

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	<i>Fwd Plan Ref no.</i> -	
Wards Affected	All	1 st March 2017	
Title	BUDGET PROPOSALS 2017/18 – GENERAL FUND, CAPITAL PROGRAMME, AND HOUSING REVENUE ACCOUNT		

Portfolio Holder – Cllr L Thurland

1. PURPOSE OF REPORT

To report to Full Council the recommendations from the Executive Committee to enable Full Council to make a formal decision in relation to each of the following;

- ◆ The Revised General Fund budget 2016/17;
- ◆ The General Fund budget 2017/18;
- ◆ The Capital Programme 2016 – 2022;
- ◆ The Council Tax level for 2017/18;
- ◆ The Housing Revenue Account budget 2017/18.

As part of the formal budget setting process, the Council must approve a statutory 'Council Tax Resolution' – this combines the precepts for all the precepting authorities in Kettering Borough (i.e. the County Council, Kettering Borough Council, The Police and Crime Commissioner, Town and Parish Councils) and provides a legal basis upon which to issue Council Tax bills and collect the amounts due.

- 2.1. On the 18th January 2017, the Executive considered a report containing initial budget proposals for 2017/18. Since that meeting, the budget proposals have been the subject of consultation and have been discussed at a number of meetings including the formal Budget Consultation event on 26th January 2017.
- 2.2. At its meeting of 15th February 2017, the Executive gave further consideration to the budget proposals (including consideration of comments that had been made through the consultation process) and made specific budget recommendations to the Council including a recommended level of Council Tax for 2017/18.
- 2.3. This report is made up of a number of sections to provide members with a brief resume of the budget setting process and the key issues. The report comprises the following;

- Section 2: Background
- Section 3: Key Issues Summary & Guiding Principles
- Section 4: General Fund Budget & the Medium Term
- Section 5: Council Tax Setting
- Section 6: Capital Programme

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Section 7: Housing Revenue Account
Section 8: Statutory Officers Comments
Section 9: Recommendations

Appendix A: Draft Budget Booklet
Appendix B: Budget Consultation Comments
Appendix C: Statutory Officer Report
Appendix D: Formal Council Tax Resolution 2017/18 ***(this will be distributed at the Council meeting itself – all other precepting bodies must have formally approved their respective precepts first).***

- 2.4 It is worth emphasising the financial backcloth against which this budget is being considered. Local Government has and continues to experience significant reductions in central government grant. By the end of 2016/17, the Council will have delivered efficiency savings (i.e. a combination of savings, service efficiencies, additional income and the positive impact from lobbying on national government policies) of £9.9m since 2010 and estimates that further savings of around £5.8m are required over the next five years – delivering savings of this scale going forward continues to be a significant challenge and that will naturally get more difficult with the passage of time. The Council will need to ensure that progress is made on all elements of its budget framework if a balanced budget is to be achievable into the medium term – even with this it is likely that the Council will have to take some potentially difficult decisions about service levels and associated priorities in the later years of the medium term financial forecast.
- 2.5 Members are encouraged to read this report in conjunction with the budget report that was considered by the Executive at its January meeting. Whilst the key issues are covered in this report, the January report provides additional background.

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3. KEY ISSUES SUMMARY / GUIDING PRINCIPLES

3.1. For ease of reference, this section of the report is an updated version of the 'key issues summary' and the 'guiding principles' that have previously been reported to the Executive Committee in both the January and February budget reports.

2016/17

3.1.1 The Council has continued to use its own specific 'budget delivery framework' for the delivery of savings. The challenge was to turn the 'paper based savings exercise' into reality so that the £1,522,000 of savings were actually delivered – this has been a challenging process but it is being successfully delivered.

3.1.2 By the end of 2016/17 the Council will have delivered a total of £9.9m of efficiency savings since 2010. The delivery of 'savings' of this magnitude into the future will only be possible if all elements of the Councils budget framework contribute – especially through income sources such as commercial investments, council tax and other fees and charges.

2017/18

3.1.3 Taken in isolation, most of the main issues are 'known' for 2017/18 at this stage.

3.1.4 The Council had budgeted for a grant reduction of 16.4% for 2017/18 the provisional figure from the Government was a reduction of 16.3%. Although the reduction was in line with expectations, this still represents a significant reduction in cash grant and a continued challenge for 2017/18.

3.1.5 Taking account of the Executive's Committee recommendations to have a 0% council tax increase for 2017/18 it is estimated that **£1,380,000 of 'savings' will be required**. The Council will start 2017/18 in a similar position to 2016/17 because of the continued use of the Council's successful budget delivery framework which has resulted in the Council already having secured some of the on-going savings required for 2017/18. The remaining 'savings' have also been identified the Council will need to remain focused and stick to its collection of golden rules if these are to be successfully delivered.

3.1.6 The Council's strong and controlled budgetary position is a direct result of the adherence to the guiding principles that have been diligently followed over recent years. It remains important that the guiding principles are followed if the council is to remain in a relatively good financial position. This financial discipline is a pre-requisite of any future financial strategy.

3.1.7 The Council will need to ensure that it continues to look for ways of generating additional income, whilst ensuring that services continue to be delivered efficiently.

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- 3.1.8 Members will need to consider the medium term projections and associated risks when deciding a level of council tax for 2017/18. Given that the level of KBC's Council Tax has been frozen for six years, the Council will need to seriously consider what a sustainable strategy is for its level of Council Tax for 2017/18 (and the medium term) as part of the consideration of this report.
- 3.1.9 **A capital programme of around £25m** is a significant commitment and clearly demonstrates the Council's strategy regarding commercial investments.
- 3.1.10 The Council uses the budget "**swingometer**" as detailed at **Appendix A – Section 1** to highlight and assess the sensitivity of the most volatile and material budgets. The "swingometer" shows some significant swings reflecting the economic climate. It must be stressed however that the Council has an excellent track record of spending at or around budget, even when faced with significant in year pressures, and a strong balance sheet with a level of reserves sufficient to cover the risks outlined in the "swingometer".

The Medium Term

2018/19 and Beyond

- 3.1.11 Assumptions have been made for future levels of government grant (and other funding changes) these are based on indicative figures provided as part of the 2017/18 financial settlement following the Council's decision to accept the four year grant settlement, from central government.
- 3.1.12 The levels of uncertainty and reductions in government funding in the medium term are very significant. Changes to NHB funding will result in significant cash reductions. The major review of the business rates system is also likely to bring significant change – this will only become clearer as time progresses. Neither of these should be underestimated.
- 3.1.13 The Council's strong and controlled budgetary position is a direct result of the adherence to the guiding principles that have been diligently followed over recent years. The challenges faced in the medium term mean that it is even more important that the guiding principles are followed if the council is to remain in a relatively good financial position.
- 3.1.14 Based upon the assumptions applied, the future years' budgets would require ongoing year on year savings of the following (on top of the £11.3m of ongoing savings that will have been achieved since 2010);

2018/19	£1,339,000
2019/20	£1,319,000
2020/21	£ 975,000
2021/22	£ 757,000

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3.1.15 The Council continues to develop a more commercial approach to ensure that its income base remains buoyant and continues to explore new fiscal arrangements to facilitate an asset acquisition strategy and types of governance models that best meets the needs of the business as it moves to a more self-sufficient business model. It is very important that this is progressed at a pace during 2017/18.

3.1.16 Hitherto, the Council has been able to close the budget gap without increases in Council Tax, cuts to front-line services, or cuts to voluntary sector funding. The scope for closing projected budget gaps will not only be dependent on progressing the commercial investment workstream but also ensuring that all elements of the Council's budget framework make a positive contribution. Maintaining Council Tax at its current level into the medium term is unlikely to be sustainable.

Other Considerations

3.1.17 The projections in all years rest on the Executive's adherence to the "*Guiding Principles*" the "*Modelling for Recovery Principles*" the "*Budget Containment Strategies*" and the "*Prioritisation Golden Rules*" (para 3.4).

3.1.18 Whilst the levels of core grant are known the settlement is far from straightforward with a new revaluation list and adjusted tariffs and top ups - it is unclear what the financial landscape will be over the medium term.

3.1.19 The assumptions within the Council's Medium Term Financial Strategy will continue to be reviewed and amended where necessary. What will actually happen will only become clearer as time progresses – whilst the Government have announced how New Homes Bonus will operate from 2017/18 there is still significant levels of volatility owing to the uncertainties around Business Rates and the government are also considering transferring new responsibilities to local government.

3.1.20 Everybody associated with the Council should feel an enormous sense of achievement by getting to this point. However there, still remains a significant task ahead.

3.2 From the key issues summary, members will appreciate that the strategies the Council has adopted over the past few years have resulted in the authority being in a much better shape than many others. In Kettering, our approach ensured that the Council was able to pro-actively deal with the challenges faced through: -

- ◆ Anticipating and influencing major 'Big Ticket' items;
- ◆ Having a well-motivated and flexible workforce that is pro-actively delivering change.

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3.3 These have allowed us to develop and deliver the strategies necessary to deal with changing financial circumstances including such things as

- ◆ establishing (and sticking to) budget guiding principles;
- ◆ developing a budget delivery solution that suited KBC;
- ◆ finding innovative methods of service delivery.

The Guiding Principles

3.4 The foundations of the Medium Term Financial strategy are the '*guiding principles*,' '*modelling for recovery*' principles, '*budget containment strategy*,' and the '*prioritisation golden rules*' These have served the Council well and remain the Council's approved policy position going into the budget process for 2016/17. For ease of reference, these are reproduced here:-

- 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;*

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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.*

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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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4. GENERAL FUND BUDGET AND THE MEDIUM TERM

- 4.1. This section provides a summary of the key issues (and resultant budget figures) for the following;
- ◆ Revised Budget 2016/17
 - ◆ Draft Budget 2017/18
 - ◆ Medium Term Forecast (and associated key issues)

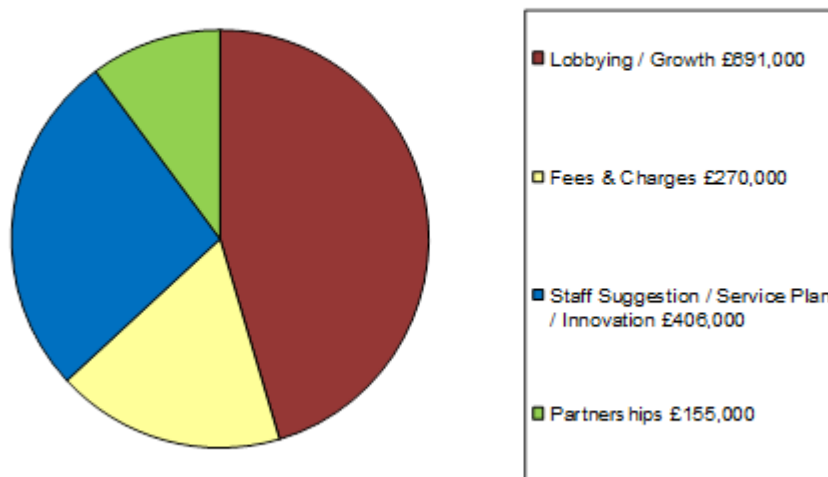
Revised Budget 2016/17

- 4.2. The detail of the revised estimate figures for 2016/17 can be seen by reference to the draft budget booklet Appendix A (Section 1).
- 4.3. Members are reminded that in the current financial year (2016/17) the General Fund required budget savings of £1,522,000 to be achieved in order to deliver a balanced budget position for the year. The Council identified these ongoing budget savings in full.
- 4.4. Using the Councils 'budget delivery framework' and 'guiding principles' the Council is currently on track to successfully deliver the identified savings of £1,522,000 - Turning what was a paper based exercise into reality has not been an easy task however by sticking to the guiding principles and through using the workstreams (that form the budget delivery framework) the approach is proving a successful one.
- 4.5. The savings that have been delivered through the budget delivery framework are summarised in Chart 1:

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



4.6. Table 1 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.

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

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Draft Budget 2017/18

- 4.7. The draft budget figures for 2017/18 can be seen by reference to the Draft Budget Booklet at Appendix A (Section 1).
- 4.8. The Executive Committee considered the draft budget figures and comments that had been made during the budget consultation period when it met on 15 February 2017. The comments are reproduced at Appendix B for information.
- 4.9. The Council will need to continue to keep its key budget assumptions under review throughout 2017/18. These continue to be challenging times and the assumptions used are again likely to require amendment through the year to respond to changes in national policy, in particular: -
- ◆ Inflation
 - ◆ Interest Rates
 - ◆ Delivery of Growth (both economic and housing)
 - ◆ Local, national and wider economic issues
 - ◆ Impact from other public service providers (especially from the County Council budget considerations and wider Health service pressures).
- 4.10. Whilst some of the above may well be heavily influenced by the outcome of the Government's negotiation stance on the exit from the European Union, the budget and service pressures that could result from the action of other public sector partners are of more immediate concern.
- 4.11. The budgetary and service challenges that Northamptonshire County Council face are well documented, as are the capacity issues affecting our health sector colleagues. As a result it is likely that the Council may continue to come under pressure to take on additional responsibilities or provide substitute funding as partners change their service levels.
- 4.12. Accordingly, it remains important the Council continues to adhere to the guiding principles which it has set and does not deviate from these, particularly with regard to the Budget Containment Strategy principles and in particular point 5 which is reproduced below:
- 5. The Council should not substitute itself as a provider / funder of services when another public provider cuts such a service.*
- 4.13. There are a number of more specific service pressures the Council may face in both the short and the medium term. The key ones are summarised in the Swing-o-meter (within Appendix A) and include;
- ◆ Business Rates (appeals and volatility)
 - ◆ Recycling
 - ◆ Homelessness
 - ◆ Commercial Investments

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4.14. The draft budget that the Executive Committee has recommended for approval by Council forms part of the medium term financial forecast that is shown in Table 2. The budget figures have continued to be resilience tested during the budget period and have remained unchanged to those presented in the January report.

TABLE 2 - 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	10,948	10,704	10,398	9,883	9,766
2	Forecast Resources:						
	Government Grant						
2a	Revenue Support Grant	(1,161)	(546)	(171)	250	0	0
2b	Business Rates	(2,310)	(2,357)	(2,433)	(2,520)	(2,000)	(2,000)
	Total Government Grant	(3,471)	(2,903)	(2,604)	(2,270)	(2,000)	(2,000)
	Council Tax / Coll'n Fund	(250)	(250)	(250)	(200)	(200)	(200)
	Income From Council Tax	(6,254)	(6,415)	(6,511)	(6,609)	(6,708)	(6,809)
	Total Resources	(9,975)	(9,568)	(9,365)	(9,079)	(8,908)	(9,009)
3	Budget (Surplus) / Deficit	1,522	1,380	1,339	1,319	975	757
4	Savings Identified	(1,522)	(1,380)	0	0	0	0
5	Savings - To be Identified	0	0	(1,339)	(1,319)	(975)	(757)
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 for the years after 2017/18. The small increase in revenue each year reflects anticipated housing growth in the borough.

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The level of government grant is known for 2016/17 and the level of grant funding has been announced for 2017/18.

The future levels of government grant for the period 2018/19 – 2019/20 are based on indicative figures provided as part of the 2017/18 financial settlement which form part of the 'four year settlement' figures

The financial landscape is expected to change significantly from 2020/21 (if not before) when the new Business Rates Retention Scheme is implemented by the Government.

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 changed 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 2017/18.*

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.*

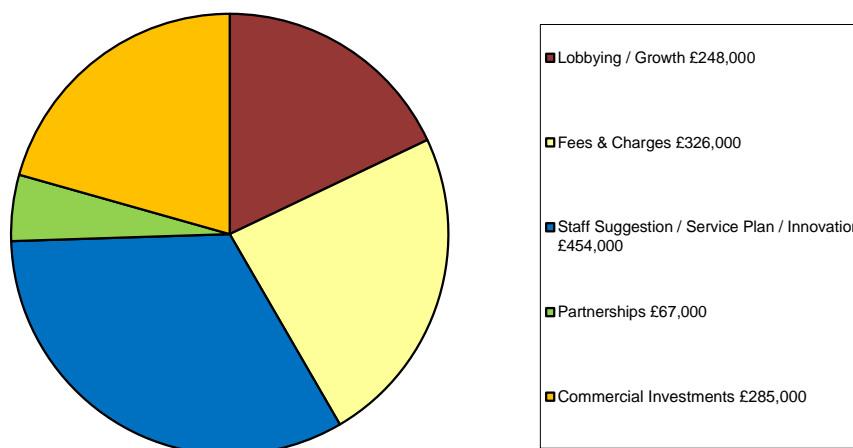
4.15. By reference to Table 2, it can be seen from line 4 that the Council will need to deliver ongoing budget savings of £1,380,000 in order to deliver a balanced budget for the year. The budget delivery framework has continued to be used and savings of £1,380,000 have been identified and have been previously reported to the Executive.

4.16. The identified savings of £1,380,000 are summarised in Chart 2 and Table 3:

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



Framework	Additional Income £'000	Reduced Expenditure £'000	Total £'000
Lobbying / Growth	248	0	248
Fees & Charges	326	0	326
Staff Suggestion / Service Plan / Innovation	0	454	454
Partnerships	6	61	67
Commercial Investments	285	0	285
Total	865	515	1,380

4.17. The Council's impressive record in identifying and delivering efficiency savings over the past eight years, including the year under consideration (2017/18), are around **£11.260m** - as illustrated in Table 4. For context - this is now greater than the Council's current net revenue budget. The scale and delivery of this level of efficiency savings is particularly impressive given that there has been no detrimental impact on the delivery of front line services.

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Table 4 – ‘Efficiency’ Savings	£000
2010/11	1,260
2011/12	1,910
2012/13	1,330
<i>2013/14</i>	950
2014/15	1,330
2015/16	1,580
2016/17	1,520
Total	9,880
<i>2017/18</i>	1,380
Total	11,260

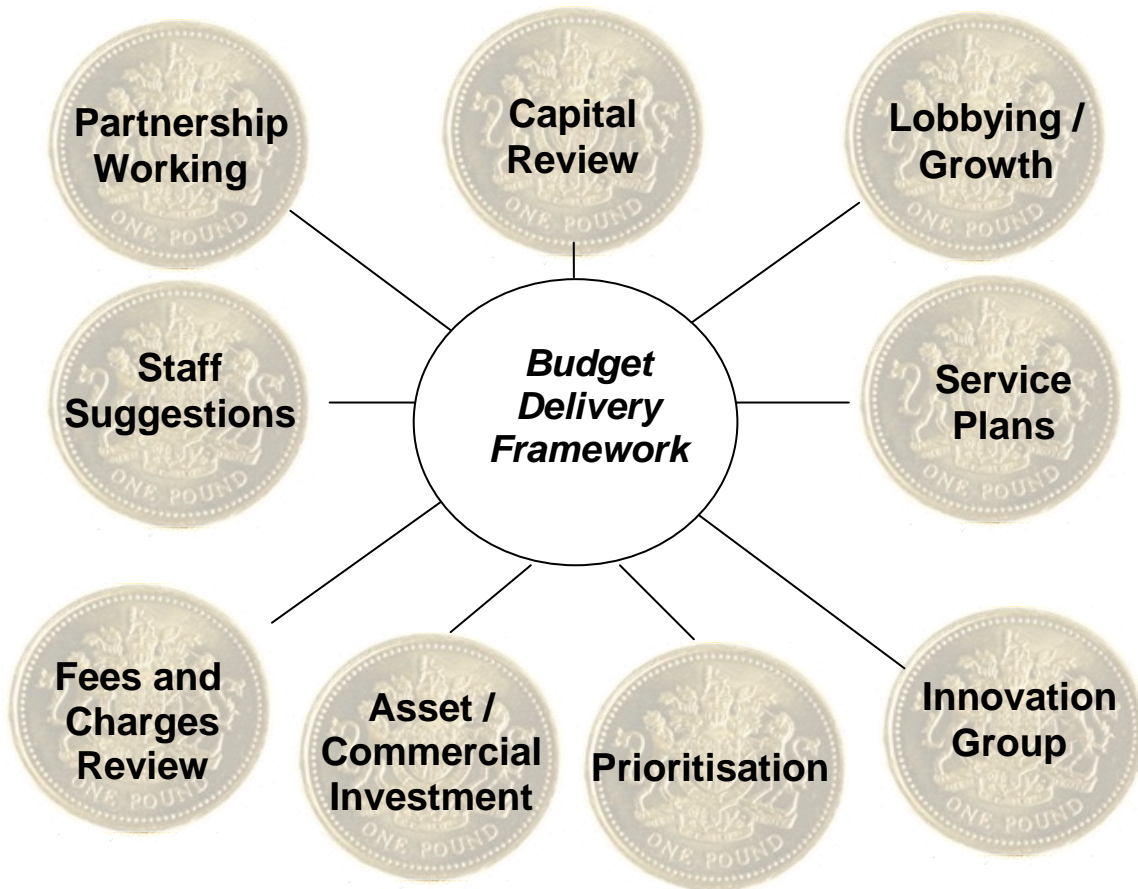
- 4.18. As previously reported, turning a paper based exercise into reality is becoming increasingly difficult each year. This will be no different for 2017/18.
- 4.19. Members have a statutory duty to consider the medium term when setting a budget and level of Council Tax for 2017/18.
- 4.20. The projections for all years rest on the Executives adherence to the “Guiding Principles” the “Modelling for Recovery Principles” the “Budget Containment Strategies” and the prioritisation ‘golden rules’ as well as maintenance of our best practice approach to generating fees and charges.

Medium term Forecast

- 4.21. Members should be aware that the indicative savings levels for the period 2018/19 onwards are subject to a number of high level assumptions. Whilst as part of the ‘four settlement’ indicative levels of grant funding have been provided for 2018/19 and 2019/20. The future levels of grant from 2020/21 are much more uncertain and are a best estimate as the Business Rates Retention Scheme will have completely changed by 2020/21 (if not before). The scale of the financial challenges from this point onwards will be highly dependent on how the Business Rates Retention Scheme operates over the next five years.
- 4.22. As outlined at the Council’s recent budget consultation meeting, for the Council to remain in the best possible shape in the medium term it will need to ensure that it ‘delivers’ on all aspects of its budget framework. The Council’s budget framework is reproduced below:

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- 4.23. The Council has already done an impressive job of delivering around £10m of 'efficiency savings' to date. To have a realistic chance of continuing to balance its budget into the medium term, all of the above frameworks must continue to make a positive contribution – specifically Income and Commercial Investment Schemes, Council Tax and income from fees and charges. One of these sources alone will not provide the mechanism to set a balanced budget in the medium term, all of them must contribute.
- 4.24. KBC's Council Tax has been frozen since 2010/11. It currently costs the average household £3.07 per week. Given the assumptions that the Government has made about levels of Council Tax moving forward, and the budget and associated risks: Without some increase in Council Tax (over the medium term) – the challenge of continuing to set a balanced budget will no doubt become even greater, with more reliance having to be placed on the other budget frameworks (with the risks associated with that).

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4.25. Based upon the figures in the model 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);

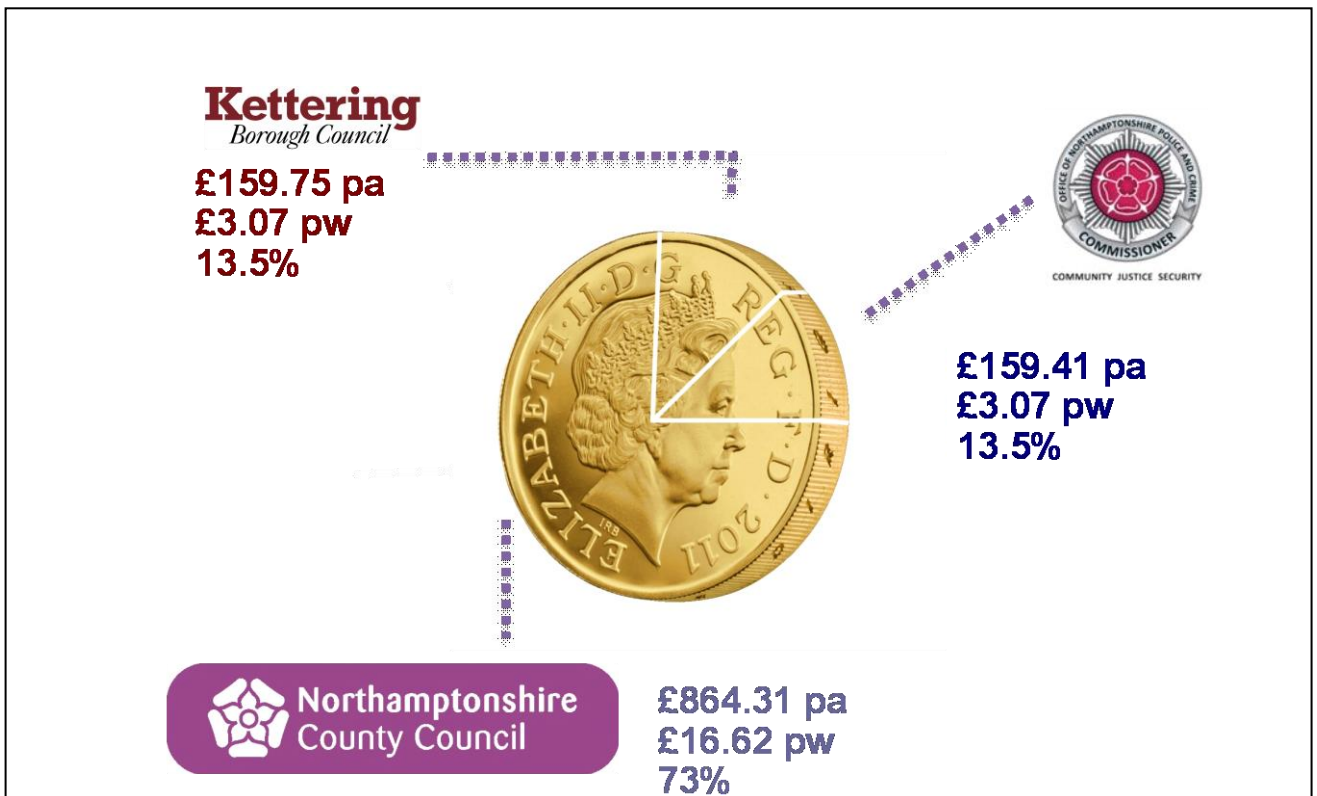
2018/19	£1,339,000
2019/20	£1,319,000
2020/21	£ 975,000
2021/22	£ 757,000

4.26. It should be noted that the above figures are calculated prior to the consideration of any Council Tax increase for the years 2018/19 to 2021/22. The table simply provides a working financial base position from which to understand the level of the resultant budget gap for information purposes.

4.27. When setting a balanced budget (and council tax) for 2017/18, members need to give due consideration to all material issues and risks - including those clearly outlined in this report and the reports that were submitted to the January and February Executive Meetings.

5. COUNCIL TAX SETTING (2017/18)

5.1. The following illustration was used at the recent budget consultation meeting and serves to remind members of the relative size of the Council tax figures that are under consideration (for the major precepting bodies).



NB – The above figures are based on Band B Council Tax Charged in 2016/17.

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- 5.2 When deciding upon a preferred level of Council Tax for 2017/18, the Executive Committee were advised to have regard to the following;
- a. The medium term financial projections for the council's General Fund budget (statutory requirement)
 - b. The advice of its professional officers.
 - c. The financial (and business) risks that face the authority in the medium term.
- 5.3 Having taken these into account the Executive Committee have recommended that a 0% increase in Council Tax for 2017/18 be considered by Council at this meeting.
- 5.4 Members are reminded that each 1% increase in Council tax equates to about £64,000 of ongoing income to the Council's Council tax yield.
- 5.5 Table 5 summarises the real terms impact of Council Tax freezes. If the current rate of inflation is used as a reference point, in effect local residents have experienced a real terms reduction in their local council tax for Kettering Borough Council during the year as a result of the Council decision to have a 0% increase from 2011/12

Table 5	Actual / Estimated Inflation Rate	Council Tax Increase	Cumulative Real Terms Reduction
2011/12	4.80%	0.00%	4.80%
2012/13	2.70%	0.00%	7.50%
2013/14	2.10%	0.00%	9.60%
2014/15	1.00%	0.00%	10.60%
2015/16	0.10%	0.00%	10.70%
2016/17	1.20%	0.00%	11.90%

- 5.6 The Council Tax income for KBC in 2017/18 is around £6.4m. Over the six year period (2011/12 – 2016/17) the cumulative real terms reduction has already been 11.9%.
- 5.7 The overall scale of budget reduction continues to be very significant. Collectively the Council has coped well by 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, especially in relation to all forms of income generation.
- 5.8 The reality of the Council being able to deliver a balanced budget in the medium term will be more challenging – this will be intensified if the Council were to continue to freeze the level of Council Tax into the medium term. The Council will

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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. The commonly referred to 'triple zero' success of recent times is unlikely to be achievable into the medium term, indeed any one element of this will put additional pressure on existing levels of service and resources.

- 5.9 The grant allocation that the Government has announced for 2017/18 also assumes that District Councils will increase their Council Tax levels by around 2%. This is similar to the assumption made by the Government in the previous year.
- 5.10 When announcing the Local Government Finance Settlement for 2017/18, the Government also confirmed that the referendum limits for District Councils in relation to Council Tax setting. The referendum limit for 2017/18 is the greater of 2% or £5 (Band D).
- 5.11 For Kettering Borough Council, the referendum limit is £5. This is the equivalent of a 2.4% increase and would generate additional council tax income of £156,000 during 2017/18 – if the Council decided to apply this level of increase.
- 5.12 When calculating the core grant settlement, the Government have assumed that all Councils will increase their Council Tax by the threshold amount for 2017/18. The indicative grant levels for the period 2018/19 – 2019/20 also assumes that local authorities will increase their Council Tax levels up to the threshold each year.
- 5.13 When considering the medium term, the scale of risks have clearly been outlined in previous budget reports and the scale of the savings targets from 2017/18 should be fully considered and should also consider the context of what has been delivered (£11.3m) and what still needs to be delivered (£4.4m)
- 5.14 Although through this budget process members will only be setting a level of council tax for 2017/18, this should be done by reference to the medium term and the risks faced.
- 5.15 To comply with best practice, the Council's Statutory Officers have a responsibility to provide a commentary on the budget (and the underlying assumptions). This is produced at Section 8 and is supplemented by the required Statutory Statement by the Council's Responsible Financial Officer (Appendix C).
- 5.16 At the meeting of 15th February 2017, the Executive recommended a 0% increase in Council Tax for 2017/18. Table 6 illustrates the proposed levels of council tax for each council tax band for Kettering Borough Council's budget based upon this recommendation from the Executive;

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Table 6								
Band	A	B*	C	D	E	F	G	H
Increase per week (rounded to nearest pence)	0.00p	0.00p	0.00p	0.00p	0.00p	0.00p	0.00p	0.00p
Proposed Weekly Council Tax for 2017/18	£2.63	£3.07	£3.51	£3.95	£4.83	£5.70	£6.58	£7.90
Proposed Annual Council Tax for 2017/18	£136.93	£159.75	£182.57	£205.39	£251.03	£296.67	£342.32	£410.78
Increase	0%	0%	0%	0%	0%	0%	0%	0%
* Represents the average level of the household bill within the District relating purely to Kettering Borough Council's budget.								

Council Tax Resolution

- 5.17 The figures included in the above table are in relation to the proposed levels of Council Tax for Kettering Borough Council only.
- 5.18 The Council Tax for the County Council will be set at its meeting on 23rd February. The recommendation being considered by the County Council is for an increase of 4.98% in Council Tax – this is made up of a base increase of 1.98% supplemented by a 3% increase for adult social care.
- 5.19 The Police and Crime Commissioner has already approved an increase in their Council Tax of by 1.99% for 2017/18.
- 5.20 These precept figures from all the precepting bodies will be combined into a formal Council Tax Resolution that requires approval by the Council (as the Collection Authority). ***The resolution will constitute Appendix D of this report and will be distributed at the Council meeting itself.***
- 5.21 Table 7 below illustrates what the average Council Tax Bill would be if the County Council and Borough Council approves its recommendations.

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Table 7					
	Increase	New Weekly		New Yearly	
		Amount	Increase	Amount	Increase
Northants County Council	4.98%	£17.45	£0.83	£907.35	£43.05
Kettering Borough Council	0.00%	£3.07	£0.00	£159.75	£0.00
Police and Crime Commissioner	1.99%	£3.13	£0.06	£162.59	£3.18

NB – The above figures are based on Band B Council Tax (which is the average Council Tax in Kettering Borough).

5.22 Based upon the above, the combined Council Tax bill that Kettering Borough Council will issue to residents of the borough (as the 'Billing Authority') on behalf of the three major precepting bodies will show an overall increase of 3.9% for 2017/18. Residents who are in Town or Parish areas will also see the impact of any changes in the respective Town and Parish Council precepts.

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5.23 The following table summarises the Town / Parish Council's precepts for 2017/18, these amounts will be included in the formal Council Tax Resolution;

Table 8			
Parish	Precept 2016/17	Precept 2017/18	Percentage Change
	£	£	%
Ashley	4,050	4,050	0.0
Barton Seagrave	20,000	70,000	250.0
Brampton Ash	1,000	1,000	0.0
Braybrooke	4,500	4,500	0.0
Broughton	13,000	13,000	0.0
Burton Latimer	32,200	31,750	(1.4)
Cranford	8,700	8,600	(1.1)
Cransley	5,000	5,300	6.0
Desborough	350,000	349,700	(0.1)
Dingley	3,800	3,800	0.0
Geddington, Newton, Little Oakley	9,000	20,000	122.2
Grafton Underwood	1,000	1,500	50.0
Harrington	3,000	3,000	0.0
Loddington	5,420	5,420	0.0
Mawsley	60,000	60,000	0.0
Pytchley	7,500	8,000	6.7
Rothwell	30,000	30,000	0.0
Rushton	5,400	5,600	3.7
Stoke Albany	3,150	3,150	0.0
Sutton Bassett	1,200	1,200	0.0
Thorpe Malsor	2,000	2,000	0.0
Warkton	1,250	1,000	(20.0)
Weekly	1,500	1,500	0.0
Weston by Welland	2,000	2,000	0.0
Wilbarston	7,670	8,440	10.0
Total	582,340	644,510	10.7

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6. CAPITAL PROGRAMME (2017/18)

- 6.1. The detailed capital budgets for the period 2016 – 2022 are contained at Appendix A (Section 2).
- 6.2. The draft Capital Programme was reported to the Executive as part of the initial budget proposals in January and has since been the subject of consultation and further review.
- 6.3. The programme is summarised in Table 9.

Table 9 - Capital Programme	Draft Budget 2017/18	Indicative Estimate 2018/19	Indicative Estimate 2019/20	Indicative Estimate 2020/21	Indicative Estimate 2021/22
	£'000	£'000	£'000	£'000	£'000
Expenditure					
HRA Schemes	4,001	3,225	3,253	3,475	3,469
General Fund Schemes	21,772	21,597	21,167	21,167	21,167
	25,773	24,822	24,420	24,642	24,636
Financing					
Capital Receipts	1,006	453	692	642	350
Prudential Borrowing	21,007	20,557	20,527	20,527	20,527
Revenue Contribution	3,233	3,312	2,701	2,973	3,259
Grants and Contributions	527	500	500	500	500
	25,773	24,822	24,420	24,642	24,636

- 6.4. There are no changes to the draft capital programme reported to the January Executive.
- 6.5. The main change in the programme (when compared to previous years) is the inclusion of a £20m capital budget for commercial investment projects. This is included on an ongoing basis in each subsequent year also. This figure is based on the decisions that have taken place by the Asset Management Board however it should be noted that this is very much a notional budget at this stage. To process the Council's strategy of generating additional income from commercial investments – the Council will consider schemes on their own merit and business cases. If schemes are identified that are in excess of the capital programme budgets then Council will have to make a decision at that point about whether the schemes are acceptable (and would then alter the capital budget to reflect that decision). The budget of £20m does not restrict the Councils ability to undertake significantly larger schemes if it wished.
- 6.6. The financing estimate for borrowing for 2017/18 is £21.007m. The main contributor to the borrowing costs is the increased commercial investment budget. The additional revenue from these investments is shown net of MRP and borrowing costs. To finance such investments the Council will need to borrow externally in

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accordance with the Council's Treasury Management Strategy (see report 11 on this agenda).

- 6.7. A capital programme of around £25m is considerable for a District Council of Kettering's size. To put this into context, although the capital programme is not funded from Council Tax receipts, the level of the capital programme is around four times the amount we receive in Council Tax each year.

7. HOUSING REVENUE ACCOUNT (2017/18)

- 7.1. The Housing Revenue Account (HRA) budget for 2017/18 is contained at Appendix A (Section 3).
- 7.2. In accordance with the Council's Constitution, although the Executive will be recommending the HRA budget for 2017/18 to full Council for approval, the Executive meeting on 15th February 2017 formally approved a **decrease** of 1.00% in the average level of Council housing rents for 2017/18 (in line with Central Government Guidance). The decrease is effective from 3rd April 2017 and will result in the average weekly rent decreasing to £80.24. The draft HRA budget included an average rent decrease of 1.00%.

8 STATUTORY OFFICERS COMMENTS

- 8.1 To comply with best practice, the Council's Statutory Officers have a responsibility to provide a commentary on the budget (and the underlying assumptions) in the report that is considered by full Council on 1st March 2017.
- 8.2 Members are reminded that the Council has identified and delivered efficiency measures of £9.8m over the seven year period 2010/11 – 2016/17, and further efficiency measures of £1.380m have been identified for 2017/18. The total over the past eight years amounts to £11.3m.
- 8.3 Based on the assumptions applied to the Council's Medium Term Financial Strategy, in the years after 2017/18 the Council will on average need to deliver additional annual on-going savings in the region of £1.1m – this adds up to around £4.4m over the medium term which is on top of the £11.3m ongoing savings achieved since 2010. This is a very significant challenge. As outlined elsewhere in this report, the Council will need to ensure that progress is made on all elements of its budget framework if a balanced budget is to be achievable into the medium term.
- 8.4 The level of change for major income sources into the medium term (eg, New Homes Bonus) is very significant. If the Council is to deliver a balanced budget in the medium term, in addition to making progress on 'commercial investments' it will need to seriously consider its main sources of income (Council Tax, Fees and Charges) at the same time as starting to consider its priorities for services (and levels of services).

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- 8.5 Members attention is specifically drawn to the comments made in Section 5 in this report, in relation to Council Tax levels and considerations. Whilst decisions about the level of Council Tax are ultimately a political choice – such decisions need to be made in full appreciation of the medium term financial projections, associated risks and professional officer advise. The Council Tax has been frozen for the past six years – it is difficult to see how this can continue in the medium term without other elements of the budget having to give.
- 8.6 The indicative grant levels for 2017/18 and the following years assume that all local authorities will increase their Council Tax levels by the threshold each year. The stronger the Council Tax yield – the greater the flexibility to deal with the budget pressures in the medium term (and the associated risks).
- 8.7 To put this into context, if the Council were to increase council tax by the threshold level of 2.4% for 2017/18 – it would generate ongoing additional income of around £156,000. It would increase the average level of Council Tax from £3.07 per week to £3.14 per week (an increase of 7p per week). This would be a guaranteed source of income – in comparison the Council would have to invest in commercial income a sum of about £6m to generate a similar net return (and hope that its financial returns were consistently stable into the future). The importance of having regular and modest increases of Council Tax (year on year) are clearly illustrated by this example. The Council should consider this carefully when coming to a final decision about the level of Council Tax for 2017/18.
- 8.8 If the Council are minded to approve the Executive Committee’s recommendation for a Council Tax freeze for 2017/18, it should only do so having considered all the advice in this report, the associated medium term issues and on the clear understanding that this will make the medium term financial pressures greater than they would otherwise be. On the basis of the current medium term financial projections, it is difficult to see how any further freezes in Council Tax in the medium term (ie after 2017/18) could realistically be considered without some other area of the budget strategy having to give.
- 8.9 The 100% Business Rates Retention Scheme is due to be implemented from April 2020 (or sooner) – at this point new responsibilities are likely to be transferred to local government – it is important that any transfer of services are fully funded to ensure these are not an additional pressure. When implementing the changes over the coming years, it would not be surprising if the recent trend of transferring risk from central to local government continues – this will need to be carefully mapped.
- 8.10 The potential ramifications of changes to the Business Rates scheme should not be understated – there have been very few (if any) major changes in funding mechanisms over recent years that have actually resulted in local authorities being better off financially in the medium term – housing finance being one very good example. It would be prudent to assume the same in relation to Business Rates.

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- 8.11 Members should be aware that the indicative savings levels for the period 2017/18 onwards are subject to a number of high level assumptions – these include assumptions about the future level of Government Grant and also income from the New Homes Bonus Scheme and Commercial Investments.
- 8.12 Revenue Support Grant effectively becomes a ‘negative’ amount in 2019/20 and the Council continue to model to reduce reliance on New Homes Bonus income to around 1/3rd.
- 8.13 It is important to note that, although members have a statutory duty to consider the medium term when setting the 2017/18 budget and council tax, they will only be setting the budget and council tax for 2017/18 at this point. Levels of council tax for future years cannot be set in advance by the council. Each future year’s decision can only be taken at the appropriate time, once all of the financial and business risks have been analysed, understood and discussed.
- 8.14 Collectively, the council has done an impressive job of turning a ‘paper based exercise’ into reality in delivering the savings targets over recent years. However these unprecedented times are likely to continue over the next four years at least (2018/19 – 2021/22) with even greater uncertainty and change over the last two years of the current MTFS.
- 8.15 This period will provide the greatest challenge, particularly when we consider that some £11.3m of efficiency savings have already been identified and further efficiencies in the region of £4.4m are required over the next four years to deliver a balanced budget.
- 8.16 This four year period for the reasons outlined earlier also bring the greatest levels of uncertainty, risk and difficulty. The risks are significant for the local government sector as a whole and in coming to a decision about council tax for 2017/18 members will need to consider the careful balance that needs to be struck between providing sufficient financial flexibility to deal with the challenges faced and also consider the change in strategy by the Government regarding no longer offering incentives for Council Tax Freezes.
- 8.17 The level of uncertainty about major income sources into the medium term (eg, Government Grant) is very real and potentially very significant. If the Council is to deliver a balanced budget in the medium term, in addition to making progress on ‘commercial investments’ it will need to seriously consider its main sources of income (Council Tax, Fees and Charges) at the same time as starting to consider its priorities for services (and levels of services).

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9. **RECOMMENDATIONS**

That Council approve:

1. The General Fund Revised Budget (2016/17) and the General Fund Budget (2017/18) (as detailed at Appendix A Section 1);
2. The Capital Programme for 2016 – 2022 (as detailed at Appendix A Section 2);
3. The HRA budget for 2017/18 (as detailed at Appendix A Section 3);
4. The Council Tax Resolution for 2017/18 (as detailed at Appendix D);

That Council receive:

5. The Medium Term Financial Forecast (as detailed in Table 2)
6. The report of the Statutory Officer (as detailed at Appendix C).

Background Papers:

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

Previous Reports/Minutes:

Ref: Exec Report 18/01/17,15/02/17