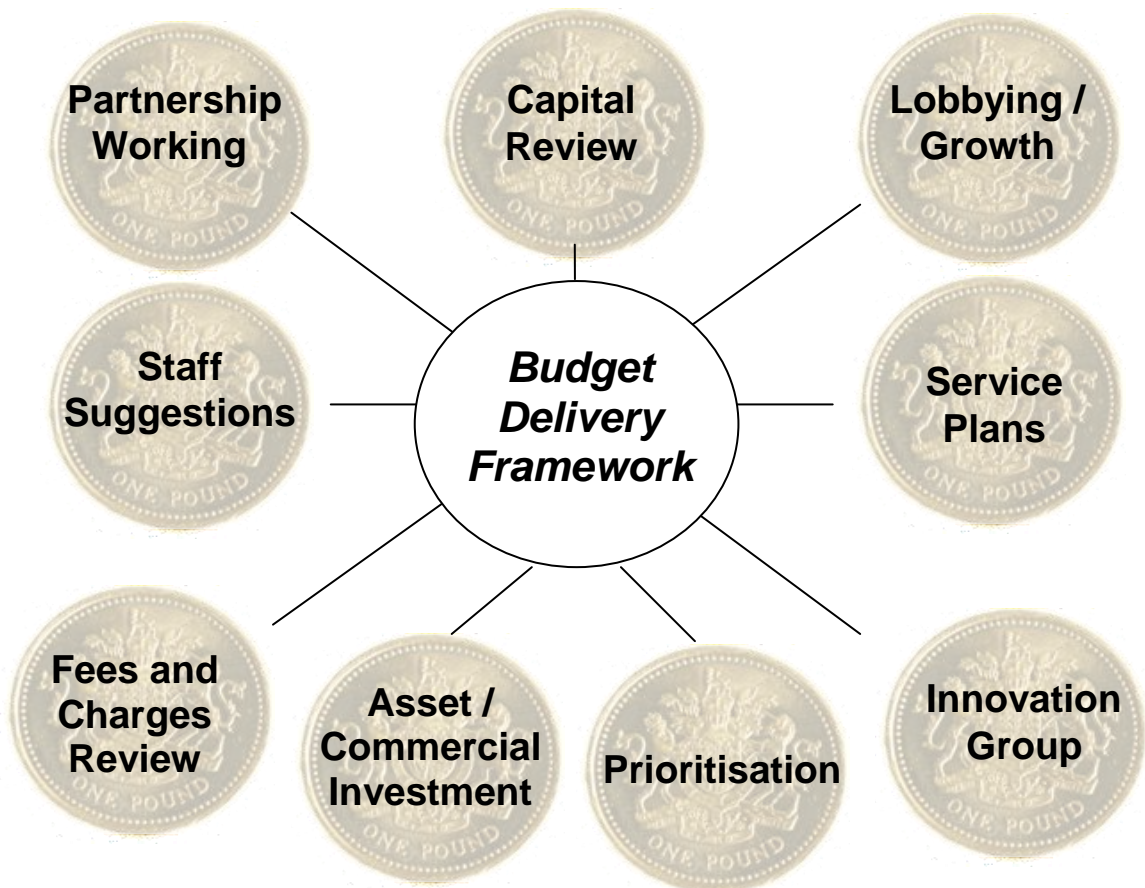
- *the existing guiding principles*
- *the existing modelling for recovery principles*
- *the existing budget containment strategy*
- *the prioritisation 'golden rules.*
- *the existing nine workstreams*

- 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.

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- 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;



- 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:-

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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*

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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.*

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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. And subsequent 'four year settlement' figures (that were previously reported to this Committee).

The overall scale of budget reduction continues to be very significant. Collectively the Council has done an impressive job of delivering a balanced budget despite having no council tax increase, no cuts to front line services, and no reduction to overall funding for the voluntary sector since 2011/12. This has only been achievable by following the budget guiding principles and making sure that other income sources, such as fees and charges, are harvested in line with their previously agreed guiding principles – this will remain important moving forward.

The reality of the Council being able to deliver a balanced budget in this period will be more challenging – the Council will need to carefully consider its main sources of income (Council Tax, Fees and Charges) at the same time as progressing its commercial investment projects whilst also starting to consider its priorities for services (and levels of services) if a balanced budget is to be achieved in the medium term. The commonly referred to 'triple zero' success of recent times is unlikely to be achievable in the medium term, indeed any one element of this will put additional pressure on existing levels of service and resources.

There are significant pressures and risks over the medium term in relation to the following:

- New Homes Bonus Funding - 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 closed on 26th September 2016 – A more detailed technical consultation on Business Rates is expected before the end of 2016.

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♦ **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)	(735)	0	0	0	0	
5	Savings - To be Identified	0	(460)	(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.

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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.*

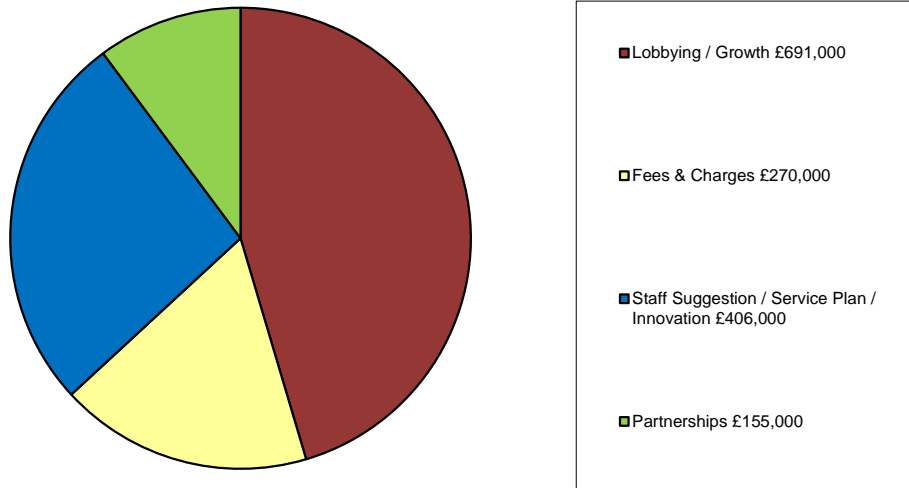
8b **Transitional Grant** – *This relates to additional funding that has been made available in the form of a transitional grant from Government to ease the pace of reductions during the first 2 years of the settlement for councils with the sharpest reductions in Revenue Support Grant.*

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.

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

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);

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2017/18	£1,195,000
2018/19	£1,274,000
2019/20	£1,311,000
2020/21	£1,096,000
2021/22	£ 768,000

- 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. The Government as part of the 2016/17 settlement offered Councils a four year grant settlement subject to Councils submitting an efficiency plan – the Council has submitted an efficiency plan and further announcements on this are expected shortly.
- 3.7 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.
- 3.8 There continues to be some key budget areas of volatility – the most significant of these being;

	Projected Variance	Reason
Borrowing Costs	£400,000 (favourable)	The Council has continued to use internal reserves as a means of borrowing and has not borrowed externally – resulting in lower borrowing costs.
Staffing Costs	£200,000 (favourable)	The Council's Flexible Resourcing Review and vacancies have resulted in lower staff costs.
Fee Income	£250,000 (favourable)	A number of the Council's main income streams (eg, Planning Fees and Crematorium Income) are generating more income than budgeted at the present time. The medium term implications of this will be reviewed through the forthcoming budget process.
Homelessness	£200,000 (adverse)	There has been an increase in the number of homeless applications this is reflective of the picture across the country in relation to this issue.

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3.9 These areas will be closely monitored and reviewed as part of the forthcoming budget process – some of these (such as homelessness) are essentially demand led and reflective of national economic issues. As part of the budget process, it will be recommended that the same strategy be used as in previous years in relation to any one-off 'savings' this is due to the growing levels of uncertainty and risk in the medium term.

HOUSING REVENUE ACCOUNT 2016/17 – CURRENT FINANCIAL YEAR

3.10 A summary of HRA monitoring at 31st October is shown in Table 4. The Housing Revenue Account is currently projected to come in on budget.

Table 4 - 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

3.11 A summary of the projected Capital Programme outturn monitoring statement as at 31st October is shown in Table 5.

Table 5 - Capital	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Expenditure			
HRA Schemes	5,636	5,636	0
General Fund Schemes	4,479	4,079	400
	10,115	9,715	400
Financing			
Capital Receipts	1,475	1,475	0
Prudential Borrowing	4,539	4,139	400
Revenue Contribution	3,738	3,738	0
Grants & Contributions	363	363	0
	10,115	9,715	400
Net Expenditure	0	0	0

3.12 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 discuss other options with potential partners to ensure that the correct facility is provided for the medium term.

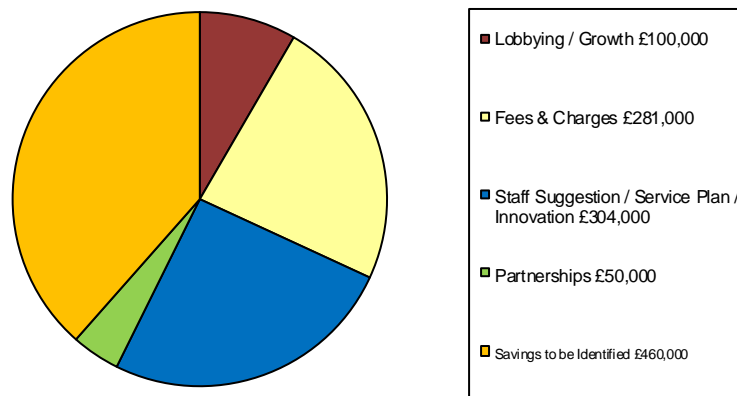
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GENERAL FUND – 2017/18

- 3.13 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.
- 3.14 Savings of £650,000 had been previously identified (as reported to the Oct Executive) and a further £85,000 has been identified, therefore the identified savings total £735,000. A further £460,000 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 60% of the savings have been identified.

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



- 3.15 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.

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Table 6 – Framework Savings 2017/18			
Framework	Additional Income £'000	Reduced Expenditure £'000	Total £'000
Lobbying / Growth	100	0	100
Fees & Charges	281	0	281
Staff Suggestion / Service Plan / Innovation	0	304	304
Partnerships	6	44	50
Total	387	348	735

PUBLIC SECTOR PARTNERS

3.16 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 (DFGs) and the potential risks around green waste were reported to Members in previous durable budget reports.

Disabled Facility Grants

3.17 The situation regarding DFG's remains unchanged to that reported to Members in October. The actual DFG allocations per the Department of Health for 2016/17 were £3.518m and the advice received from the Department of Health was that the allocations should be made in full. NCC 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 again clearly stated that the full amount should be paid to the Shire Districts. This was shared with the County Council.

3.18 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. At the time of writing, the County Council have paid half of the full allocation of which all has been spent or committed and NCC has not responded to requests to pay the full amount.

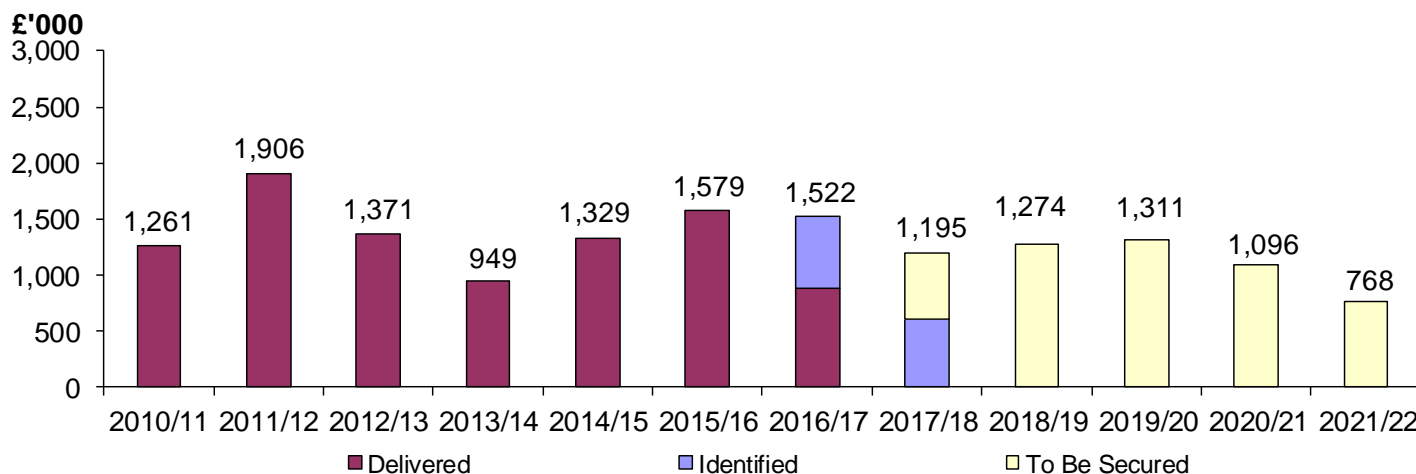
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GREEN WASTE

- 3.19 It was reported to the September Executive that NCC were considering a report at its Cabinet which was subsequently approved about possible changes to the way that Green Waste disposal is undertaken.
- 3.20 If NCC were to proceed along the lines that they originally 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. At a recent meeting of the Waste Partnership Group the County Council and Districts agreed to consider other options on how the £0.5m shortfall could be addressed – discussions are currently ongoing.
- 3.21 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).

Efficiency Savings



4 BUDGET TIMETABLE

- 4.1 A summary budget timetable is provided at Appendix B.
- 4.2 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

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for consideration at its meeting on 15th February 2017. The formal budget process remains unchanged from the previous year.

- 4.3 Members will however be aware that the budget process at Kettering Borough Council is an ongoing process throughout the year that has been evidenced by the ongoing consideration of the durable budget report at each meeting of the Executive.

5 AUTUMN STATEMENT

- 5.1 The Chancellor of the Exchequer will be announcing the Autumn Statement on 23rd November. Whilst no detail has been provided, early indications are that the Autumn Statement will include announcements on the following:

- Deficit Reduction
- Infrastructure Funding - targeted public investment in high value infrastructure
- Housing
- Local Government Funding and Business Rates

- 5.2 As in previous years we will provide a note to all Members following this announcement and we will provide a fuller briefing at the next Executive Committee and throughout the budget process and when we receive the LGA briefing we will make this available.

6 CONSULTATION AND CUSTOMER IMPACT

- 6.1 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.

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;
- c. Notes the summary budget timetable for 2017/18 (as outlined in Appendix B).

Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports