

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	<i>Fwd Plan Ref No:</i> A13/006	
Wards Affected	All	11 December 2013	
Title	MAINTAINING A DURABLE BUDGET		

Portfolio Holder: Cllr I Jelley

1. PURPOSE OF REPORT

This report provides a reminder / update of the following core issues:

- a. Provide Members with a case study on Green Energy within the Borough;
- b. Remind Members of the Council's medium term financial strategy and associated guiding principles;
- c. Illustrate the latest budget model, the delivery of efficiency savings for 2013/14 and the estimated level of budget savings that may be required over the next few years;
- d. Provide Members with a reminder on the proposed changes and work being undertaken in respect of the New Homes Bonus scheme.

2. CASE STUDY

2.1 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 Training
- ◆ Partnership work with the Citizens Advice Bureau.
- ◆ VAT recovery
- ◆ Prevent Strategy funding
- ◆ Flexible Working
- ◆ Printing Function
- ◆ Market
- ◆ Managing homelessness
- ◆ Staff Sessions
- ◆ Attracting External Funding to the Borough
- ◆ Fleet Procurement

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2.2 The case study in this report highlights the investment being made in Green Energy within the Borough.

Case Study

First Renewable Developments (FRD) have started work on a game changing £45 million extension to the Burton Wold Wind Farm.

In addition to the existing wind turbines there will be an additional nine high efficiency wind turbines, supplied by General Electric (GE).

The new turbines effectively harness double the energy that could be generated from the previous turbines and are among the first of their type to be installed in Europe.

In short, this exciting £45 million investment will mean that:

- ◆ In excess of 14 Megawatts of cleaner, green energy capacity will be installed
- ◆ The wind farm alone will provide green power equivalent to the required energy needs of around 11,000 homes
- ◆ The Development sees a project investment of around £45m in High Performance Renewable Energy
- ◆ The site will be an exemplar reference site for the new technology

The wind farm will provide over £300,000 for community projects over its life, and has the potential to make a significant positive contribution to the East of Kettering development in terms of housing and employment.



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3. **BACKGROUND**

3.1 At the March Executive meeting Members approved that the budget delivery framework used in the three previous budget rounds be used for the preparation of the 2014/15 budgets. Specifically, members approved;

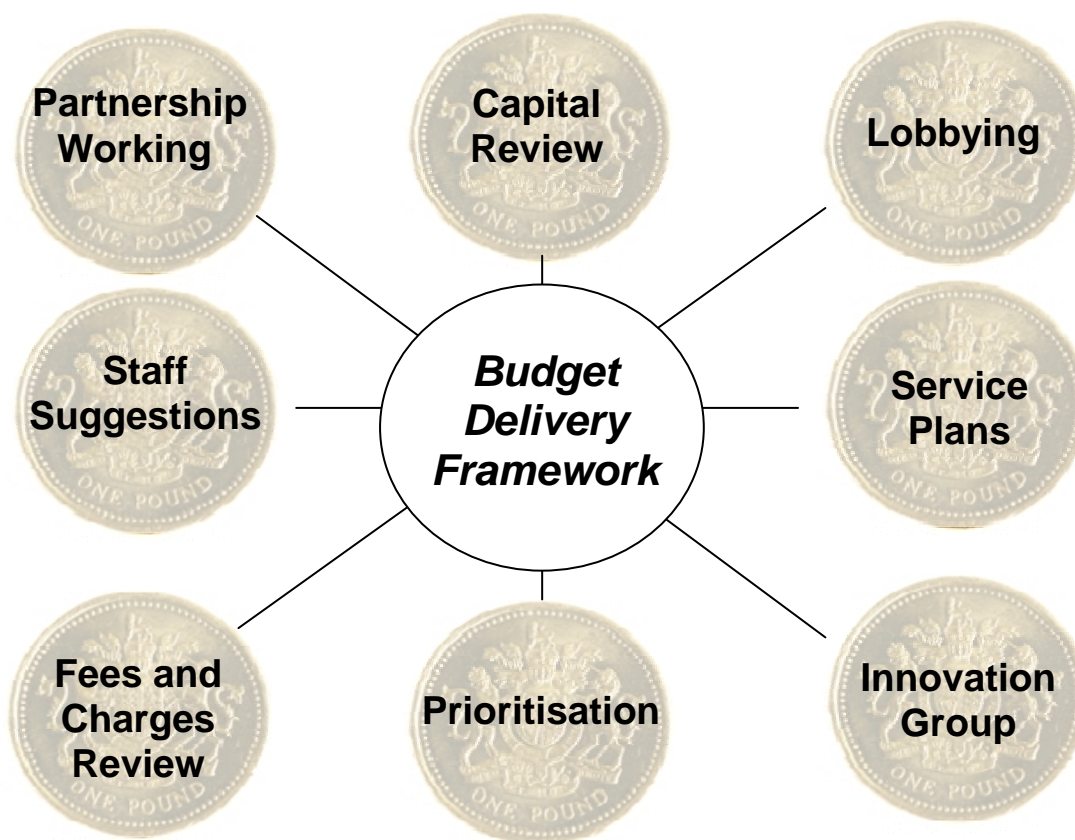
“that the same methodology be applied to the formulation of the 2014/15 budget as it applied to the 2013/14 budget, with particular reliance on:-

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

3.2 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.

3.3 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;

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3.4 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;*
- d. *When setting the Capital Programme, consideration is given to allocating capital resources to schemes that are beneficial to the Council's overall revenue budget position;*

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- e. *To maximise the resources available to the Authority, the Council will actively lobby the Government on relevant issues (e.g. grant distribution/ planning fees).*

Modelling for Recovery principles:

- 1. Wherever possible, continue with all planned investments and programmes, to protect the local economy and lever in other investments;*
- 2. Given the strength of our Treasury position we should consider debt funding as a means of programme delivery or stimulus – if this can be shown to be sustainable and have a wider economic benefit;*
- 3. Organise our fiscal structures and business models to attract and retain the maximum amount of revenue within the local economy;*
- 4. To ensure all possible avenues are used within procurement rules to source locally;*
- 5. Protect the performance of Council services which come under particular strain;*
- 6. Work closely with partners in the voluntary, public and private sectors, to ensure optimum efficiency*

Budget Containment Strategy:

- 1. Where a specific grant which funds a specific service is withdrawn, the service stops;*
- 2. Where grant funding reduces, which Kettering Borough Council passports through to another organisation, the reduced sum continues to be passported, providing the end recipient organisation feels it can still provide a value-added service at that funding point.*
- 3. Where a function is transferred to another provider, the Council leaves all service-provision discussions, including any top-up funding, with the new provider;*
- 4. The Council would ordinarily neither seek to buffer nor profit from tax changes.*
- 5. The Council should not substitute itself as a provider / funder of services when another public provider cuts such a service.*

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4 **MEDIUM TERM FINANCIAL FORECAST**

4.1 The Council's latest Medium Term Financial Forecast is shown in Table 1. Members are reminded that the forecast comprises the following 'Zones'.

- ◆ **Zone of Predictability** (2013/14 and 2014/15) – The provisional level of government funding has previously been announced for 2014/15, however there continues to be two significant areas of volatility being the Business Rates Retention Scheme and Council Tax Support which we will continue to monitor closely.
- ◆ **Zone of Unpredictability A** (2015/16) – The headline reductions in Departmental control totals were announced by the Chancellor on 26 June 2013 and further announcements regarding individual allocations are expected later this year.
- ◆ **Zone of Unpredictability B** (2016/17 – 2018/19) – Spending reviews over the next few years will provide the level of funding available for this period.

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TABLE 1 - MEDIUM TERM FINANCIAL FORECAST

		Zone of "Predictability"		Zone of "Unpredictability" A	Zone of "Unpredictability" B		
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
		Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000
1	Net Council Budget	12,174	11,781	11,111	10,666	10,351	10,019
2	Forecast Resources:						
	Government Grant:						
2a	RSG	(3,034)	(2,222)	(1,649)	(1,180)	(749)	(352)
2b	Business Rates	(2,205)	(2,277)	(2,341)	(2,411)	(2,483)	(2,557)
	Total Government Grant	(5,239)	(4,499)	(3,990)	(3,591)	(3,232)	(2,909)
	Council Tax / Coll'n Fund	(50)	(25)	(25)	(25)	(25)	(25)
	Income From Council Tax	(5,778)	(5,806)	(5,835)	(5,864)	(5,893)	(5,921)
	Total Resources	(11,067)	(10,330)	(9,850)	(9,480)	(9,150)	(8,855)
3	Budget (Surplus) / Deficit	1,107	1,451	1,261	1,186	1,201	1,164
4a	Council Tax Grant	(158)	(158)	0	0	0	0
5	Budget Frameworks	(949)	(1,293)	0	0	0	0
6	Savings - To be secured	0	0	(1,261)	(1,186)	(1,201)	(1,164)
7	Budget (Surplus) / Deficit	0	0	0	0	0	0

GENERAL FUND WORKING BALANCE

		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
		£000	£000	£000	£000	£000	£000
8	Estimated Opening Balance	(1,415)	(1,480)	(1,545)	(1,545)	(1,545)	(1,545)
4b	Council Tax Grant 13/14	(65)	(65)	0	0	0	0
9	Estimated Closing Balance	(1,480)	(1,545)	(1,545)	(1,545)	(1,545)	(1,545)

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

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

The following assumptions have been made about future levels of government grant:

2014/15	(14.1%)
2015/16	(14.3%)
2016/17	(10.0%)
2017/18	(10.0%)
2018/19	(10.0%)

- 3 Budget (Surplus) / Deficit** – This illustrates the gap between the budget and the total resources available before identifying budget framework savings.
- 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 2013/14** – This is a grant the Council receives from central government for two years in return for freezing Council Tax in 2013/14. This is equivalent to the cash that would have been received if a 1% increase had been levied. A Council Tax Freeze has ongoing implications as an increase in Council Tax generates income year on year.
- 5 Budget Frameworks** – This identifies the total savings required.
- 6 Savings to be secured** – This identifies the total resources required to balance the budget in future years after 2013/14.

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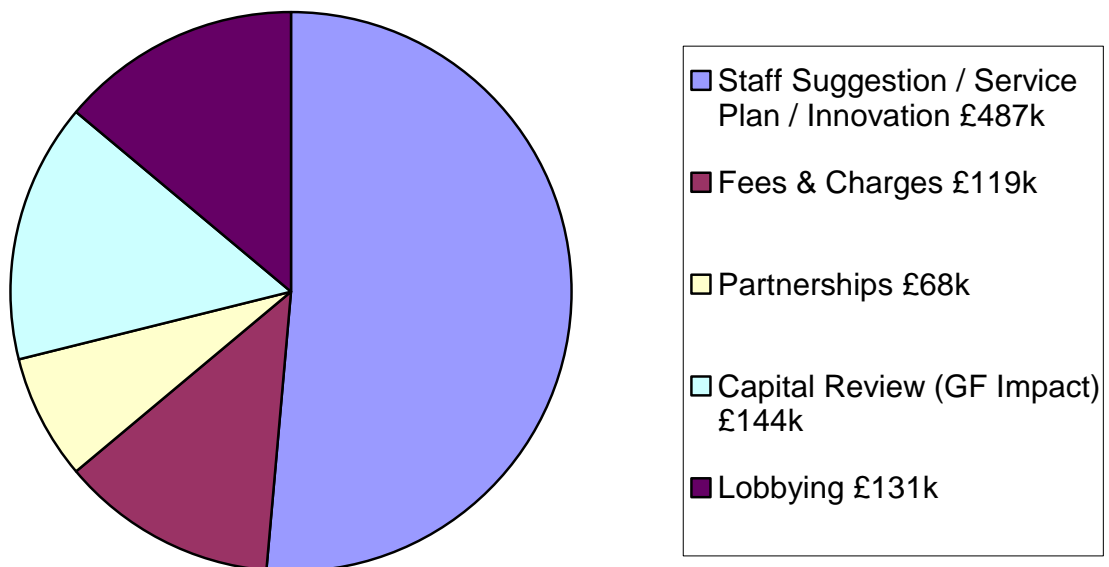
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5 BUDGET UPDATE

GENERAL FUND – 2013/14

- 5.1 From the last budget process, Members will recall that additional ongoing savings of £949,000 were required for 2013/14. These savings are identified in the chart below:

Identified Framework Savings 2013/14



- 5.2 Whilst the savings made give confidence that the Council remains “ahead of the curve” in delivering the Medium Term Financial Strategy. Members have previously been advised about the significant changes to local government funding and the risk transfer from central government to local government.

Such risks include:

- ◆ Business Rates Volatility
- ◆ Council Tax Benefits Volatility

- 5.3 During the budget process, members were informed of a number of ‘big ticket’ items. These are typically items of large value that could have a disproportionate impact on the Council's budget if they moved in an adverse fashion. Consequently these are monitored very closely and members and officers may occasionally try to influence (through lobbying) any changes that may take place especially when such changes are triggered through changes in national policy. These items are included in the Councils Swing – o – meter as detailed at Appendix A.

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- 5.4 The potential transfer of New Homes Bonus funding is a significant risk to all local authorities and further details regarding this are contained in Section 7.
- 5.5 Members will recall that the Medium Term Financial Forecast in Table 1 was updated in September 2013 to reflect indicative allocations that were published by the DCLG in the summer for 2014/15 and 2015/16, these are summarised in the Table below.

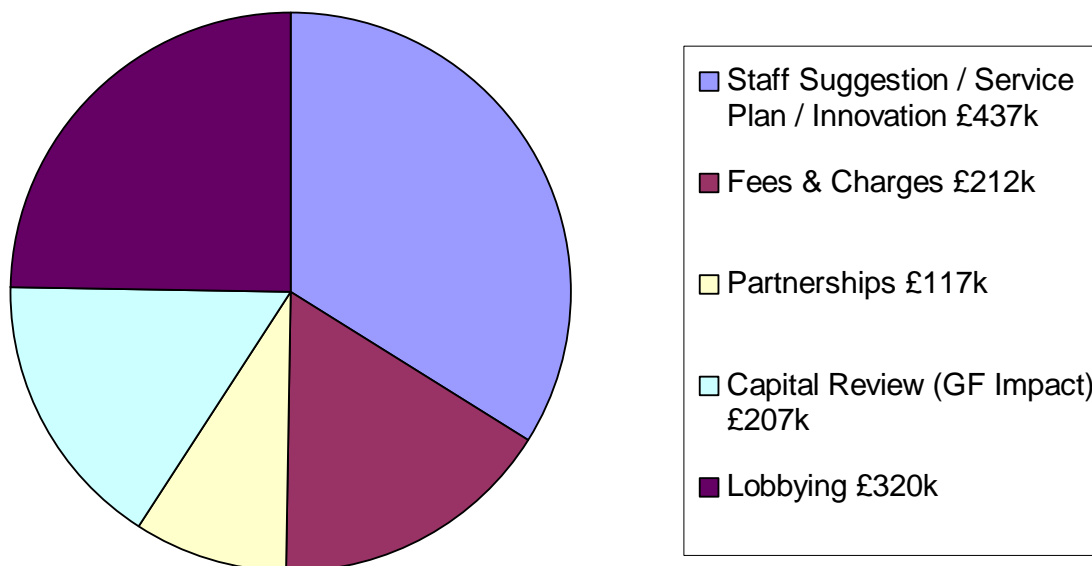
MTFS - Government Grant Assumptions			
	2014/15	2015/16	2016/17, and annually thereafter
Changes in Grant	-14.1%	-14.3%	-10%

- 5.6 The Financial Settlement for 2014/15 is expected shortly before Christmas. For the second year running the settlement is much later than in previous years, however it is not anticipated the provisional figures will differ to those announced by the Government in the summer.
- 5.7 The Council's budget delivery framework has identified savings of £1,293,000 in 2014/15 enabling a balanced budget to be delivered (prior to the announcement of the provisional grant settlement). These savings are identified in the chart below:

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Identified Framework Savings 2014/15



5.8 The Council's impressive record in identifying and delivering efficiency savings in the past four years, including the current year (2013/14), are around £5.5m –as illustrated in Table 2;

Table 2 – Efficiency Savings	£000
2010/11	1,260
2011/12	1,910
2012/13	1,330
Total	4,500
2013/14	950
Total	5,450
% Cash Savings (Net Budget)	50%

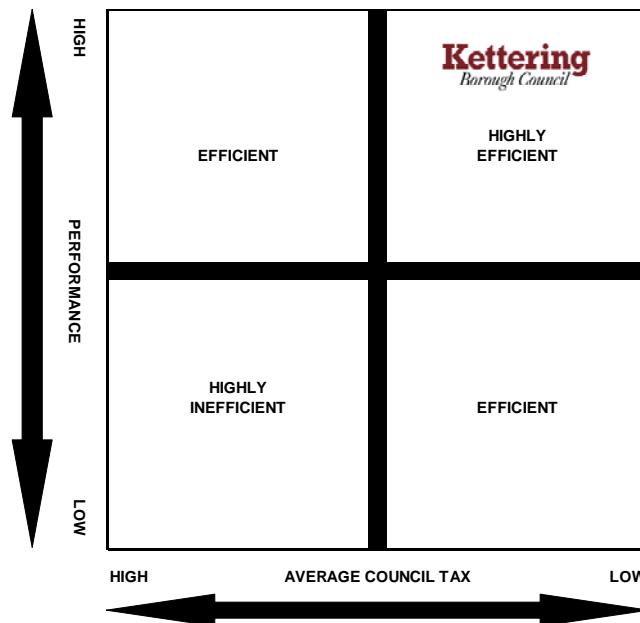
5.9 The scale and delivery of this level of **efficiency savings is particularly impressive given that there has been no detrimental impact on the delivery of front line services** and when considering the increased costs of utilities and inflation levels. Over the four year period (as detailed in Table 2) the efficiency savings will be equivalent to approximately **50% (65% in real terms)** of the Council's draft net budget (which stands at £11m for 2013/14).

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5.10 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 £5.450m in the past four years, the Council's level of council tax charged remains below the national average and performance remains above average.

5.11 Members will recall the following illustration that summarises the Council's overall position as being a 'high performing / low cost' local authority.



5.12 Members are reminded that year on year savings of this magnitude have and will continue to take capacity out of the organisation. The priority has been front line delivery and accordingly members may notice a reduction in some areas of internal delivery, for example, internal response times are likely to be longer and there is likely to be an impact on our capacity to influence longer term strategic issues.

HOUSING REVENUE ACCOUNT 2013/14 – CURRENT FINANCIAL YEAR

5.13 A summary of HRA monitoring at 30th November is shown in Table 3. The Housing Revenue Account is currently projected to come in on budget.

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Table 3 - HRA	Approved Budget	Projected Outturn	Variance
	£	£	£
Gross Expenditure	15,207,750	15,207,750	0
Gross Income	(15,207,750)	(15,207,750)	0
Net Expenditure	0	0	0

CAPITAL 2013/14 – CURRENT FINANCIAL YEAR

5.14 A summary of the projected Capital Programme outturn monitoring statement as at 30th November 2013 is shown in Table 4;

Table 4 - Capital	Approved Budget	Projected Outturn	Variance
	£	£	£
Expenditure			
HRA Schemes	4,346	4,346	0
General Fund Schemes	6,336	6,336	0
	10,682	10,682	0
Financing			
Government Grants	4,515	4,515	0
Prudential Borrowing	5,482	5,482	0
Revenue Contribution	420	420	0
Capital Receipts	265	265	0
	10,682	10,682	0
Net Expenditure	0	0	0

6 AUTUMN STATEMENT 2013

6.1 The Chancellor of the Exchequer is presenting the Autumn Statement to Parliament on 5th December 2013. A verbal update will be provided at the Executive meeting on the key announcements likely to impact on Kettering Borough Council.

7 NEW HOMES BONUS

7.1 The Government introduced the New Homes Bonus scheme in 2011 following a detailed consultation process with Local Government. Members were advised at the time that KBC representatives worked closely with CLG officials in helping devise a 'simple' and transparent' scheme.

7.2 The scheme was intended to reward local authorities for the delivery of new houses through the payment of a bonus. The payment was equivalent of the average council tax in England and for each new home it was payable each

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year for six years. In two tier areas, the payments were split 80% to District's and 20% to Counties.

- 7.3 In effect the funding mechanism changed from being a 'population' driven formula to one that incentivised the delivery of new houses.
- 7.4 The Executive Committee revised its strategy for the use of New Homes Bonus funding at its September meeting. In effect a phased strategy is being applied that will result in around 60% of total New Homes Bonus funding being used to support the Council's revenue account.
- 7.5 Despite the scheme only being introduced in 2011 and the Government recently saying that the New Homes Bonus was a permanent feature of the local government finance system, it was announced in July a consultation was being undertaken which might result in £400m (of the £1,140m set aside nationally) being 'top sliced' from the national pot for New Homes Bonus – the intention being to pay the money directly to LEPS rather than local authorities.
- 7.6 The Government issued a consultation document in July seeking views on 'how' (rather than 'if') the 'pooling' or 'top slice' of funding should operate in practice. The consultation closed on 19 September 2013 and the Council responded to this consultation and this was reported to the September Executive meeting.
- 7.7 At its peak, it is currently estimated that KBC will earn £2.1m from New Homes Bonus in 2016/17 (the peak year). If the top-slice to LEPs happens, KBC will have to give up about £600,000 of this each year (this amounts to £3.6m in cash over the full six years the award is received).
- 7.8 The £600,000 p.a. 'top slice' equates to the Council's estimated funding from New Homes Bonus being reduced by approximately 28%. Although the Council's medium term financial strategy has sufficient headroom to 'accommodate' this, it must be stressed that it will be a proper cash reduction in grant that will have a negative impact on the amount of one-off stimulus funding that would otherwise be available for investment into the borough.
- 7.9 Whilst the Council recognises the Governments objective of creating a Local Growth Fund through the LEPS, it firmly believes a purposeful dialogue is needed between local and central government on how the £400m is transferred from local government budgets this is something KBC representatives are looking to work closely with CLG officials on.
- 7.10 The current proposal to fund a Local Growth Fund from the New Homes Bonus is merely a redistribution of existing "growth" budgets and not a reprioritisation. It is vital that a more acceptable source of funding can be identified to meet the Government's previously stated commitments without undermining the objective of accelerating housing delivery.

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7.11 The proposed changes will not come into effect until 2015/16 there is sufficient time to design alternative and more appropriate schemes and ones that will not act as a disincentive to growth and will allow previous political commitments (at both national and local levels) to be met. It is important that the system recognises that those who deliver most pay least - this strengthens the incentive to deliver.

7.12 A verbal update will be provided at the Executive meeting following any announcements made by the Chancellor of the Exchequer in the Autumn Statement regarding New Homes Bonus.

8 CONSULTATION AND CUSTOMER IMPACT

8.1 None as a direct consequence of this report. However members are reminded that the formal budget consultation period is from 15th January 2014 to 26th February 2014 when the Council sets its Council Tax for 2014/15. Comments from the consultation process will be reported to the Executive for consideration at it's meeting on 12th February 2014.

9 POLICY IMPLICATIONS

9.1 None as a direct consequence of this report.

10 USE OF RESOURCES

10.1 As outlined in the report.

11. RECOMMENDATIONS

That the Executive;

- a. Note the investment being made into renewable energy;
- b. The Council's Medium Term Financial Strategy and associated guiding principles be noted;
- c. Note the Council's current Medium Term Financial Forecast and the progress being made for the delivery of efficiency savings for 2014/15 and future years;
- d. The current position and lobbying work being undertaken on New Homes Bonus be endorsed.
- e. To consider any implications in respect of the Autumn Statement and consider them as the budget process progresses.

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Background Papers:

Previous Reports/Minutes:

Title of Document: Various
Contact Officers: M Dickenson

Monthly Durable Budget Reports