

BOROUGH OF KETTERING

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Report Originator	Head of Finance Paul Sutton	<i>Fwd Plan Ref no. A09/029</i>	
Wards Affected	All	13 th January 2010	
Title	Initial Budget Proposals for General Fund, Housing Revenue Account, and Capital Programme 2010/11		

Portfolio Holder: Cllr Jim Hakewill

1. PURPOSE OF REPORT

The purpose of this report is to outline the draft budget figures for the Council's three main accounts for 2010/11 and to start the formal budget consultation process.

2. INTRODUCTION

- 2.1. The Council operates three main accounts, each requires an annual budget to be considered and approved by members in accordance with statutory requirements. The table below outlines what each account is used for and its annual turnover.

Account	£m	Description
General Fund	49.3	All revenue expenditure and income (i.e. day to day running costs), financed from Council Tax, Government Grants and Fees and Charges (excluding those related to the provision of Council Housing.)
Capital	10.2	All capital expenditure and income (i.e. acquisition replacement and enhancement of assets) financed from Government Grants, external contributions, capital receipts and borrowing.
Housing Revenue	12.6	All revenue expenditure and income on activities related to being a housing landlord. This is primarily financed from housing rents. However the national subsidy mechanism means that the average Council Tenant in Kettering Borough pays £18.75 (30%) per week directly to the Government, resulting in a total of £3.6m of tenants rent not spent on homes in the borough.
Total Turnover	72.1	

- 2.2. With a turnover of £72m the Council is the one of the three largest businesses operating in the local economy. Using the tests in the companies act the Council would be categorised as a 'large' company. It is arguably the most diverse offering over 100 services to over 100,000 people.

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- 2.3. The Executive approved the formal budget consultation process at its meeting in December 2009. However since this meeting it has been necessary to move the Council budget setting meeting from 1st March 2010 to 25th February 2010. The formal consultation period will therefore now be from 13th January 2010 to 25th February 2010.
- 2.4. The draft budget figures for 2010/11 for each of the three accounts are detailed in the draft budget booklet (attached at Appendix A).
- 2.5. Members should note that the detailed budget figures will continue to be resilience tested during the period of budget consultation prior to the Council setting its budget on 25th February 2010. It is possible that some of the detailed figures may change between now and then but it is hoped that these will not be too significant or dramatically change the bottom line. Members should note that the situation continues to be difficult and uncertain especially in the years after 2010/11.

3. EXECUTIVE SUMMARY

- 3.1. This is a long and detailed report covering a great deal. An Executive Summary has therefore been included to summarise the key messages: -
- 3.2. The Council's finances are in better shape than most of its comparators.
- 3.3. The Council's counter cyclical budget for 2010/11 recognises the key role it plays in the local economy.
- 3.4. The future present's unprecedented challenges however the Council's starting position and track record is good, which makes it difficult but doable.
- 3.5. The Council has already recognised the importance of starting its planning early. It's only ok to hope for the best if you're prepared for the worst.
- 3.6. A £10m capital programme represents a significant investment in the borough.
- 3.7. Whilst the financial conditions for the Housing Revenue Account are not favourable the Council has met the Decent Homes standard for all tenants and continues to deliver a high quality service.

4. DRAFT REVISED GENERAL FUND BUDGET (2009/10)

- 4.1. The original budget for 2009/10 was set by Council on 26th February 2009. It included new planned efficiency savings of £250,000 in addition to the £1.7m already delivered in the last 4 years.
- 4.2. Since the budget was set the national economic climate has resulted in additional pressure on income budgets such as planning, building control, search and car parking fees, whilst expenditure pressure on concessionary travel, homelessness and benefits administration has increased.

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- 4.3. Members will recall from the December Executive that the Council had been successful in securing the efficiency savings, planned into the original budget. The Council is working closely with staff to deliver further efficiencies to close the projected outturn gap (£288,000) arising from in year economic pressures.
- 4.4. A number of new initiatives have now been identified and are being implemented; these are expected to result in efficiency savings of £230,000. This brings the total efficiencies in the 2009/10 budget to £480,000 and results in a projection that the 2009/10 budget is broadly back in balance. Note we consider a budget to be balanced if it is within 1/2% of the target. Further work on efficiencies is nonetheless always ongoing. The major efficiencies are summarised below:

Efficiency Saving	2009/10	Ongoing
	£	£
Revised Waste & Recycling Arrangements	250,000	250,000
Minimum Revenue Provision	80,000	0
Next Steps & Other Staff Savings	110,000	80,000
Procurement & Other Minor Savings	40,000	40,000
	480,000	370,000

- 4.5. It should be noted that £110,000 of the efficiency savings identified are one off and whilst they assist in closing the gap for 2009/10, subsequent years will demand savings of £110,000 to substitute the one off savings made.

5. **DRAFT GENERAL FUND BUDGET (2010/11)**

- 5.1. When the Council set the General Fund budget for 2009/10, necessary consideration was given to ensuring that the Council maintained a robust and sustainable medium term financial position. The current economic conditions continue to make this more challenging however it is important that Members uphold their legal duty to consider the Council's medium term financial position.
- 5.2. In November 2009, the Executive approved the following Medium Term Financial Strategy (MTFS) '*guiding principles.*'

Medium Term Financial Strategy – Guiding Principles

- a. *The General Fund balance 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);*

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- 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 (eg, grant distribution/ planning fees).*

5.3. In addition, the Executive also reaffirmed the *modelling for recovery*' principles that were originally agreed in December 2008. These principles have been particularly well received by local businesses which recognise the Council's continued support to the local economy and the Council has been held out as an exemplar both regionally and nationally for its work in this area. The *'modelling for recovery'* principles have been reproduced below:

Modelling for recovery guiding principles

1. *Wherever possible, continue with all planned investments and programmes, to protect the local economy and lever in other investments;*
2. *Given that we currently have no long-term debt, we should be prepared to 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. *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.*

5.4. For some time, these *'guiding principles'* have been the cornerstone of a relatively stable financial position for the Council and they have helped the Council create a platform from which to deal with future challenges. The *'modelling for recovery'* principles have in particular helped move the Councils vision forward.

5.5. The income raised from council tax is a major source of revenue for the Council. Members may find the following pie chart showing the Average Council Tax for 2009/10 useful as context: -

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£145.18 pa
£2.79 pw
13%

Kettering
Borough Council

£154.34 pa
£2.97 pw
14%



£772.60 pa
£14.86 pw
73%



Northamptonshire
County Council

- 5.6. In addition, each 1% change in Council Tax for a Kettering Borough taxpayer equates to about £60,000 per annum in income and represents a 3p per week increase for the average taxpayer. A 4.75% increase would cost the average taxpayer 14p per week.
- 5.7. The Draft General Fund budget figures are included in Section 1 of the budget booklet. The summary of the General Fund (page 4 of the booklet) shows that the draft budget for 2010/11 is currently £13.726m.
- 5.8. The latest budget model is included at page 3 of the budget booklet. It is important to note that at this stage in the budget process, the model includes an "indicative" council tax level of £161.67, which is equivalent to an average increase of 14p per week (4.75%). This is consistent with the current Medium Term Financial Strategy and the Council's ambitious plans for the borough.
- 5.9. This report outlines a number of key budget / 'big ticket' items, some of which may require further refinement prior to the Executive meeting of 17th February 2010 at which Members will need to make budget (and Council Tax) recommendations to the Council.

GENERAL FUND - KEY MESSAGES

- 5.10. The key messages to highlight from the draft medium term financial forecast included at Page 3 of the draft budget booklet are:
 - a) The economic situation continues to have a major impact on the Council's budget. Like every other business, the Council is experiencing a squeeze on its

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main sources of income whilst it is also experiencing an increase in demand in a number of key service areas. This is explained in more detail later in the report.

- b) The budget model assumes that the Council continues to be committed to the concept of a “counter cyclical” budget. The Council recognises the significance it has as one of the major economic engines in the local economy and the damage that could be done if it discontinued investment in either infrastructure or with local suppliers.
- c) The Council needs to have a ‘balanced budget’ for 2010/11 and a budget, which provides a platform for the medium term. Like the current year 2010/11 will continue to be difficult but if the Council continues to deliver at its past/current trajectory of efficiency savings it should be ‘difficult but doable’.
- d) The position after 2010/11 is very uncertain. The widely anticipated reduction in Government funding will not be known until in 2010 therefore we can only work on assumptions at this stage.
- e) The stability of the Council’s fiscal position and its ability to deliver efficiency savings are founded on the:-
- resilience testing undertaken on the budget and identified efficiency savings;
 - detailed understanding it has of the sensitivity and volatility of budgets,
 - identification of risks associated;
 - understanding of what resources are available to counter adverse events;
 - An ability to optimise funding from external sources e.g. Government and developer contributions. Such sources are often overlooked in their priority however the negotiated developer contribution for the east of Kettering could dwarf the next decades Council Tax proceeds.
- f) The Council uses the budget “swingometer” to highlight and assess the sensitivity of the most volatile budgets. The “swingometer” attached as part of the draft budget booklet (page 32) again shows more significant swings than normal 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”.
- g) The Council has identified an additional £550,000 of efficiency savings for 2010/11. If the indicative Council Tax level of £161.67, which is equivalent to an average increase of 14p per week (4.75%), were applied the Council’s General Fund budget would be in a balanced position for 2010/11.
- h) Members should note that the Government has delayed the publication of the next spending review. This makes forecasting Revenue Support Grant (RSG) and any direct grants such as Housing Planning Delivery Grant (HPDG) with any degree of certainty almost impossible.

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- i) Members will recall from the budget report in December that the Council has modelled a number of potential outcomes for both grants. These are outlined below:

	Government Grant	HPDG	Savings Target (2011/12)
Model 1	-10% Immediate	3 year phased	£1,090,000
Model 2	3 year phased	-100% Immediate	£1,039,000
Model 3	-10% Immediate	-100% Immediate	£1,549,000
Model 4	3 year phased	3 year phased	£580,000

- j) For the purposes of the Medium Term Financial Strategy Model 1 has been used. It is important however to give some context to this. In previous years when the three year grant settlement was in place it was possible to match resources with a greater amount of accuracy and certainty and then focus wholly on identifying and managing income and expenditure pressures.
- k) Whilst it is not possible to match resources with the same accuracy or certainty it is critical that the Council is prepared and in a position to manage the impact with whatever resources we are given. If we had waited until late in 2010 (earliest date for a grant announcement) before starting to prepare even a "grant freeze" would have been difficult to manage.
- l) The budget model for 2011/12 identifies the need to find £1m in efficiency savings if the assumptions made are correct. Work has already started however this would be an unprecedented level of savings; to date savings have been implemented, which have no or minimal negative impact on customers. Due to the size and importance of the task it is proposed to report quarterly through the Executive progress during 2010/11.

GENERAL FUND - GRANT SETTLEMENT

- 5.11. 2010/11 is the final year of the current three year grant settlement. The grant settlement was originally announced at the beginning of December 2007. The Council has received provisional confirmation that its grant will be £7.279m (1.8% increase), which is the same as when the three year settlement was originally announced. The Government is expected to confirm the above figures in February 2010.
- 5.12. As has been previously mentioned the Government has delayed its publication of the next spending review. It is unlikely that any firm grant figures will be available until November 2010 at the earliest. What does seem certain is that Local Authorities and in particular Shire Districts can expect a very tough settlement. In

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2010/11 boroughs such as Kettering received an average grant increase of 1.4% whilst County Councils enjoyed an average grant increase of 4.2%.

- 5.13. The Government operates a formula grant allocation system that determines the annual grant award to each council. Due to some large fluctuations in funding to individual Councils when the system was introduced, the Government has effectively cushioned the impact by using a system of floors and ceilings (i.e. maximum and minimum) changes in annual grant allocations year on year. The operation of this system has resulted in Kettering having £125k withheld in 2010/11 and a total of £1.9m withheld since 2003/04.
- 5.14. The Council has continued to lobby the Government to move authority's toward their formula grant more quickly. The Government has always argued that floors and ceilings produce a consistent level of funding for all and should remain. This has been less of an issue in the past with at or slightly above inflation awards. However the impact of Comprehensive Spending Review 07 is that grant awards for the period 2008/09 – 2010/11 are 3.3%, 2.2% & 1.8%. The Government has, as in previous years, made a statement regarding "average Council Tax" levels across England. They expect the average to reach a 16 year low in 2011/12 this means the Council will come under increasing pressure to maintain its service levels.
- 5.15. When the Executive next consider the budget in February, they will need to take into account any guidance received from the Government in relation to potential council tax capping parameters.

GENERAL FUND - KEY BUDGET ISSUES & BUSINESS RISKS

- 5.16. There are a number of key budget issues that members need to be aware of to understand the draft budget figures. These are explained in detail below and represent the major business risks the Council faces in the medium term. These are summarised and a sensitivity analysis applied as detailed at page 32 of the draft budget booklet.

Service Delivery

- 5.17. **Concessionary Travel** – The new national scheme introduced in April 2008 continues to increase demand and exert expenditure pressure way in excess of the grant the Council receives. The Government has however recently consulted on a revision of the distribution method recognising the inaccuracies, which were built into the original mechanism. The proposed grant may result in an additional grant of £370,000 for 2010/11.
- 5.18. The Government has however also decided, through the Pre-Budget Report, to transfer the Concessionary Travel service from Boroughs and Districts to County Councils. This would mean both expenditure and funding transferring to Northamptonshire County Council. Therefore any increase in direct grant will only be one off. In addition, the detail of the Government's proposals currently suggests

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removing more funding, through the Revenue Support Grant, than expenditure. This seems perverse as the additional grant award was too equalise spend and funding. The Council have already started to actively lobby through the Local Government Association although the signs are not optimistic. Therefore at this stage the potential £370,000 additional one off grant has not been included in the budget.

- 5.19. **Waste Collection / Recycling** – A staff suggestion resulted in a review of contract and operating arrangements. This has identified efficiency savings of £250,000 for 2009/10. The savings are expected to continue and this has been reflected in the 2010/11 budget.
- 5.20. **Homelessness** – The Council continues to experience significant numbers of homelessness applications.

Fees & Charges

- 5.21. **Car Parking Charges** – Like many car park providers, the Council has experienced a reduction in income. The budget for 2010/11 is based on latest projections and includes the additional cost (£17,500) of retaining the 15 “pop and shop” spaces in the town centre after the increase in VAT rate. This will be considered as part of the medium term review of car parking charges.
- 5.22. **Building Control Fees** – the Council continues to suffer reduced fee levels caused by a combination of loss of market share and reduced housing activity. However the Building Control function has experienced a slight recovery towards the end of 2009/10.

External Funding

- 5.23. **Housing and Planning Delivery Grant (HPDG)** – the Council achieved the highest grant awarded in North Northamptonshire and one of the highest in the East Midlands for 2009/10. The award is £22,000 higher than budget. However uncertainty remains over grant levels for 2010/11 and beyond. No announcement is expected until after the general election.

The Government has already reduced the national pot for 2009/10 from £160m to £135m and for 2010/11 from £250m to £200m. Officers have tried to get some commitment from the Government that the funding will be retained for 2010/11. We were told that the pot could be anything from £0 to £200m. At this stage the budget for 2010/11 has been left at the 2009/10 level, which provides sufficient scope should Central Government either reduce the national pot or amend the grant criteria. This is the most volatile of all the Council budgets and officers will continue to push for details of the Governments intentions.

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Financial Markets

- 5.24. **Investment Income** – the Council earns interest on cash balances and changes in interest rates has an impact on the budget. The Council however has a comparatively low cash balance, which reduces the impact of interest rate changes.
- 5.25. **Borrowing Costs** – borrowing funds, to help finance the Council's Capital Programme, has a direct cost implication to the Council's revenue account. The exact amount depends on market conditions but currently every £1m borrowed costs around £35,000 per year in revenue. The borrowing costs required to support the proposed Capital Programme are factored into the budget model. Any additional schemes would increase costs to the revenue account.

Ministerial Lobbying

- 5.26. **Planning Fee Income** – Members will recall that this is a significant income area for the Authority and one that is subject to statutory fee setting by the Government. Officers and Members have and continue to be heavily involved in lobbying to highlight the inadequacy and inequity of the current levels of statutory fees particularly in respect of large commercial applications. A new fee charging structure was implemented from 1 April 2008; however the current economic downturn has drastically reduced the level of applications.
- 5.27. **Search Fees** – the current economic downturn and inequity of the competition with Private Search companies continues to put downward pressure on this income stream.
- 5.28. The Government have however, finally responded to the extensive lobbying undertaken principally by this Council and the Local Government Association. The personal search fee will increase from £11 to £22 from 1st January 2010. This action is welcomed but falls well short of "levelling the playing field." This will continue to be one of the main areas the Council focuses its lobbying efforts.
- 5.29. **Concessionary Travel** – this Council is delighted that it's lobbying to ensure all new Concessionary Travel burdens are fully funded has resulted in a proposed change to the grant distribution. The Council continues to lobby with the help of the Local Government Association to ensure the proposals are finalised. The Council will also lobby firstly to keep the Concessionary Travel service or to ensure that the correct amount of funding is transferred the current proposals suggest the Council could suffer a six figure deficit.

Efficiency Savings

- 5.30. As has been previously stated the Council is in a position to consider a counter cyclical budget as a result of the proactive way that it drives efficiency savings and switches resources. The Council has an excellent track record of delivering efficiencies as can be seen from the table below:

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	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual
	£	£	£	£	£
Cashable	357,000	205,000	237,000	342,000	480,000
Non-Cashable	349,000	96,000	84,000	0	0
Total	706,000	301,000	321,000	342,000	480,000
Cumulative	706,000	1,007,000	1,328,000	1,670,000	2,150,000

- 5.31. The budget proposed for 2010/11 will again require further efficiencies in the region of £550,000. These are detailed in the table below:

Efficiency Saving	2009/10	Ongoing
	£	£
Revised Waste & Recycling Arrangements	100,000	100,000
Minimum Revenue Provision	80,000	80,000
Next Steps & Other Staff Savings	165,000	165,000
Procurement & Other Minor Savings	205,000	135,000
	550,000	480,000

GENERAL FUND – BALANCE AND EARMARKED RESERVES

- 5.32. The Council's balance sheet and particularly its level of reserves underpin the fiscal stability that the Council enjoys. The General Fund balance is estimated to be £1.3m at 31st March 2010 and earmarked reserves (budget book page 33) are £4.3m.

6. DRAFT CAPITAL PROGRAMME (2010/11 – 2012/13)

- 6.1. As part of the budget process members are required to review the Council's capital programme, and available funding, so that a programme can be agreed for the next three financial years (2010/11 - 2012/13).
- 6.2. During the last budget round members approved a three-year rolling capital programme with commitment given for schemes in years 2 and 3 to assist with scheduling and achieving the programme. This simplified the budget setting process for capital requiring members to debate the proposed new schemes and approve / amend as appropriate.

CAPITAL - KEY MESSAGES

- 6.3. The economic slowdown has caused a significant reduction in the level of capital receipts being generated. This results in a reduction in the funding available for both General Fund and HRA schemes.

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- 6.4. Despite the reduction in Capital Receipts and the continuing economic downturn the Council's counter cyclical approach and ability to access external funding results in an overall capital programme of in excess of £10m. This investment in the local economy and infrastructure is both significant and welcome.
- 6.5. 2010/11 will see the completion of two major Town Centre Regeneration schemes. The Market Place Restaurants, which will create a real focal point for the Market Place and the Public Realm scheme from Market Street to Sheep Street. This project will result in the same high quality public realm as seen on the Market Place for two important gateways to the Town Centre.
- 6.6. It should be noted that these two major projects will be delivered in spite of a 20% reduction in the original Government funding level approved. In response to this the Council agreed a more flexible approach, with North Northants Development Company (NNDC) to funding between projects. The 'envelope' approach allows the funding to be moved from one town centre project to another, depending on where the funding is needed.
- 6.7. Although this approach will allow the Borough Council to make the best use of the money available, the reduction has resulted in a current short-fall in the funding for the town centre projects (the Market Place Restaurants, next phase of Public Realm and the Frontage Improvement scheme). The Executive as part of the Council's ongoing commitment for Town Centre regeneration approved the delivery of these three important projects using its own capital resources, where necessary, to ensure these important projects are completed.

CAPITAL - KEY FUNDING AND BUDGET ISSUES

- 6.8. The level of funding and its impact on the capital programme is described below and new bids have only been included where they are fully funded externally. The proposed capital programme for 2009/10 – 2012/13, is attached at pages 35 to 40.
- 6.9. **Capital Receipts** – the estimated level of capital receipts for 2010/11 is £100,000 reflecting the current level of Right to Buy completions and applications. Members will recall that the Council retains only 25% of the capital receipts it generates from the sale of council houses. The remaining 75% is paid to Government.
- 6.10. **Major Repairs Allowance (MRA)** – MRA can only be used for Housing Revenue Account (HRA) capital projects. The estimate for 2010/11 is £2.4m. HRA schemes have been set at the level of MRA and this will be sufficient to maintain 100% decent home standard.
- 6.11. **Grants & Contributions** – external funding for 2010/11 is estimated at £4.8m and detailed in the table below:

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	2010/11
	£
Housing Growth Fund (HGF)	3,547,000
Travellers Site Grant	600,000
Regional Housing Pot	454,000
Disable Facilities Grant	193,000
Choice Based Lettings Grant	50,000
	4,844,000

- 6.12. **External Borrowing** – the estimate for external borrowing for 2009/10 is £1.6m. The revenue impact of borrowing in 2010/11 is included in the revenue budgets.

7. **DRAFT HOUSING REVENUE ACCOUNT (HRA) 2010/11**

- 7.1. The Housing Revenue Account (HRA) includes all the income and expenditure items associated with maintaining a landlord account for the Council's housing stock. The Council has a statutory obligation to produce a balanced "ring-fenced" HRA. The account must operate in a surplus position and this is achieved by adopting the principle that an agreed minimum balance of £300,000 should be the HRA's primary strategic aim over the medium to long term. The level of the minimum balance is risk assessed and takes account of the limited nature of the service, the fact that budgets are less volatile than in the General Fund and transactions tend to be high in number but low in value.
- 7.2. A summary of the draft HRA budget for 2010/11 is included at Section 3 of the budget booklet together with appropriate notes.
- 7.3. The key elements of the budget are;
- a) Rents – income expected from tenants.
 - b) Repairs & Maintenance – The costs response and planned maintenance.
 - c) General Management – The costs of managing the Council's housing stock.
 - d) Special Services – Income/expenditure relating to flats & sheltered housing.
 - e) HRA Negative Subsidy - amount of money paid to the Government.

HRA - KEY MESSAGES

- 7.4. In recent years it has become increasingly difficult to achieve these levels of balances, whilst at the same time provide the high level of quality services that our tenants have come to expect. This has been due to the increasing level of negative subsidy taken by the Government. In 2010/11 rent is estimated to increase by £255,000 but subsidy will increase by £287,000. The total level of subsidy in 2010/11 is £3.6m. This means that for every £1 of rent increase paid by our Tenants a further £1.12 will be paid to the Government.

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- 7.5. In 2009 the Government consulted on a proposal to scrap the current subsidy system. The replacement "Self Financing System" would be predicated on spreading the £17 billion national housing debt across all housing authorities. The Council responded to the consultation document expressing its concern that it would be forced to take on and service another Councils debt.
- 7.6. At this stage no detail has been provided to allow authorities to make a proper risk assessment of the system, a further announcement is expected in February 2010.

HRA - KEY BUDGET ISSUES & BUSINESS RISKS

- 7.7. **Rent Convergence** - The Government have recognised that the rent convergence is proving difficult to for local authorities to achieve. In 2009/10 the Government halved the rent guideline to 3.2% this was after strong local authority lobbying that in the current economic climate an increase of 6.4% was unacceptable.
- 7.8. The Government is still targeting 2013/14 for rent convergence, however this may become irrelevant if the subsidy system is scrapped. The impact if the system is not scrapped is volatile guideline rent increases, which make planning further than a year ahead extremely difficult.
- 7.9. The Government has indicated in their draft determinations that rent increases for 2010/11 should be set at 3.1%. The subsidy implications of setting a rent increase outside the guideline are prohibitive; therefore 3.1% is the preferred option, which will be consulted on through the Tenants Forum at its meeting on 11th February 2010.
- 7.10. **Housing Subsidy** - The Council will pay in the region of 30% of the rent it collects from its tenants over to the Government (approximately £3.6m for 2010/11). This is an increase of £322,000 from what we originally estimated for 2009/10. This ongoing trend jeopardises the sustainability of the Housing Revenue Account in the medium to long term.
- 7.11. **Economic Climate** - The economic slowdown continues to put additional pressures on the HRA. The Council has worked hard and successfully to maintain rent arrears levels but these will continue to come under pressure. Also, public utility prices, especially for sheltered schemes, together with staff costs in general are estimated to continue to increase at a level greater than the net increase in rents the Council can introduce.
- 7.12. **Efficiency Savings** - The HRA has also generated significant efficiency savings to counter the impact of the losses in housing subsidy. In 2010/11 a new housing appointments will be introduced to significantly improve the service to our tenants and improve the efficiency and flexibility of the service.
- 7.13. The draft budget will be discussed by the Tenants Forum at its meeting of 11th February 2010 along with the proposal for rent setting.

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8. CORPORATE PRIORITIES / BUDGET CONSULTATION

- 8.1. The Council reviewed its Corporate Priorities during 2007 when the new Corporate Improvement Plan was refreshed. A matrix is attached at Appendix A (page 31) showing the correlation between the Council's corporate priorities and budget.
- 8.2. The approval of this report starts the Council's budget consultation period. The consultation period runs until the Council sets the budget on 25th February 2010. After the success last year the Council is again intending to use the Town Centre Shop in Gold Street and dates the shop will be open will be published in due course. In addition, a consultation event will be held at the Council Offices at 7pm on 21st January 2010.

9. CONCLUSIONS

- 9.1. As reported to the Executive in December the current economic conditions have and continue to have an impact on the business in all three of the accounts.
- 9.2. The "*modelling for recovery*" principles (approved by the Executive in December 2008) together with the overarching Medium Term Financial Strategy '*guiding principles*' underpin these draft budgets as more importantly do the Councils ambitions and priorities.

General Fund

- 9.3. Although difficult and challenging the Council is able to deliver a balanced budget for 2010/11 with an indicative Council Tax increase of 4.75% (14p per week).
- 9.4. The national funding position makes the future much more uncertain. The Medium Term Financial Strategy is sustainable, due to the platform the current budget sets and the track record the Council has in driving efficiencies. However the level of efficiencies required at this stage are unprecedented and represent a massive challenge for the forthcoming year.
- 9.5. The Council maintains healthy reserves and balances and won't breach the '*guiding principles*' if the Medium Term Financial Strategy is followed.

Capital Programme

- 9.6. The Council has a significant capital programme investing in excess of £10m across the borough. This supports the '*modelling for recovery*' and shows that the Council recognises the importance of continuing to invest, largely with external funding, in the Borough.
- 9.7. The proposals for regeneration included in the Suite 16 programme are continuing despite the economic slowdown. The benefits of this are evident not least in new shops opening in the Town Centre and occupancy levels, which buck the national trend.

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Housing Revenue Account

- 9.8. The Council has set a balanced budget for the Housing Revenue Account for 2010/11.
- 9.9. The Housing Revenue Account balance is estimated to be at the minimum level recommended. This reflects the impact of subsidy lost to the Government and the desire to retain service levels at the highest possible standards.

10. RECOMMENDATIONS

- i. That the Budget Consultation period be revised to 13th January 2010 to 25th February 2010.
- ii. That the Executive refers the draft budgets for 2010/11 (as contained in the separate budget booklet) to Scrutiny for comment in accordance with the Council Constitution .

Title of Document: Estimate Working Papers
Contact Officers: P Sutton

Ref: Exec Budget Report (Nov 09)
Exec MTFS Report (Dec 09)