

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	<i>Fwd Plan Ref No:</i> A15/028	
Wards Affected	All	11 th November 2015	
Title	MAINTAINING A DURABLE BUDGET		

Portfolio Holder: Cllr J Smith

1. PURPOSE OF REPORT

This report provides the following:

- a. A summary of the case studies reported as part of the 2016/17 budget process;
- b. A reminder of the Council's medium term financial strategy and associated guiding principles;
- c. An illustration of the latest budget model, the delivery of efficiency savings for 2015/16 and the estimated level of budget savings that may be required over the next few years;
- d. An outline budget timetable for 2016/17;
- e. An update regarding major changes for the future funding of local government.

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

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2.2 Through the monthly durable budget report a number of case studies have been included that highlight the financial benefit being received from various operational changes or external funding the Council has secured. The following table brings together the case studies that have been reported as part of 2016/17 budget process:

Month	Description
Oct 15	<p>Recycling & Waste</p> <p>The Council's waste and recycling collection service is delivered in house. The Council was contacted by a neighbouring authority who had outsourced their waste and refuse collection service and required interim assistance to enable them to meet their statutory requirements as a collection authority after difficulties with that contract.</p> <p>As a result of our service being delivered in house, this Council was able to provide support at no cost to the local taxpayer and the neighbouring authority was able to ensure the service was delivered.</p>
Sept 15	<p>Markets</p> <p>In August 2011 Kettering Borough Council took over market operations implementing new operating procedures, rules, charges and branding resulting in pitch "sales" doubling in the first year.</p> <p>In May 2013 £19,500 was invested into 20 new stalls and associated equipment. The income from this investment has been around £48,000.</p> <p>This investment has enabled the Flea market to quadruple in size and has facilitated the growth of the existing general market and specialty markets such as the Teenage Market and Small Business Saturday.</p>
July 15	<p>External Funding – Grafton Street Park</p> <p>The Council secured a grant of £49,000 from WREN for a new play area which included a wide variety of equipment, as well as a selection of fitness equipment and two five-a-side goals to create a new football area to further encourage healthy play activities.</p> <p>Other works to improve the park include a separate dog walking area.</p>

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Month	Description
June 15	<p>Attracting External Funding</p> <p>A successful bid was submitted to the Government by Kettering Borough Council on behalf of a partnership of local councils comprising the Borough and District Councils of Corby, East Northamptonshire, Kettering and, Wellingborough, as well as Northamptonshire County Council.</p> <p>The funding, which amounts to £750,000 is being used to help deliver responsible, managed and infrastructure-led growth across the North of Northamptonshire. This growth includes housing, education, leisure, transport, retail and business growth.</p>

3. **BACKGROUND**

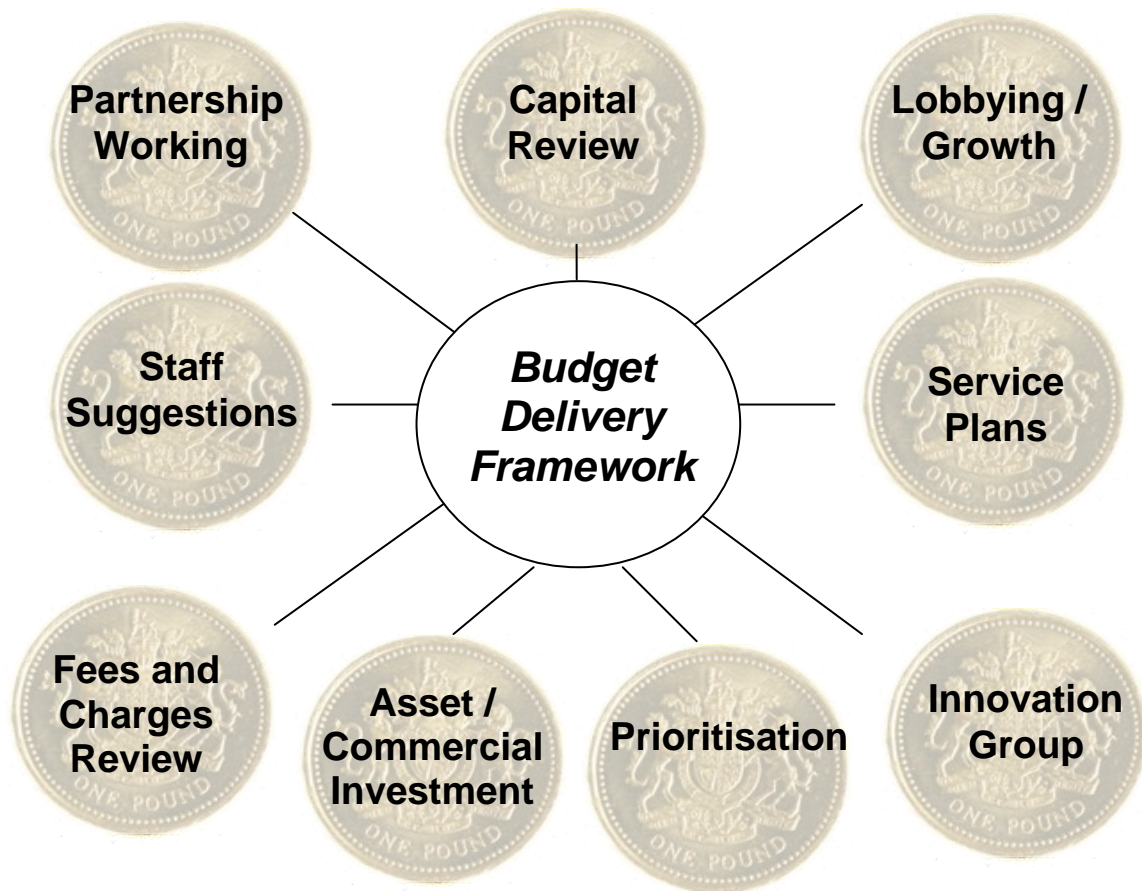
- 3.1 At the March Executive meeting Members approved that the budget delivery framework used in the five previous budget rounds be used for the preparation of the 2016/17 budgets. Specifically, members approved;

“that the same methodology be applied to the formulation of the 2016/17 budget as it applied to the 2015/16 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 opportunities for commercial investment were considered by the Executive at the March meeting and Members endorsed the adaption of our current financial strategy to embrace a systematic and measured approach towards developing a balanced portfolio of revenue generating assets. This approach is going to become increasingly important if the Council is to continue to deliver a balanced budget. The framework now consists of nine workstreams following the addition of the Asset / Commercial Investment Framework at the June Executive meeting – as illustrated in the following chart;

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

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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Prioritisation 'Golden Rules':

1. *Revenue Impact – The item should have a positive **material and causal** impact on the Council's revenue budget over the medium term. The impact should be material in nature.*
2. *Fit with Key Priorities - There should be a direct and causal impact upon the achievement of the Council key priorities of;*
 - *Better Town Centres*
 - *Better Jobs*
 - *Better Educational Offer*
3. *Risk and Return Profile - The item / project should fit the Council's risk and return appetite and also complement the overall portfolio of investment / assets.*
4. *Investment Leverage - The item / project should ideally act as either an 'invest to save' type project or one that 'pump primes' other significant investment into the borough.*
5. *Self Sufficiency - Given the continuing trend of reduction in central government grants, priority will be given to projects that assist in the Council moving further towards financial self-sufficiency.*
6. *Strategic Partnerships - The item should generally have a positive impact on the Council's strategic partnerships and the Council's long term strategic ambitions for the borough – eg, town centre development. In particular – items that support and help develop 'scope' rather than 'scale' will be prioritised.*

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4 MEDIUM TERM FINANCIAL FORECAST

4.1 The Council's current Medium Term Financial Forecast is reproduced in Table 1.

TABLE 1 - MEDIUM TERM FINANCIAL FORECAST							
		Zone of "Predictability"	Zone of "Unpredictability"				Severe Unpredictability
		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
		Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000	Forecast £000
1	Net Council Budget	11,696	11,012	10,189	9,695	9,203	8,766
2	Forecast Resources:						
	Government Grant						
2a	Revenue Support Grant	(1,736)	(1,070)	(441)	153	716	1,250
2b	Business Rates	(2,244)	(2,311)	(2,380)	(2,451)	(2,525)	(2,601)
	Total Government Grant	(3,980)	(3,381)	(2,821)	(2,298)	(1,809)	(1,351)
	Council Tax / Coll'n Fund	(100)	(100)	(100)	(100)	(100)	(100)
	Income From Council Tax	(6,037)	(6,067)	(6,098)	(6,129)	(6,160)	(6,191)
	Total Resources	(10,117)	(9,548)	(9,019)	(8,527)	(8,069)	(7,642)
3	Budget (Surplus) / Deficit	1,579	1,464	1,170	1,168	1,134	1,124
4a	Council Tax Grant	0	0	0	0	0	0
5	Savings Identified	(1,579)	(1,050)	0	0	0	0
6	Savings - To be Identified	0	(414)	(1,170)	(1,168)	(1,134)	(1,124)
7	Budget (Surplus) / Deficit	0	0	0	0	0	0
GENERAL FUND WORKING BALANCE							
		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
		£000	£000	£000	£000	£000	£000
8	Estimated Opening Balance	(1,415)	(1,505)	(1,505)	(1,505)	(1,505)	(1,505)
4b	Council Tax Grant 14/15	(65)	0	0	0	0	0
4c	Council Tax Grant 15/16	(65)	0	0	0	0	0
4d	Town Centre Initiatives	40	0	0	0	0	0
9	Estimated Closing Balance	(1,505)	(1,505)	(1,505)	(1,505)	(1,505)	(1,505)

The zone for the 2020/21 financial year is titled '**Severe Unpredictability**' as this is when the Business Rates Retention Scheme is set to change not least due to the expected reset. These changes are likely to impact on the funding received from Business Rates.

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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. 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; these assumptions are a combination of the average percentage and cash reduction over the past five years, the figures in brackets show the annual percentage reduction in grant.

2016/17	Reduced by 6.50% plus a further £340,000 (15%)
2017/18	Reduced by 6.50% plus a further £340,000 (17%)
2018/19	Reduced by 6.50% plus a further £340,000 (19%)
2019/20	Reduced by 6.50% plus a further £340,000 (21%)
2020/21	Reduced by 6.50% plus a further £340,000 (25%)

2a / 2b Revenue Support Grant / Business Rates - Following the introduction of the Business Rates Retention Scheme the local share of business rates will be uplifted by RPI each year until the system is reset in 2020 this is shown in line 2b. The full reduction in grant is therefore applied to the element that is provided through the Revenue Support Grant, which is detailed in Line 2a.

- 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 2014/15** - This is a grant the Council receives from central government for two years in return for freezing Council Tax in 2014/15.

- 4c **Council Tax Grant 2015/16** - This is a grant the Council receives from central government for one year in return for freezing Council Tax in 2015/16. A Council Tax Freeze has ongoing implications as an increase in Council Tax generates income year on year.

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- 4d** *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.
- 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 2015/16.

- 4.2 Based upon the figures in the Council's Medium Term Financial Strategy (Table 1) it can be seen that the following levels of ongoing savings are predicted over the new few years (prior to the consideration of any increase in council tax);

2016/17	£1,464,000
2017/18	£1,170,000
2018/19	£1,168,000
2019/20	£1,134,000
2020/21	<u>£1,124,000</u>
Total	<u>£6,060,000</u>

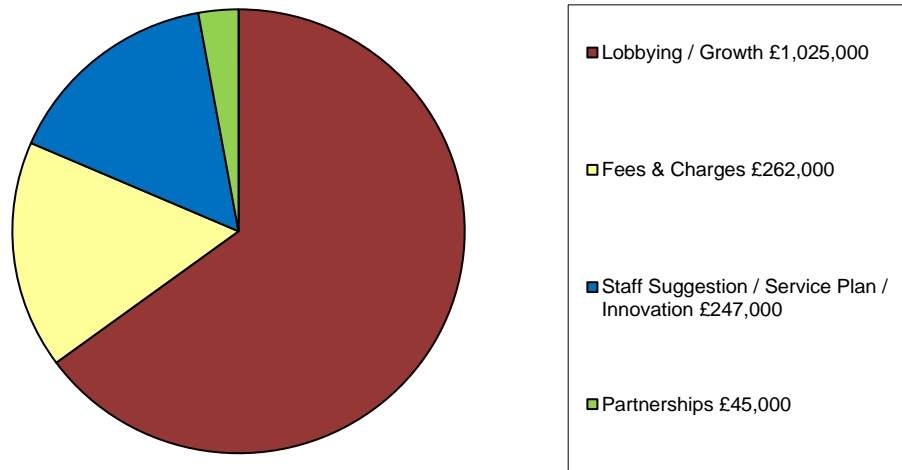
GENERAL FUND 2015/16

- 4.3 As reported to the Council in the February 2015 budget report, The Council's budget delivery framework will need to deliver £1,579,000 of savings in 2015/16 to maintain a balanced budget. The savings have been identified in full and are in the process of being delivered. As previously reported to members, the Council remains confident that it can deliver the identified savings for 2015/16 – these are summarised in Chart 1:

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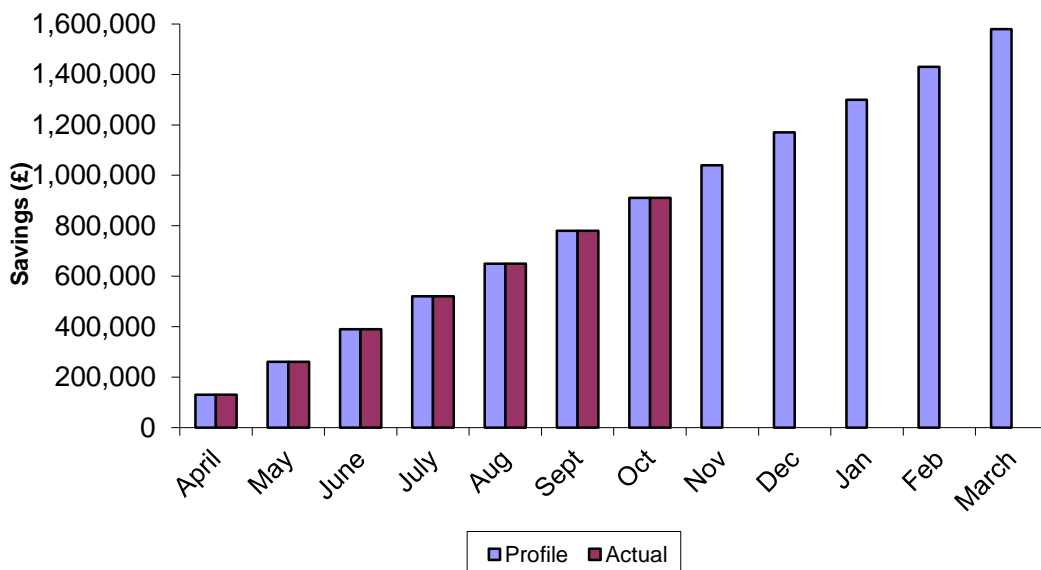
Chart 1 - Identified Framework Savings for next Year (2015/16)



4.4 By reference to Table 1, it can be seen from line 5 that the Council has identified ongoing budget savings of £1.579m

4.5 Chart 2 shows the actual realisation of the 'cash' savings against the target for the year. It can be seen that as well as the £1.579m having now been identified and embedded into the budget it is also on schedule in terms of its cash delivery throughout the year.

Chart 2 - 2015/16 Savings Monitoring - Cash Realised



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- 4.6 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.
- 4.7 There are a number of significant changes to the original swing-o-meter, these changes have been reflected in the revised version included at Appendix A – in particular the following:

	Original Range	Projected Range	Reason
Planning Fees	- £200,000 to + £200,000	+ £200,000 to + £300,000	An increase in the volume of planning applications and a number of major applications being received.
Recycling Commodities	- £200,000 to + £100,000	-£300,000 to -£200,000	A reduction in income for recycling commodities resulting from a general fall in national and global prices.

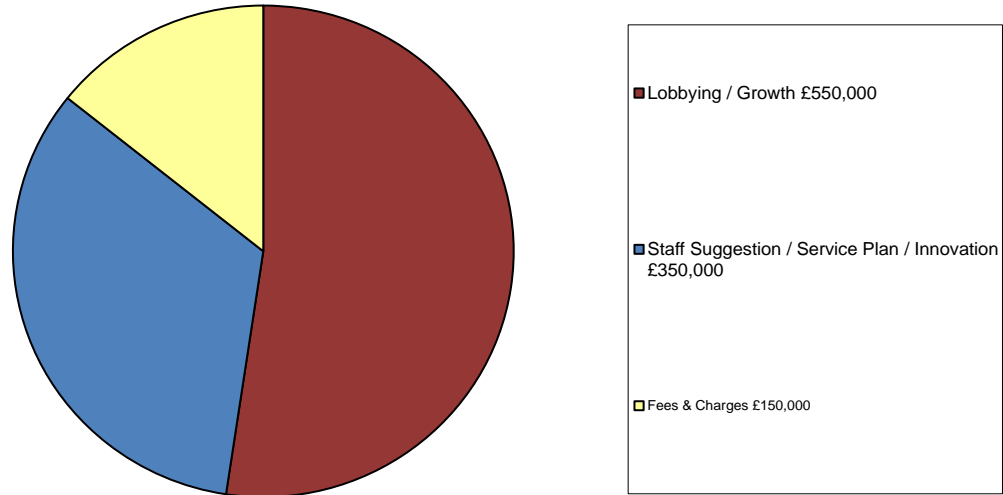
GENERAL FUND – 2016/17

- 4.8 As well as monitoring framework savings identified for 2015/16 work continues on identifying savings for the following year – 2016/17. Members are reminded of the current Medium Term Financial Forecast which required an additional £1,464,000 of savings to balance the budget in 2016/17.
- 4.9 Savings of £750,000 have previously been reported to the October Executive and a further £300,000 of additional ongoing savings have now been resilience checked and included in the model, therefore the identified savings total £1,050,000. Work continues in analysing and resilience checking the remaining amount. Chart 3 illustrates the composition of the £1,050,000.

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Chart 3 - Identified Framework Savings for next Year (2016/17)



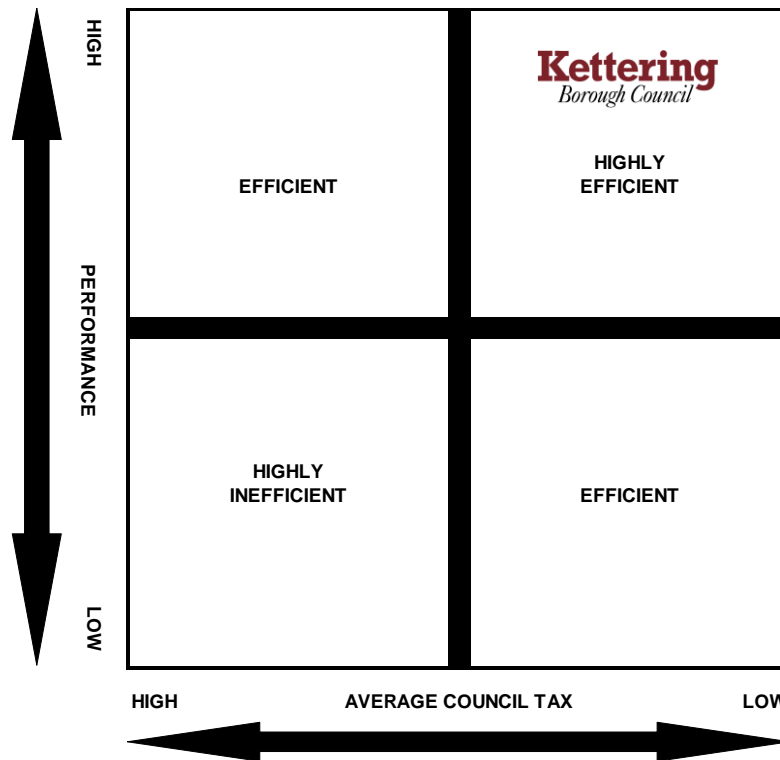
4.10 The Council's impressive record in identifying and delivering efficiency savings over the past six years, (including the current year - 2015/16), are around **£8.360m** - as illustrated in Table 2;

Table 2 – Efficiency Savings	£000
2010/11	1,260
2011/12	1,910
2012/13	1,330
2013/14	950
2014/15	1,330
Total	6,780
2015/16	1,580
Total	8,360
% Cash Savings (Net Budget)	82%

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- 4.11 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 six year period (as detailed in Table 2) the efficiency savings are equivalent to approximately **82%** of the Council's net budget (which stands at £10.1m for 2015/16).
- 4.12 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 £8.360m in the past six years, the Council's level of council tax charged remains below the national average and performance remains above average.
- 4.13 Members will recall the following illustration that summarises the Council's overall position as being a 'high performing / low cost' local authority.



- 4.14 The above position was achieved before the Council decided to have no increase in Council Tax in 2011/12 (and before any aspirations for subsequent Council Tax freezes). Members are reminded that despite having no increase in Council Tax in 2011/12 and despite having to deliver the level of efficiency savings (as outlined in Table 2), the Council's performance in key priority areas remains 'above average'. Given this context, to maintain the Council's position

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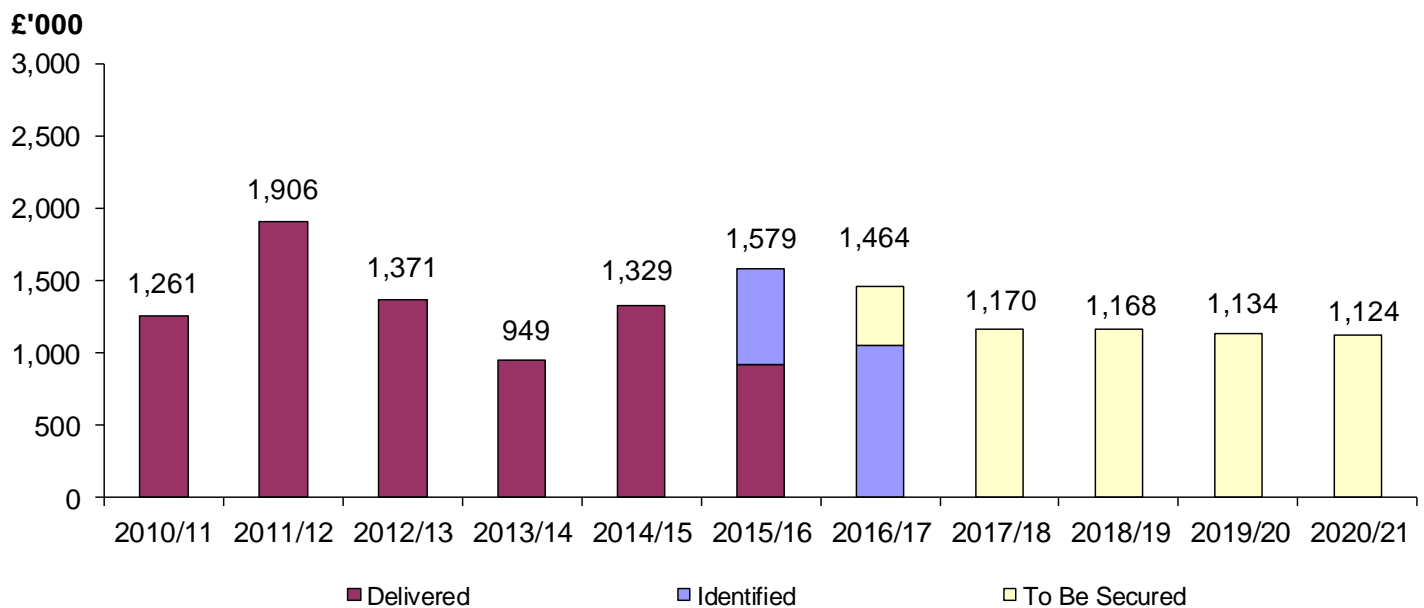
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as a high performing whilst being a low cost local authority has been a significant achievement and has not happened by accident.

4.15 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing savings targets going forward are at least of a similar scale to those already met, the following chart shows:

- Savings of £6.780m have been identified and delivered between 2010/11 – 2014/15;
- Savings of £1.580m have been identified but need to be delivered in 2015/16;
- Savings of around £6m need to be identified and delivered over the next five years (2016/17 – 2020/21).

Efficiency Savings



HOUSING REVENUE ACCOUNT 2015/16 – CURRENT FINANCIAL YEAR

4.16 A summary of HRA monitoring at 30th September is shown in Table 3. The Housing Revenue Account is currently projected to come in around £80,000 less than budget. The main variance relates to income being around £40,000 greater than budget this results from the number of Right to Buy sales being lower than budgeted and improved void times.

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Table 3 - HRA	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,954	15,912	(42)
Gross Income	(15,954)	(15,994)	(40)
Net Expenditure	0	(82)	(82)

4.17 Members will recall that at September's Executive they received an update report on Housing Finance. A separate report on this agenda provides an update regarding the proposed use of 1 4 1 capital receipts.

CAPITAL 2015/16 – CURRENT FINANCIAL YEAR

4.18 A summary of the projected Capital Programme outturn monitoring statement as at 30th September 2015 is shown in Table 4.

Table 4 - Capital	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Expenditure			
HRA Schemes	4,537	4,527	10
General Fund Schemes	3,411	3,011	400
	7,948	7,538	410
Financing			
Government Grants	621	611	10
Prudential Borrowing	2,618	2,218	400
Revenue Contribution	3,912	3,912	0
Capital Receipts	797	797	0
	7,948	7,538	410
Net Expenditure	0	0	0

4.19 The capital programme is projected to come in around £410,000 lower than budget. The main variance of £400,000 relates to the Fleet Maintenance Facility scheme which will be delivered during 2016/17.

5 BUDGET TIMETABLE

5.1 A summary budget timetable is provided at Appendix B.

5.2 Members are reminded that the formal budget consultation period is from 13th January 2016 to 24th February 2016 when the Council sets its Council Tax for 2016/17. Comments from the consultation process will be reported to the

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Executive for consideration at its meeting on 17th February 2016. The formal budget process remains unchanged from the previous year.

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

6 GOVERNMENT FUNDING

- 6.1 At the Conservative party conference in October, the Chancellor of the Exchequer announced major changes for the future funding of local government.
- 6.2 Although the detail of the proposed changes is not yet available (and any significant change is unlikely to take full effect until 2020) – the scope of the potential changes are such that the Council will need to deploy its previously successful strategy of lobbying the Government through the appropriate channels to try and influence / nudge the detail of the policy as it develops.
- 6.3 It is anticipated that there will be more information about the proposals in the joint Spending Review and Autumn Statement which is due to be announced on 25th November 2015 – and this will be followed up by further details in early 2016.
- 6.4 In his announcement the Chancellor said that all the business rates collected by local government will be retained within the sector by 2020. The phasing of this has been left open.
- 6.5 This announcement will effectively bring an end to the Revenue Support Grant (RSG). There are however a number of grants that have been rolled into the formula grant over recent years, the most significant being funding for Council Tax Support and Homelessness. It will be important to track these grants to see what the Government proposes when RSG ends.
- 6.6 It has also been stated by the Government that in return for 100% of business rate income being retained by local government, that local authorities will need to take on new responsibilities – what this means is not yet clear.
- 6.7 There are many questions and potential risks that this announcement brings – what we have seen in the past is that early announcements differ significantly to when the system becomes operational. This has been demonstrated through the HRA Self Financing System - and indeed recent announcements previously reported to the Executive demonstrate the adverse impact on Housing authorities that run into many millions. The changing financial landscape for Business Rates will continue to be monitored closely – it is probably the single biggest business risk that the council faces in the medium term.

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6.8 The Government have indicated that the joint Spending Review and Autumn Statement on the 25th November will set out departmental budget cuts over the next five years. The 2016/17 settlement is expected early in December; however as in recent years this may be somewhat closer to Christmas. The impact from these announcements will be reported back to a future Executive meeting.

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 13th January 2016 to 24th February 2016 when the Council sets its Council Tax for 2016/17. Comments from the consultation process will be reported to the Executive for consideration at its meeting on 17th February 2016.

8 POLICY IMPLICATIONS

8.1 None as a direct consequence of this report.

9 USE OF RESOURCES

9.1 As detailed throughout this report.

10. RECOMMENDATIONS

That the Executive Committee;

- a. Note the success the Council has achieved from the case studies;
- b. Note the Council's Medium Term Financial Strategy and associated guiding principles;
- c. Notes the summary budget timetable for 2016/17 (as outlined in Appendix B)
- d. Note the significant changing financial landscape and the uncertainty this brings to the Council's Medium Term Financial Strategy – especially in relation to potential changes to the local government grant system.

Background Papers:

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

Previous Reports/Minutes:

Monthly Durable Budget Reports