

## BOROUGH OF KETTERING

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<b>Report Originator</b>	Strategic Management Team	<i>Fwd Plan Ref No:</i> A12/043	
<b>Wards Affected</b>	All	17 <sup>th</sup> October 2012	
<b>Title</b>	MAINTAINING A DURABLE BUDGET – BUDGET POLICY & MONITORING		

**Portfolio Holder: Cllr A Wiley**

### **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 2012/13 and the estimated level of budget savings that may be required over the next few years;
- c. Provide Members with a mid year update on Treasury Management;
- d. Provide an update in relation to the national Local Government Resource Review.

### **2. BACKGROUND**

2.1. The budget delivery framework used in the two previous budget rounds (2011/12 & 2012/13) was approved by Members as the basis for the preparation of the 2013/14 budgets. Specifically, members approved;

*“that the same methodology be applied to the formulation of the 2013/14 budget as it applied to the 2012/13 budget, with particular reliance on:-*

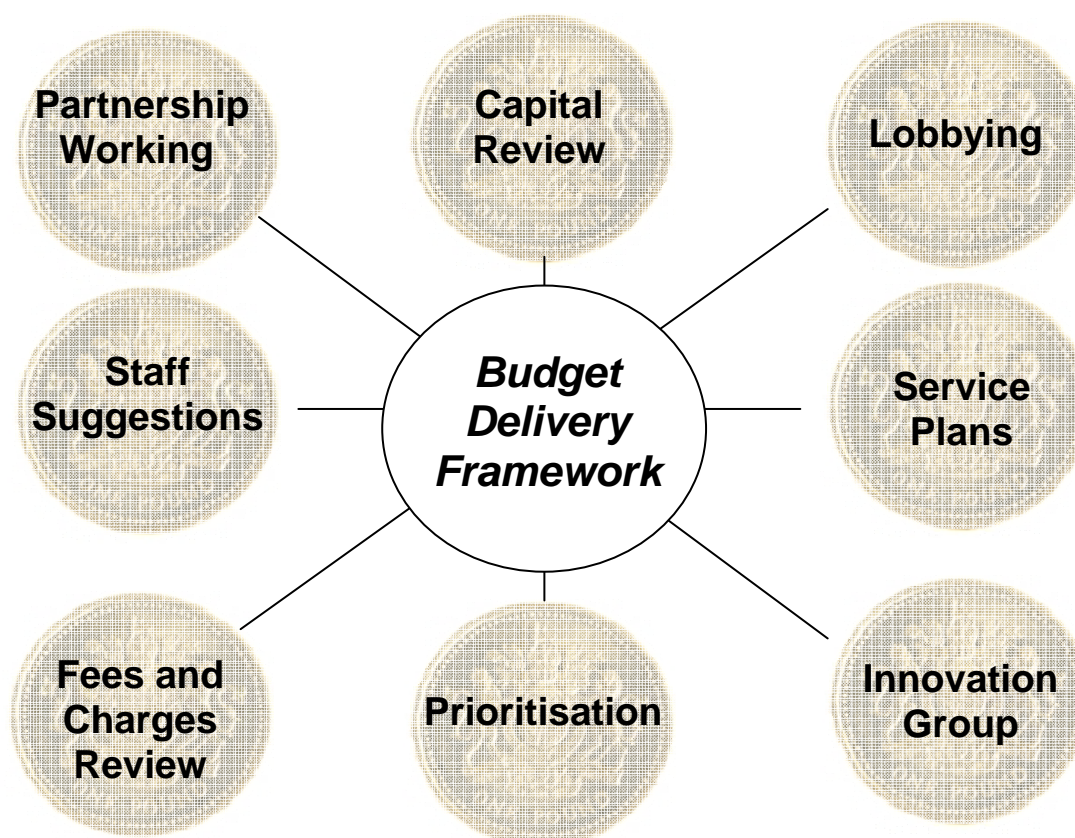
- the existing guiding principles*
- the existing modelling for recovery principles*
- the existing budget containment strategy*
- the existing eight workstreams”*

2.2. The strategy has to date proved extremely successful and helped provide additional flexibilities from which to address the national funding challenges that face all local authorities.

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2.3. This overall strategy provides the cornerstone on which the Council's long-standing success in both setting a 'balanced budget' and delivering within budget are founded. The framework consists of eight workstreams – as illustrated below;



2.4. The financial strategies key 'guiding principles' supplemented by the 'Modelling for Recovery Principles' and the 'Budget Containment strategies' have provided a strong cornerstone for the Council's medium term financial strategy. For ease of reference, these are reproduced here:-

### **Financial Strategy Guiding principles:**

- a. *Revenue balances should not fall below £1m and overall revenue reserves should not fall below 10% of net revenue expenditure;*
- b. *In setting the Council Tax, members should consider the medium term to ensure that a sustainable budgetary position is preserved (with due regard being given to any penalties that might apply);*
- c. *The level of household Council Tax to increase each year in line with inflation at least, where the budget is in deficit, to ensure resources remain consistent with budgeted costs;*

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- 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 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. 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.*

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5. *The Council should not substitute itself as a provider / funder of services when another public provider cuts such a service.*

2.5. The second Modelling for Recovery Principle has been refreshed to reflect the Council has long term debt, resulting from the HRA self financing transaction and reflects the Council's strong Treasury position. It is suggested this now reads as follows:

*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 **BUDGET MONITORING & PLANNING**

#### **GENERAL FUND 2012/13 – CURRENT FINANCIAL YEAR**

3.1 From the recent budget process, Members will recall that additional ongoing savings of £1.3m were required for 2012/13. These were identified as detailed in Table 1;

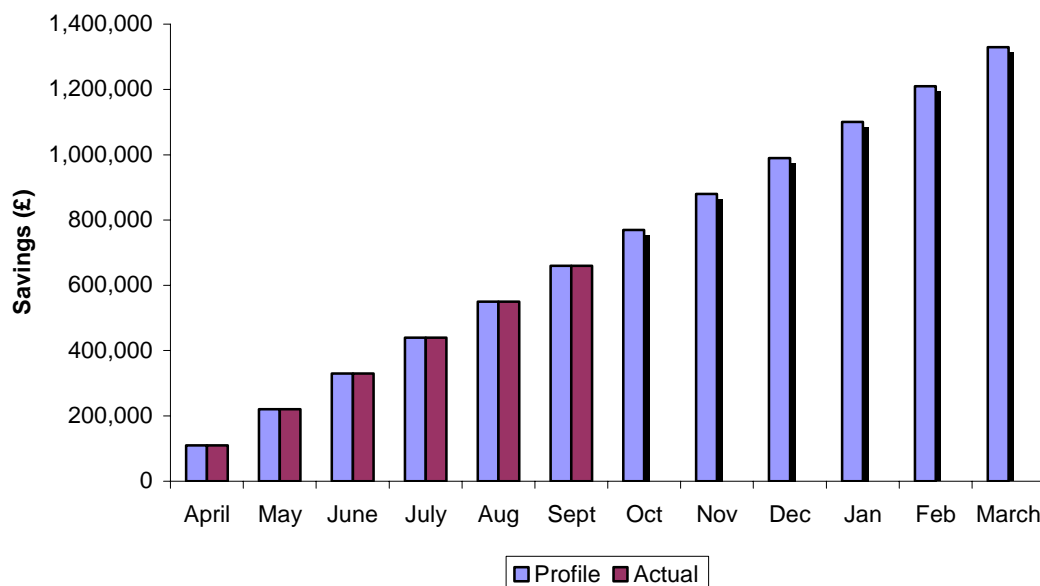
<b>TABLE 1 - Identified Framework Savings 2012/13</b>	<b>Staff Suggestion / Service Plan / Innovation</b>	<b>Fees &amp; Charges</b>	<b>Partner ships</b>	<b>Capital Review (GF Impact)</b>	<b>Lobbying</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Staffing &amp; Staff Related</b>	(290)		(28)			(318)
<b>Premises</b>	(105)					(105)
<b>Operating Costs</b>	(86)		(16)			(102)
<b>Total Expenditure Savings</b>	(481)	0	(44)	0	0	(525)
<b>Income</b>	(34)	(234)		(247)	(290)	(805)
<b>Total Savings</b>	<b>(515)</b>	<b>(234)</b>	<b>(44)</b>	<b>(247)</b>	<b>(290)</b>	<b>(1,330)</b>

3.2 The chart below shows the actual realisation of the 'cash' savings against the target for the year. It can be seen that as well as the £1.3m having now been 'locked in' it is also on schedule in terms of its cash delivery throughout the year.

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### 2012/13 Savings Monitoring - Cash Realised



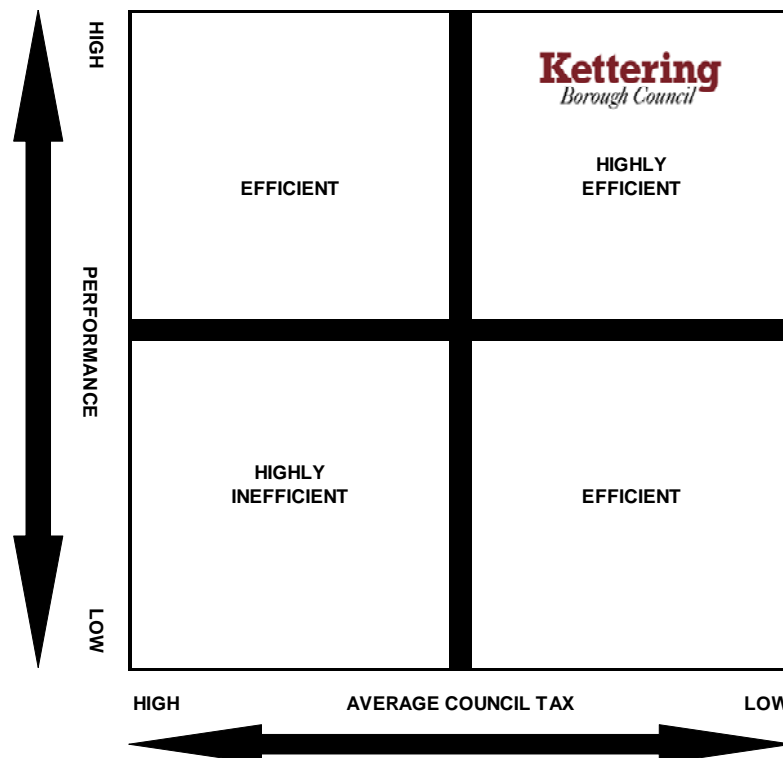
- 3.3 Officers are currently progressing with the detail of the 2013/14 budget and will continue to 'lock-in' savings that are resilience tested at the earliest opportunity this approach will allow for further in year savings to be generated.
- 3.4 We will continue with the approach used last financial year in relation to any underspends for 2012/13, i.e., the early delivery of savings and the additional one-off items will result in the Council being able to put resources aside to help provide some earmarked resources to assist in actually delivering future ongoing budget reductions – very much in the style of the 'invest to save' initiatives of previous years. At the same time, some of the one-off resources need to be earmarked to help protect the Council against specific business risks/threats required in the current economic conditions.
- 3.5 The Council's impressive record in identifying and delivering efficiency savings in the past three years, including the year under consideration (2012/13), are around £4.5m - as illustrated in Table 2;

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Table 2 – Efficiency Savings	£000
2010/11	1,260
2011/12	1,910
2012/13	1,330
<b>Total</b>	<b>4,500</b>
<b>Cash Savings (%)</b>	<b>40%</b>

- 3.6 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 and when considering the increased costs of utilities and more recent inflation levels. Over the three year period (as detailed in Table 2) the efficiency savings are equivalent to approximately 40% **(50% in real terms)** of the Council’s net budget (which stands at £11.2m for 2012/13).
- 3.7 **Members are reminded that before the efficiency programme commenced a number of years ago, the Council was charging a level of Council tax below the national average yet delivering a level of performance that was above the national average. Despite having to deliver efficiency savings of £4.5m in the past three years, the Council’s performance remains above average and the level of council tax charged remains below the national average.**



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### GENERAL FUND 2013/14 – BUDGET PROSPECTS NEXT FINANCIAL YEAR

- 3.8 As well as monitoring framework savings identified for 2012/13 work continues on identifying savings for the following year - 2013/14. Members are reminded of the current Medium Term Financial Forecast which requires an additional £777,000 of savings to balance the budget in 2013/14 this is prior to the consideration of Council Tax.
- 3.9 In the previous durable budget report (to the September meeting of the Executive Committee) it was reported that an early start had already been made on identifying the savings required for 2013/14 – a figure of £285,000 was reported. Table 3 shows that the figure now stands at £485,000 which is very encouraging and is significantly ahead of schedule. (we have indentified around 2/3rds of the savings target at this stage).

<b>TABLE 3 - Identified Framework Savings 2013/14</b>	<b>Staff Suggestion / Service Plan / Innovation</b>	<b>Fees &amp; Charges</b>	<b>Partnerships</b>	<b>Capital Review (GF Impact)</b>	<b>Lobbying</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Staffing &amp; Staff Related</b>	(50)					(50)
<b>Premises</b>	(50)		(20)			(70)
<b>Operating Costs</b>	(200)		(35)			(235)
<b>Total Expenditure Savings</b>	(300)	0	(55)	0	0	(355)
<b>Income</b>		(40)			(90)	(130)
<b>Total Savings</b>	<b>(300)</b>	<b>(40)</b>	<b>(55)</b>	<b>0</b>	<b>(90)</b>	<b>(485)</b>

### MEDIUM TERM FINANCIAL FORECAST

- 3.10 The Council's latest Medium Term Financial Forecast is shown in Table 4;

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**TABLE 4 - MEDIUM TERM FINANCIAL FORECAST**

		Zone of Predicability		Zone of Unpredictability 1		Zone of Unpredictability 2	
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Actual £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000
<b>1</b>	<b>Net Council Budget</b>	<b>13,928</b>	<b>12,749</b>	<b>11,900</b>	<b>11,593</b>	<b>11,496</b>	<b>11,117</b>
<b>2</b>	<b>Forecast Resources:</b>						
	Central Government Grant	(5,464)	(4,784)	(4,497)	(4,227)	(3,931)	(3,656)
	Council Tax / Coll'n Fund	(25)	(25)	(25)	(25)	(25)	(25)
	Income From Council Tax	(6,389)	(6,411)	(6,443)	(6,476)	(6,509)	(6,542)
	<b>Total Resources</b>	<b>(11,878)</b>	<b>(11,220)</b>	<b>(10,965)</b>	<b>(10,728)</b>	<b>(10,465)</b>	<b>(10,223)</b>
<b>3</b>	<b>Budget (Surplus) / Deficit</b>	<b>2,050</b>	<b>1,529</b>	<b>935</b>	<b>865</b>	<b>1,031</b>	<b>894</b>
<b>4a</b>	<b>Council Tax Grant</b>	<b>(158)</b>	<b>(158)</b>	<b>(158)</b>	<b>(158)</b>	<b>0</b>	<b>0</b>
<b>5</b>	<b>Budget Frameworks</b>	<b>(1,906)</b>	<b>(1,371)</b>	<b>(485)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>6</b>	<b>Savings - To be secured</b>	<b>0</b>	<b>0</b>	<b>(292)</b>	<b>(707)</b>	<b>(1,031)</b>	<b>(894)</b>
<b>7</b>	<b>Budget (Surplus) / Deficit</b>	<b>(14)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### GENERAL FUND WORKING BALANCE

		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		£000	£000	£000	£000	£000	£000
<b>8</b>	<b>Estimated Opening Balance</b>	<b>(1,415)</b>	<b>(1,429)</b>	<b>(1,587)</b>	<b>(1,587)</b>	<b>(1,587)</b>	<b>(1,587)</b>
	Budget (Surplus) / Deficit	(14)	0	0	0	0	0
<b>4b</b>	<b>Council Tax Grant 2012/13</b>	<b>0</b>	<b>(158)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>9</b>	<b>Estimated Closing Balance</b>	<b>(1,429)</b>	<b>(1,587)</b>	<b>(1,587)</b>	<b>(1,587)</b>	<b>(1,587)</b>	<b>(1,587)</b>

### Notes to Medium Term Financial Forecast

- 1 Net Council Budget** – This represents the net expenditure prior to the Budget Framework savings.
- 2 Forecast Resources** – These are the Council's main funding streams (excluding fees and charges which are incorporated into Line 1). This illustrates the significant reduction in Central Government Grant. 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.
- 3 Budget (Surplus) / Deficit** – This illustrates the gap between the budget and the total resources available before identifying budget framework savings.



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- 4a Council Tax Grant** – This is a grant the Council receives from central government for four years in return for freezing Council Tax in 2011/12. This is equivalent to the cash that would have been received if a 2.5% increase had been levied.
- 4b Council Tax Grant 2012/13** – This is a grant the Council receives from central government for one year in return for freezing Council Tax in 2012/13. This is equivalent to the cash that would have been received if a 2.5% increase had been levied.
- 5 Budget Frameworks** – This identifies the total savings required and differs to the table shown in 3.1 as a result of the Council decision earlier in the year in relation to members allowances.
- 6 Savings to be secured** – This identifies the total resources required to balance the budget in future years after 2012/13.

3.11 The autumn statement will be announced on 5 December therefore it is expected the provisional grant settlement will be around mid December this makes it increasingly difficult for budgeting purposes. There is also growing concerns that the reduction in grant in 2013/14 and 2014/15 could be greater than the 6% the Council is currently modelling. To put this into context a reduction of 1% reduces the Council's grant by around £45,000. The CLG have indicated that the level of grant reduction for Local Government could be in the region of 12% for 2013/14 this would require additional ongoing framework savings of around £270,000.

### HOUSING REVENUE ACCOUNT 2012/13 – CURRENT FINANCIAL YEAR

3.12 A summary of HRA monitoring at 31<sup>st</sup> August is shown in Table 5. The projected outturn is a £69,000 underspend resulting from income being higher than budgeted.

<b>TABLE 5 - HRA</b>	<b>Current Budget</b>	<b>Projected Outturn</b>	<b>Variance</b>
	£	£	£
Gross Expenditure	14,321,790	14,252,790	(69,000)
Gross Income	(14,321,790)	(14,321,790)	0
Net Expenditure	0	(69,000)	(69,000)

### CAPITAL 2012/13 – CURRENT FINANCIAL YEAR

3.13 A summary of the projected Capital Programme outturn monitoring statement as at 31<sup>st</sup> August 2012 is shown in Table 6: -

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<b>TABLE 6 - Capital</b>	Current Budget	Projected Outturn	Variance
	£	£	£
<b>Expenditure</b>			
HRA Schemes	2,559	2,559	0
General Fund Schemes	4,593	4,593	0
	7,152	7,152	0
<b>Financing</b>			
Government Grants	3,461	3,461	0
* Prudential Borrowing	3,491	3,491	0
Capital Receipts	200	200	0
	7,152	7,152	0
<b>Net Expenditure</b>	0	0	0

\* The Council has no long term cash debt but uses internal borrowing, in line with its “*modelling for recovery*” principles to support capital investment.

3.14 The capital programme is currently projected to be ‘on’ budget.

#### **4 CASE STUDIES**

4.1 Members will recall that in previous budget reports we have identified case studies as examples of good practice. The previous examples related to the new arrangements for the following:

- ◆ Generic warden service
- ◆ Recycling pilots
- ◆ Kettering Borough Trainers
- ◆ Partnership work with the Citizens Advice Bureau.
- ◆ VAT recovery
- ◆ Prevent Strategy funding
- ◆ Flexible Working
- ◆ Printing Function

4.2 The case study in this report highlights changes that have been made to the local market.

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**Case Study – Kettering Market**

Kettering Markets have been shortlisted as a finalist for a Regeneration and Renewal Award 2012, in the category of Boosting High Street Vitality. The nomination comes following Kettering Borough Council taking over the market operations from a private operator in the summer of 2011.



The innovative approach taken to running the market has allowed various tasks to be absorbed by several service areas, rather than have the expense of employing a traditional market manager. This has enabled market income to be re-invested back into the market through purchasing new equipment, marketing, reducing pitch fees and also delivering specialist events.

It also highlighted work with Tresham College on rebranding, and how the Council was developing specialist markets, to combine with other town centre events.



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### **5 TREASURY MANAGEMENT – MID YEAR UPDATE**

5.1 The Treasury Management Policy Statement is a high level document, which defines the Council's policies and objectives of its Treasury Management activities.

5.2 To comply with the requirements of best practice, the Treasury Management Strategy is reported to members in advance of the forthcoming financial year, (this was approved by the Executive and Council at the February meetings) and a mid year report that covers the following:

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy (5.3).
- The Council's capital expenditure (prudential indicators) (5.4);
- A review of the Council's investment portfolio, borrowing strategy and compliance with Treasury and Prudential Limits for 2012/13 (5.5 – 5.7).

5.3 The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for 2012/13 was approved by Council on 23 February 2012. There have been no policy changes to either of these strategies.

5.4 The current estimates for capital expenditure and financing arrangements since the capital programme was approved in February 2012 have all previously been reported to the Executive.

5.5 The Council's current investment and borrowing portfolios are detailed in Table 7. These are inline with the Council's Treasury Management Strategy.

<b>Table 7</b>	
<b>Investment Portfolio</b>	<b>£000</b>
Nationwide	4,000
Bank of Scotland	4,046
Other	2
	<b>8,048</b>

<b>Borrowing Portfolio</b>	
	<b>£000</b>
PWLB	72,903
Oxfordshire CC	4,000
	<b>76,903</b>

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5.6 The Council's projected closing capital financing requirement (CFR) for 2012/13 is £91.721m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

5.7 Table 8 shows the Council has external borrowings of £76.903m and has utilised £14.818m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

<b>Table 8</b>	2012/13 Original Budget £000	2012/13 Current Position £000
Gross Borrowing	78,903	76,903
Other Long Term Liabilities	357	357
Less Investments	2,804	8,048
Net Borrowing	76,456	69,212
CFR (year end position)	91,721	91,721
Operational Boundary (External Debt)	97,000	97,000
Authorised Limit	102,000	102,000

### **6 LOCAL GOVERNMENT RESOURCE REVIEW (LGRR)**

#### Business Rates Reform

6.1 A key aspect of the LGRR is plans to change the way in which national Business Rates income is distributed from April 2013.

6.2 The Council responded to the consultation papers which were issued by CLG on 17<sup>th</sup> July 2012, these were appended to the September Maintaining a Durable Budget Report.

6.3 Although the consultation documents provided greater detail on the proposed operation of the scheme, they did not provide specific numbers from which the financial impact on an individual local authority (such as Kettering) can be calculated. The financial implications will only become clear when the provisional figures are released by the Government – this is unlikely to happen before the Governments Autumn Statement is published on 5<sup>th</sup> December 2012.

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- 6.4 Members will recall that the Executive agreed a set of guiding principles that can be used as a reference point for any future decisions about pooling of business rates, these are summarised below:

### **Guiding Principles – Pooling**

- a. Joining a pool should not impact on the Council's sovereignty in any way
  - b. The Council should be 'no worse off' from joining a pool
  - c. The rewards of growth should be distributed proportionately to those that have generated them.
- 6.5 These pooling principles have been adopted by the District Councils Network as a good base for any pooling agreements.
- 6.6 A submission of interest was submitted in August 2012 by all Northamptonshire authorities (excluding Kettering). Initially those authorities who had submitted an interest were required to provide full governance arrangements to CLG by 19 October 2012. This date has now been extended to 9 November 2012. CLG have confirmed that the submission required by the 9 November can include Kettering within the proposed Northamptonshire Pool should members decide this is something they would like to pursue. As a result, discussions are taking place with the other local authorities in the County to see whether the governance arrangements for the pool can be designed to meet the 3 guiding principles. If this is possible, members can then be in a position to decide whether to participate in a Northamptonshire Pool for 2013/14 or subsequent years.
- 6.7 Further details regarding Pooling will be reported back to the November Executive meeting, whereby the Executive can consider the issue further.
- 6.8 It should be remembered that the submission of further information to CLG for the proposed creation of a Northamptonshire Pool does not guarantee that a Pool will come into being. CLG will evaluate all the submissions across the Country and decide which it will allow to go ahead for 2013/14. CLG have also confirmed that local authorities that put their names to Pool proposals by the deadline date of 9<sup>th</sup> November, can effectively pull out if they do not wish to participate once their funding allocation for the next year is known – however, if a local authority does withdraw from a Pool at that point, the whole Pool cannot proceed.

### Council Tax Support Scheme

- 6.9 As previously reported to the Committee, the Government has previously announced that, as part of the Comprehensive Spending Review, from April 2013, Council Tax Benefit will be replaced with a Council Tax support scheme.

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Unlike Council Tax Benefit (CTB) which is set and fully funded by Central Government, the new Council Tax support scheme must be defined by individual Local Authorities (albeit with much central prescription), and the cost falls to local authorities but with a cash grant to authorities to help offset the cost now being transferred.

- 6.10 Crucially, as part of CSR, the intention by Government is to pass on a cash grant, which covers part of the current cost. We currently estimate that our funding shortfall will be around 15% - or £880,000 from April 2013. This is significantly greater than the 10% the Government had previously indicated .
- 6.11 A special meeting of the Executive took place on 13<sup>th</sup> August 2012 to look at the options available to the Council. At that meeting, a scheme was identified upon which a statutory consultation process will focus upon. The scheme identified by members included the following;
- a. Discounts and Exemptions – that the 15% funding gap would be ‘closed’ through reducing / removing Council Tax Discounts and Exemptions (where possible).
  - b. Other Specific Scheme Changes – any remaining funding gap (including the creation of a ‘buffer’) would be closed through specific changes to the way that the current Council Tax Benefit scheme operates. Such changes will directly impact on the level of benefits paid out to specific categories in the future.
- 6.12 Following the Committee decision, the Council commenced a formal eight week consultation process that ends on 31<sup>st</sup> October, following the closure of the consultation all responses received will be considered and will help inform a report to the Executive Committee in December. A final decision for a Local Council Tax Support scheme will be made by Full Council in January 2013.

## **7 CONSULTATION AND CUSTOMER IMPACT**

- 7.1 None as a direct consequence of this report. However members are reminded that the formal budget consultation period is from 16<sup>th</sup> January 2013 to 27<sup>th</sup> February 2013 when the Council sets its Council Tax for 2013/14. Comments from the consultation process will be reported to the Executive for consideration at it’s meeting on 13<sup>th</sup> February 2013.

## **8 POLICY IMPLICATIONS**

- 8.1 None as a direct consequence of this report.

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## **9 USE OF RESOURCES**

9.1 None as a direct consequence of this report.

## **10. RECOMMENDATIONS**

That the Executive;

- a. Endorse the change to the modelling for recovery principle as outlined in 2.5;
- b. Note the Council's Medium Term Financial Strategy and associated guiding principles;
- c. Note the current Medium Term Financial Forecast and the progress being made for the delivery of efficiency savings for 2012/13 and future years;
- d. Note the Treasury Management performance for the period 1 April – 30 September.
- e. Continues to recognise the significance of changes facing the authority beyond April 2013.
- f. Note the Council's position on Pooling Business Rates.

### Background Papers:

Title of Document: Various

Contact Officers: M Dickenson

### Previous Reports/Minutes:

Monthly Durable Budget Reports