Committee	**EXECUTIVE**	Item 10	Page 1
Report Originator	Strategic Management Team	*Fwd Plan Ref No:* A15/027	
Wards Affected	All	18th January 2017	
Title	**DRAFT BUDGET PROPOSALS FOR 2017/18 AND MEDIUM TERM FINANCIAL STRATEGY**		

Portfolio Holder: Councillor Lesley Thurland

1 PURPOSE OF REPORT

The purpose of this report is to:

a) outline the draft budget figures for the Council's three main accounts for 2017/18, to start the formal budget consultation process.

b) consider the main issues that are likely to impact on the Council's budgets in the medium term.

c) provide an illustration of the Council's medium term financial projections.

2. SECTION A - INTRODUCTION

2.1 This report introduces the draft budget figures for the Council's three main accounts, so that a period of formal consultation can commence.

2.2 At the same time, the report highlights some key budgetary issues and challenges (both national and local) and provides appropriate commentary.

2.3 The Council's budget strategy is firmly established in policy and constantly reported to members through the monthly 'maintaining a durable budget' reports to the Executive Committee.

2.4 Each and every month the Executive Committee receives a detailed report on the Council's budget position. This particular report brings together all the key messages and figures so that the Council can fulfil its statutory responsibilities to construct and formally consider (and ultimately approve) a number of budgets.

2.5 The Council operates three main accounts; each requires an annual budget to be considered and approved by members in accordance with statutory requirements. Table 1 outlines what each account is used for.

Table 1 – The Council's Three Accounts	
Account	**Description**
General Fund Revenue Account	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	All capital expenditure and income (i.e. acquisition, replacement and enhancement of assets) financed from Government Grants, external contributions, revenue contributions, capital receipts and borrowing.
Housing Revenue Account	All revenue expenditure and income on activities related to being a housing landlord.

2.6 The Council has an established policy position from which it considers its budget – this includes a number of guiding principles / rules which help to ensure that the Council's medium term financial strategy remains valid and robust. A reminder of the policy position is provided later in this report.

2.7 For context, Appendix C provides a reminder of the key issues that were identified during last year's budget setting process – this is intended to provide a reference point only.

2.8 Some of the key issues that will be discussed within this report include: -

- General Fund
  - Future years savings target
  - Continued reduction in central government grants
  - Changes to the National New Homes Bonus Scheme
  - The National review of the Business Rates Retention Scheme
  - Generation of income from commercial investment schemes
  - Other risks and challenges

- HRA
  - National government rent policy
  - Right to Buy
  - Government housing white paper

- Capital
  - Level of funding of the programme
  - Commercial investment budgets

2.9 To help Members navigate this report, it contains five sections:

Section A Introduction

Section B 'Budget Strategy' (pages 4 to 7) – Provides specific reference to the Council's:

Section C 'The current year's Budget Update (2016/17)' (pages 8 to 13) – Provides the detail to the current year's budget position.

Section D 'Next year's Draft Budgets (2017/18)' (pages 14 to 26) – Provides the detail to the 2017/18 draft budget

Section E 'Medium Term Financial Forecast (pages 27 to 32) – Provides details to the following technical aspects of the budget process:

Summary & Conclusions (pages 33 to 35)

Recommendation (page 36)

The report contains the following appendices

A – Draft Budget Booklet
B – Budget Consultation Timetable
C–Key Messages from the previous Budget Process (for info and context)

3. SECTION B: BUDGET STRATEGY

POLICY POSITION

3.1 At the March 2016 Executive Committee meeting, Members agreed that the budget delivery framework used in the six previous budget rounds continue to be used for the preparation of the 2017/18 budgets. Specifically, members approved:

"that the same methodology be applied to the formulation of the 2017/18 budget as it applied to the 2016/17 budget, with particular reliance on:-

- the existing guiding principles

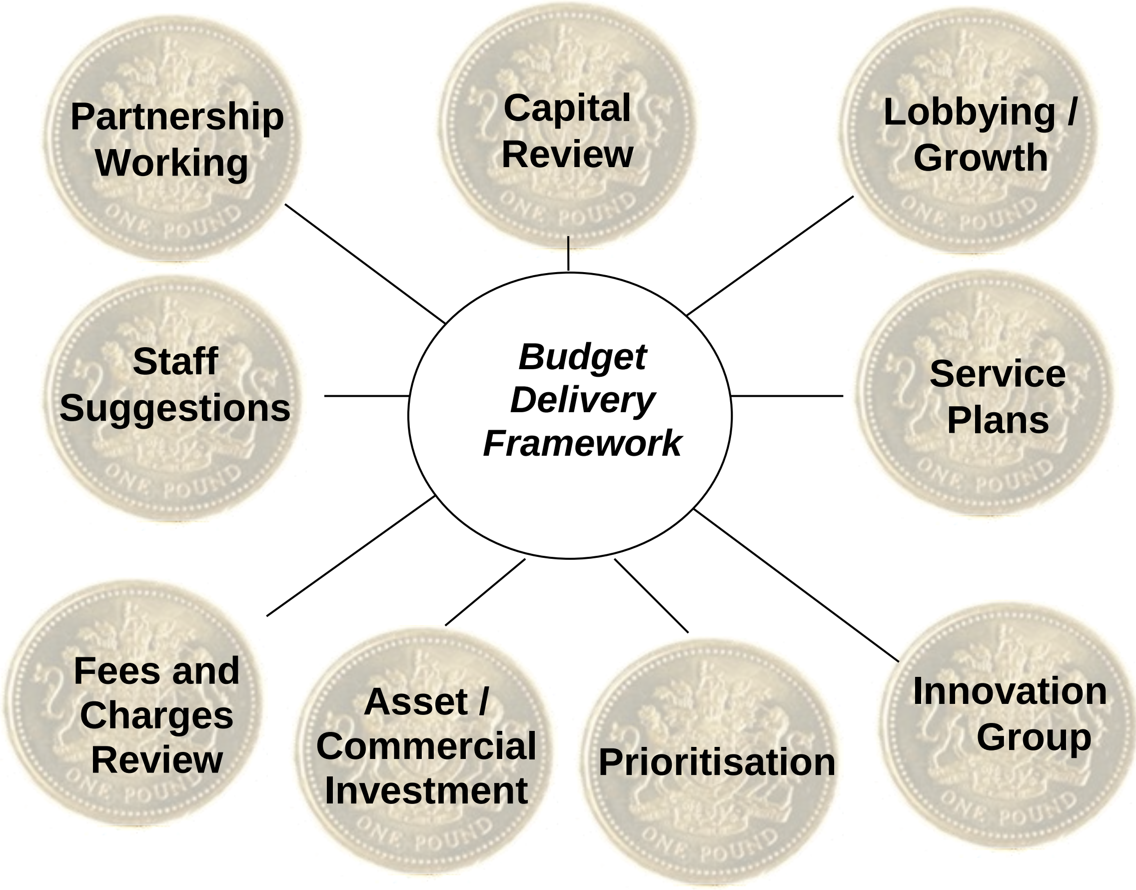
- the existing modelling for recovery principles

- the existing budget containment strategy

- the existing nine workstreams"

3.2 The opportunities for commercial investment were considered by the Executive at the March meeting and Members endorsed the adoption of our current financial strategy to embrace a systematic and measured approach towards developing a balanced portfolio of revenue generating assets in the medium term. To that end, progress has been made during 2016 through the work of the Flexible Resources Working Group, the newly established Asset Management Board and the Council as a whole. There remains much work to do in this area, including stepping up the pace, however, the work done to date has started to move the policy position forward and establish a better foundation for the authority.

3.3 A reminder of the framework/workstream is provided in the following chart: -



3.4 The Council has four interconnected sets of guiding principles that have provided a strong cornerstone for the Council's medium term financial strategy. Members have already endorsed that those guiding principles will remain in place for this budget process; for ease of reference, they are reproduced here:-

Financial Strategy Guiding principles:

a. *Revenue balances should not fall below £1m and overall revenue reserves should <u>not fall below</u> 10% of net revenue expenditure;*

b. *In setting the Council Tax, members should consider the medium term to ensure that a sustainable budgetary position is preserved (with due regard being given to any penalties that might apply);*

c. *The level of household Council Tax to increase each year in line with inflation at least, where the budget is in deficit, to ensure resources remain consistent with budgeted costs;*

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

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

Modelling for Recovery principles:

1. *Wherever possible, continue with all planned investments and programmes, to protect the local economy and lever in other investments;*

2. *Given the strength of our Treasury position we should consider debt funding as a means of programme delivery or stimulus – if this can be shown to be sustainable and have a wider economic benefit;*

3. *Organise our fiscal structures and business models to attract and retain the maximum amount of revenue within the local economy;*

4. *To ensure all possible avenues are used within procurement rules to source locally;*

5. *Protect the performance of Council services which come under particular strain;*

6. *Work closely with partners in the voluntary, public and private sectors, to ensure optimum efficiency*

Budget Containment Strategy:

1. *Where a specific grant which funds a specific service is withdrawn, the service stops;*

2. *Where grant funding reduces, which Kettering Borough Council passports through to another organisation*, the reduced sum continues to be passported*, providing the end recipient organisation feels it can still provide a value-added service at that funding point.*

3. *Where a function is transferred to another provider, the Council leaves all service-provision discussions, including any top-up funding, with the new provider;*

4. *The Council would ordinarily neither seek to buffer nor profit from tax changes.*

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

Prioritisation 'Golden Rules':

1. *Revenue Impact – The item should have a positive **material and causal** impact on the Council's revenue budget over the medium term. The impact should be material in nature.*

2. *Fit with Key Priorities - There should be a direct and causal impact upon the achievement of the Council key priorities of;*

    - *Better Town Centres*
    - *Better Jobs*
    - *Better Educational Offer*

3. *Risk and Return Profile - The item / project should fit the Council's risk and return appetite and also complement the overall portfolio of investment / assets.*

4. *Investment Leverage - The item / project should ideally act as either an 'invest to save' type project or one that 'pump primes' other significant investment into the borough.*

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.*

3.5 Whilst these principles provide a robust framework to work within, the Council's success comes from an ability to deliver. The Budget Delivery Framework has provided the operational mechanism for delivering the savings required to balance the budget for the past six years. This will continue for maintaining a durable budget into the medium term.

3.6 Early in the next financial year, members may wish to consider whether the current guiding principles remain valid for the next budget process (or require any amendment/update).

4 SECTION C: THE CURRENT YEAR'S BUDGET UPDATE (2016/17)

4.1 The following section outlines the latest budget estimates for each of the three accounts:

GENERAL FUND REVENUE ACCOUNT – Latest Estimate

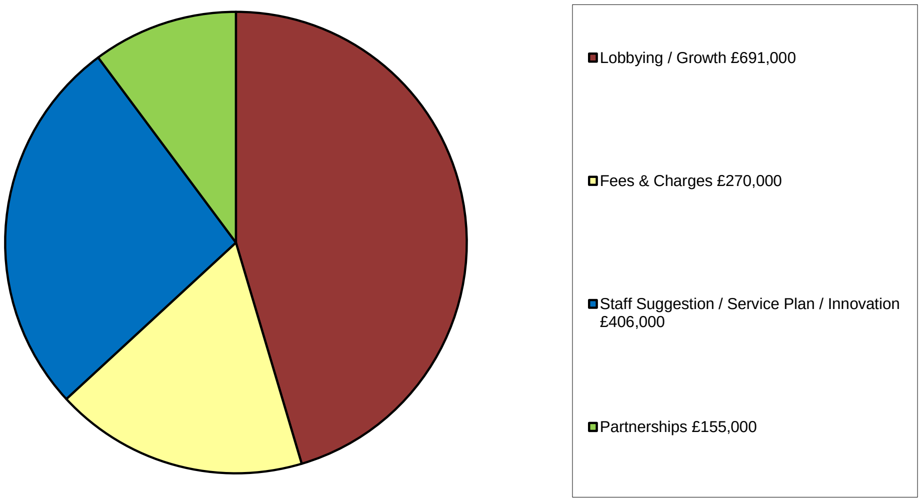
4.2 The projected outturn for the General Fund is shown in Table 2: -

Table 2 - General Fund Revenue Account	Current Budget 2016/17	Projected Outturn 2016/17	Variance (Underspend) / Overspend
Net Expenditure	£ 9,975,130	£ 9,975,130	£ 0

4.3 From when the 2016/17 budget was set, Members will recall that additional ongoing savings of £1,522,000 were required to set a balanced budget.

4.4 Those 'savings' were identified before the budget was formally set and are summarised in Chart 1:

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



Although we have traditionally referred to the term 'savings', in reality these are a combination of efficiency savings, additional income and other measures.

4.5 Table 3 illustrates that around 2/3 of the total savings targets in 2016/17 are being delivered through additional income and around 1/3 are being delivered through reduced expenditure.

Table 3 – Framework Savings 2016/17			
Framework	**Additional Income £'000**	**Reduced Expenditure £'000**	**Total £'000**
Lobbying / Growth	673	18	691
Fees & Charges	270	0	270
Staff Suggestion / Service Plan / Innovation	41	365	406
Partnerships	27	128	155
Total	**1,011**	**511**	**1,522**

4.6 During the budget process, members were informed of a number of 'big ticket' items, these have previously been reported within the Councils swing-o-meter. 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 continues to be some areas of volatility, the main budgets showing volatility are summarised below and have been reflected in the Council's revised budget and will continue to be closely monitored.

	Projected Variance	**Reason**
Borrowing Costs	£400,000 (favourable)	The Council has continued to use internal reserves as a means of borrowing and has not borrowed externally – resulting in lower borrowing costs.
Staffing Costs	£200,000 (favourable)	The Council's Flexible Resourcing Review and vacancies have resulted in lower staff costs.
Fee Income	£250,000 (favourable)	A number of the Council's main income streams (eg, Planning Fees and Crematorium Income) are generating more income than budgeted at the present time. The medium term implications of this will be reviewed through the forthcoming budget process.
Homelessness	£130,000 (adverse)	There has been an increase in the number of homeless applications this is reflective of the picture across the country in relation to this issue.

4.8 A direct consequence of the early delivery of savings for 2017/18, and a number of one-off items, is that the Council has some flexibility to help deal with specific risks that are identified in the medium term. The Executive have previously approved that further budget savings (either of a one off nature or from the early delivery of framework savings) be used to increase earmarked reserves to help provide additional flexibility and protection against business risks / threats. This approach has previously been endorsed by the Council's external auditors, KPMG. Accordingly, the smoothing reserves do help provide some protection against key business risks, including New Homes Bonus, Business Rates income / welfare reform and providing continued opportunity for 'invest to save' type schemes. Continuing to provide such protection is becoming even more important for the medium term – this will become clearer later in the report.

4.9 The search for savings is a continuous process, as is their implementation. They are implemented once resilience tested and the trend over the past number of years is that the Council has been successful in delivering savings early – through retaining sufficient capacity and focus.

4.10 The General Fund working balance is estimated to be £1.5m at 31st March 2017. This is generally in line with best practice and in line with the current policy position.

4.11 Whilst the principles and strategies continue to provide a robust framework to work within the success comes from an ability to deliver. The Council has a very good track record of driving efficiency savings, successfully lobbying on national policies and attracting external funding. These have been key in the Council continuing to have a robust and strong financial platform.

4.12 The Council is rightly proud of its record of identifying and delivering 'efficiency savings' over the past eight years. Including the year under consideration (2017/18), this will stand at around **£11.26m -** as illustrated in Table 4;

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

Capital Programme – Latest Estimate

4.13 The updated projected outturn for the Capital Programme is shown in Table 5;

Table 5 - Capital Programme	Current Budget 2016/17	Projected Outturn 2016/17	Variance (underspend) / overspend
	£'000	£'000	£'000
Expenditure			
HRA Schemes	5,636	4,936	(700)
General Fund Schemes	4,764	4,369	(395)
	10,400	9,305	(1,095)
Financing			
Government Grants	648	657	9
Prudential Borrowing	4,539	4,135	(404)
Revenue Contribution	3,461	3,587	126
Capital Receipts	1,752	926	(826)
	10,400	9,305	(1,095)

4.14 The Capital Programme for 2016/17 is currently projected to come in around £1.1m lower than budget. It has previously been reported that £400,000 relating to the Fleet Maintenance Facility scheme will not occur in 2016/17. The scheme will take place at a later date once the requirements in relation to any potential partners are better known – this has been a conscious decision that has been made to ensure the best possible outcomes for the medium term.

4.15 In addition, owing to the phasing of payments for the redevelopment of Hampden Crescent, £700,000 will be paid in 2017/18 rather than 2016/17 – it is not unusual for schemes of this scale to span over more than one financial year.

4.16 The detailed composition of the capital programme can be seen by reference to Appendix A – Section 2.

4.17 Table 5 illustrates that based upon the latest estimates for 2016/17; prudential borrowing of £4.135m will be required to finance the programme – the reduction in borrowing in 2016/17 relates to the deferral of the Fleet Maintenance Facility project. Borrowing is in accordance with the Prudential Code and the Council's guiding principles and Members are reminded that although in the past the Council has not had to borrow from external sources for this funding, it has in effect borrowed the money 'from itself' from other cash holdings that the Council has.

4.18 The borrowing that the Council undertakes to finance its capital programme is required to deliver the Council's three key objectives and results not only in improvements being made to the locality but also increases the asset valuations that the Council holds on its balance sheet that is published annually in the Statement of Accounts.

Housing Revenue Account – Latest Estimate

4.19 The updated projected outturn for the Housing Revenue Account is shown in Table 6. The Housing Revenue Account is currently projected to come in £100,000 less than budget. The detailed composition of the Housing Revenue Account can be seen by reference to Appendix A – Section 3.

Table 6 HRA	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,809	15,724	(85)
Gross Income	(15,809)	(15,824)	(15)
Net Expenditure	**0**	**(100)**	**(100)**

4.20 Members are reminded that in 2012/13 the housing subsidy system was replaced with a new 'self-financing' system of housing finance that was introduced across the Country. The Executive Committee at its meeting of 15th February 2012 approved the strategy for financing the housing debt;

The amount to borrow	£72.9m
Who to borrow from	Public Works Loan Board (preferential rates)
fixed or variable rate loan	Fixed rates
What type of loan(s)	Maturity loans
What period of loan(s)	A number of fixed term loans at different maturity dates (to provide the Council with the flexibility required)

4.21 It was previously reported to Members that by using 'maturity loans', the Council has retained the maximum flexibility that it can. In essence, maturity loans are serviced annually (throughout the duration of the loan) by paying interest to the Public Works Loan Board (PWLB). No principal repayment of the loan takes place throughout the duration of the loan. The Council will however each year make a provision for principal repayment and can then decide at the maturity of each loan whether it wishes to fully repay the outstanding principle or re-finance the loan.

4.22 The Council has a well-balanced borrowing portfolio and was able to take advantage of both the preferential short and long term rates that were made available from the PWLB to finance the self-financing transaction.

5 SECTION D: NEXT YEAR'S DRAFT BUDGETS (2017/18)

5.1 The consideration of the draft budgets for 2017/18 is the statutory responsibility that Members will start to discharge when considering this report.

5.2 The detailed draft budget figures are contained in the budget booklet at Appendix A. The booklet contains the following three sections;

- Section 1 - General Fund
- Section 2 - Capital Programme
- Section 3 - Housing Revenue Account

DRAFT GENERAL FUND BUDGET 2017/18

5.3 As well as delivering the identified framework savings for 2016/17, work has continued throughout the year on identifying savings for the following year – 2017/18. The detailed work on the budget has now been completed and the total savings required to deliver a balanced budget has increased from £1,195,000 to £1,380,000. The main changes result from the ongoing budgetary pressures in providing the homelessness function, where there has been an increase in the number of homeless applications this is reflective of the picture across the country in relation to this issue. There has also been an increase in the amount of Business Rates the Council will have to pay following the national 2017 revaluation, by the valuation office.

5.4 The previous budget report to this Committee in December outlined that savings of £950,000 had already been identified – at the time this meant that additional on-going savings of £245,000 were required to 'balance the budget'. Following the completion of the detailed draft budget process this was further increased by £185,000. It is pleasing to report that additional on-going savings of £430,000 have been identified - meaning that the Council will be in a position to set a 'balanced budget' for 2017/18 – subject of course to successfully delivering the savings during the year **and** members not increasing the savings target during the budget process. It is fair to point out, however, that the level of medium term risks are increasing and that the Council will need to give serious consideration to whether an increase in Council Tax should be considered for 2017/18 – to help provide some additional protection to the associated business risks, whilst also protecting the yield base. Typically a 1% increase generates around £64,000 for the Council and adds 3p per week to an average Band B property. Section 6.13 – 6.20 of the report provides further commentary on Council Tax levels. As part of the provisional finance settlement, the government have assumed that District Council will increase their Council Tax by around 2% for 2017/18.

5.5 Whilst the Council has identified the savings in full – this includes a 'target' for additional net income from commercial investments of £285,000 for 2017/18 – this needs to be identified and delivered.

5.6 Following on from the successful delivery of the required framework savings for 2016/17, and the early delivery of some additional savings during the year – Table 7 summarises the estimated financial position for the period to the end of March 2018.

TABLE 7 - MEDIUM TERM FINANCIAL FORECAST			
		Zone of "Predictability"	
		2016/17	2017/18
		Forecast	Forecast
		£000	£000
1	**Net Council Budget**	**11,497**	**10,948**
2	**Forecast Resources:**		
	Government Grant		
2a	Revenue Support Grant	(1,161)	(546)
2b	Business Rates	(2,310)	(2,357)
	Total Government Grant	**(3,471)**	**(2,903)**
	Council Tax / Coll'n Fund	(250)	(250)
	Income From Council Tax	(6,254)	(6,415)
	Total Resources	**(9,975)**	**(9,568)**
3	**Budget (Surplus) / Deficit**	**1,522**	**1,380**
4	**Savings Identified**	**(1,522)**	**(1,380)**
5	**Savings - To be Identified**	**0**	**0**
6	**Budget (Surplus) / Deficit**	**0**	**0**

GENERAL FUND WORKING BALANCE			
		2016/17	2017/18
		£000	£000
7	**Estimated Opening Balance**	**(1,415)**	**(1,425)**
8a	Town Centre Initiatives	40	40
8b	Transitional Grant	(50)	(50)
9	**Estimated Closing Balance**	**(1,425)**	**(1,435)**

5.7 The Council has a statutory duty to consider the medium term financial projections when setting its budget for 2017/18.

5.8 As previously mentioned, the Council needs to deliver £1,380,000 of ‘savings’ in 2017/18 to maintain a balanced budget. The identified savings are summarised in Chart 2 and Table 8:

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

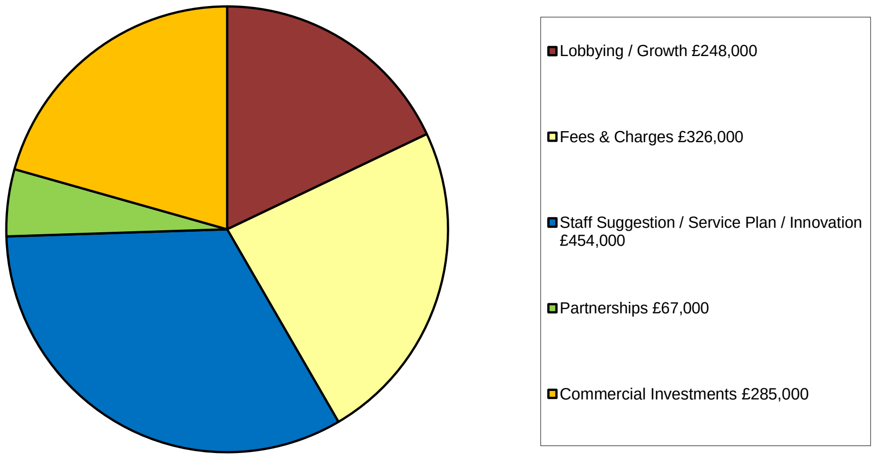


Table 8 – Framework Savings 2017/18

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

5.9 Table 9 provides further information – relating to the composition of the 2017/18 Framework savings.

Table 9 – Composition of Framework Savings		
Framework	**Saving**	**£'000**
Fees & Charges	Additional Income	326
Commercial Investments	Income from Commercial Investments	285
Lobbying / Growth	New Homes Bonus	148
Lobbying / Growth	Business Rates	100
Staff / Innovation	Flexible Resourcing Review	225
Staff / Innovation	Vacancy Factor	150
Various	Other	146
Total		**1,380**

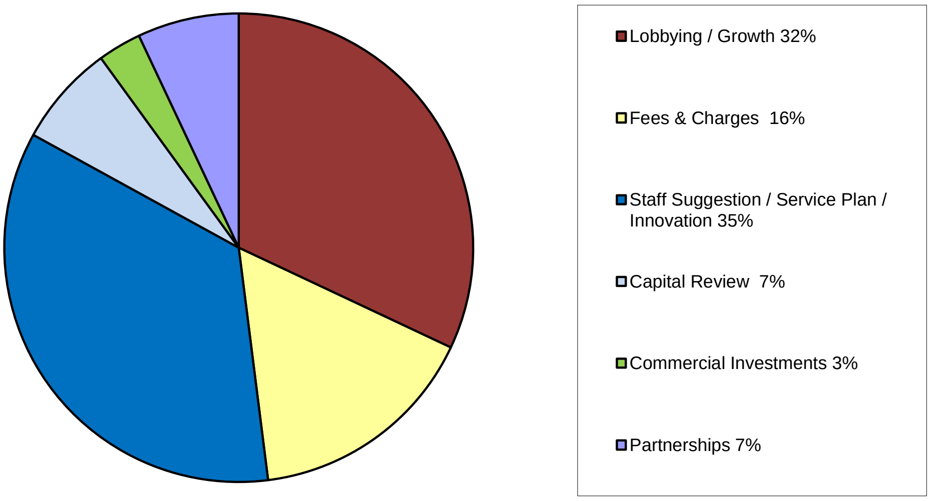
5.10 For information, Table 10 summarises and compares the composition of the 'savings' for 2016/17 and 2017/18.

Table 10 – Identified Framework Savings	**2016/17**		**2017/18**	
	£'000	**%**	**£'000**	**%**
Staff Suggestions / Service Plan / Innovation	(406)	28	(454)	33
Fees and Charges	(270)	17	(326)	24
Partnerships	(155)	10	(67)	5
Lobbying	(691)	45	(248)	18
Commercial Investments	0	0	(285)	20
Total Identified Framework Savings	**(1,522)**	**100**	**(1,380)**	**100**

5.11 Around a third of the savings identified for 2017/18 have been generated through the Staff Suggestions framework. As previously mentioned future work streams and particularly that of commercial / asset investment is going to become increasingly important in future years – something which is currently being progressed through the Asset Management Working Group, Executive Committee and Council.

5.12 Chart 3 details where the total framework savings have been identified since the frameworks were implemented back in 2010.

Chart 3 - Total Identified Framework Savings



Provisional Grant Settlement

5.13 The Local Government Finance Settlement for 2017/18 is different to previous years, members will recall that earlier this year the Council applied for a multi-year settlement and received confirmation from Central Government that this has been accepted. As a result of this, the core levels of government grant were already known and have already been built into the Council's Medium Term Financial Strategy.

5.14 The Government announced the Provisional Finance Settlement on 16th December and the figures are in line with those the Council had been modelling. The level of core funding up to 2019/20 is summarised in Table 11:

Table 11 – Local Government Finance Settlement

Year	Funding £'000	Annual Reduction £'000	Cumulative Reduction £'000
2016/17	3,471	509	509
2017/18	2,903	568	1,077
2018/19	2,604	299	1,376
2019/20	2,270	334	1,710

It should be noted that the national funding reductions shown in Table 11 are <u>in addition</u> to those experienced before 2016/17. These were around £3.5m resulting in overall funding reductions totalling around £5.2m by 2019/20.

New Homes Bonus

5.15 The Council has previously stressed the importance that local authorities that have successfully delivered housing growth should receive the 'bonus' funding that was previously promised.

5.16 Following a national consultation exercise earlier this year, as part of the provisional finance settlement the Government have proposed the following changes to the New Homes Bonus Scheme: -

- A baseline will be introduced from 2017/18 whereby housing growth below 0.4% will not receive any New Homes Bonus funding - the Government have retained the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth.

- Funding will be reduced from 6 years to 5 years' worth of payments in 2017/18 and will then reduce to 4 years' worth of payments from 2018/19 onwards.

- From 2018/19, the government will consider withholding payments from local authorities that are not "planning effectively, by making positive decisions on planning applications and delivering housing growth". A consultation is planned regarding withholding payments for homes that are built following an appeal.

5.17 The New Homes Bonus Funding will reduce nationally by around £235m from 2016/17 to 2017/18 which is equivalent to a reduction of around 15%. However authorities would have received a further £139m had the baseline not been introduced in 2017/18 – therefore the change in funding from reducing the number of years from six to five and the introduction of the baseline is around £374m. Nationally the amount of New Homes Bonus in cash terms could reduce by around 50% over the next few years – when taking account of the impact from the baseline this will be significantly higher.

5.18 It was previously reported to Members that the Council's medium term financial strategy had reductions of £275,000 in both 2018/19 and 2019/20 to account for the reductions in funding. When we take account of the impact of moving to four year payments from 2018/19 and the impact of the baseline – it would seem sensible to continue to model on this basis – which is broadly in line with the estimated reductions in funding levels nationally.

5.19 Table 12 reminds members of the Council's strategy in relation to the use of New Homes Bonus funding to support the Council's base budget.

Table 12 - Current New Homes Bonus Strategy							
	2011/12 %	**2012/13 %**	**2013/14 %**	**2014/15 %**	**2015/16 %**	**2016/17 %**	**2017/18 %**
Year 1 - 2011/12	100%	100%	100%	100%	100%	100%	0%
Year 2 - 2012/13	0%	50%	50%	75%	80%	83%	100%
Year 3 - 2013/14	0%	0%	25%	50%	60%	64%	83%
Year 4 - 2014/15	0%	0%	0%	25%	40%	47%	64%
Year 5 - 2015/16	0%	0%	0%	0%	20%	30%	47%
Year 6 - 2016/17	0%	0%	0%	0%	0%	13%	30%
Year 7 - 2017/18	0%	0%	0%	0%	0%	0%	13%
Amount incorporated into GF Budget	£343,000	£612,000	£697,000	£1,012,000	£1,234,000	£1,407,000	£1,555,000
% of NHB included in the budget	100%	70%	57%	63%	58%	54%	68%

5.20 Although the Council has not brought 100% of the new homes bonus funding into the base budget, the cash totals that are being applied are significant in terms of their absolute value. It was estimated that the Council would receive around £3m in New Homes Bonus if there were no changes to the scheme in 2017/18. The same strategy prior to the changes in funding levels has been applied in 2017/18 as in previous years resulting in around £1.555m (68%) of NHB funding being included in the Councils General Fund Budget, an increase of £148,000 from 2016/17.

5.21 The Council as part of the Local Government Finance Settlement received notification that the NHB funding in 2017/18 amounts to £2.3m - this is a reduction in funding of £700,000 from the previous scheme. Whilst the amount the Council receives in subsequent years is dependent on the level of growth the Council is currently modelling a reduction of £275,000 in both 2018/19 and 2019/20 – at this point in time it would seem sensible to continue to model on this basis as the overall reduction in funding is broadly in line with the national reductions in NHB funding.

5.22 From 2018/19, the government will consider withholding payments from local authorities that are not “planning effectively, by making positive decisions on planning applications and delivering housing growth”. A consultation is planned regarding withholding payments for homes that are built following an appeal and is expected over the coming months – updates regarding this will be provided as part of future Durable Budget Reports.

Key Service Pressures

5.23 The Council will need to continue to keep its key budget assumptions under review throughout 2017/18. These continue to be challenging times and the assumptions used are again likely to require amendment through the year to respond to changes in national policy, in particular: -

- Inflation
- Interest Rates
- Delivery of Growth (both economic and housing)
- Local, national and wider economic issues
- Impact from other public service providers (especially from the County Council budget considerations and wider Health service pressures).

5.24 Whilst most of the above may well be heavily influenced by the outcome of the Government's negotiation stance on the exit from the European Union, the budget and service pressures that could result from the action of other public sector partners are of more immediate concern.

5.25 The budgetary and service challenges that Northamptonshire County Council face are well documented, as are the capacity issues affecting our health sector colleagues. As a result it is likely that the Council will continue to come under pressure to take on new responsibilities or provide substitute funding as partners change their service levels.

5.26 It remains important the Council continues to adhere to the guiding principles which it has set and does not deviate from these, particularly with regard to the Budget Containment Strategy principles and in particular point 5 which is reproduced below:

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

5.27 There are a number of more specific service pressures the Council may face in both the short and the medium term. The key ones are summarised in the Swing-o-meter (within Appendix A) and include;

- Business Rates (appeals and volatility)
- Recycling
- Homelessness
- Commercial Investments

DRAFT CAPITAL PROGRAMME (2017/18 – 2021/22)

5.28 As part of the budget process members are required to consider the Council's capital programme, and available funding, so that a programme can be agreed for 2017/18 together with indicative funding for the following four years.

5.29 The Council has previously concluded that the authority needs to yield more income from commercial investments in the coming years. In recent Executive Committee meetings, members have consistently made the point that the council needs to generate income before it can consider what it may be spent on.

5.30 The Council has established an Asset Management Board (AMB), whilst the investment strategy parameters are still emerging, this budget process requires the Council to set a capital budget for 2017/18 and make some indicative capital budget provision (for the purposes of commercial investments) in its medium term capital programme.

5.31 When the Capital Programme for 2016/17 was set the indicative programme for 2017/18 to 2020/21 included a provision of £2m per annum. The level of investment into Commercial Investments has been considered by the Asset Management Board - the view of the AMB is that the scale of capital investment needs to be increased significantly if the Council is to address the budget gap through revenue generating assets and that the 2017/18 Draft Capital Programme and each year thereafter includes a budget provision of £20m per annum for commercial investment. Clearly, this is an indicative budget judgement at this stage, ultimately this sum will depend upon the opportunities/risk appetite and returns (it could end up being less or significantly greater).

5.32 The level of return will be heavily influenced by two factors: (a) the cost of capital (i.e. borrowing), and (b) the regulatory requirements of the minimum revenue provision (MRP). The net returns of any project need to be sufficient to have a positive net return.

5.33 For illustrative purposes, Table 13 illustrates the revenue returns that could be generated based on different levels of investment and different net returns. For example a £20m investment that has a 3% Net Return would yield £600,000.

Table 13 – Net Returns on Investment					
Level of Investment	**2% £'000**	**3% £'000**	**4% £'000**	**5% £'000**	**6% £'000**
£2m	40	60	80	100	120
£5m	100	150	200	250	300
£10m	200	300	400	500	600
£15m	300	450	600	750	900
£20m	400	600	800	1,000	1,200

5.34 Members are reminded that the additional net revenue (i.e after borrowing costs and MRP) that needs to be generated from commercial investments in 2017/18 is £285,000 – it would however seem sensible to make a greater investment during 2017/18 so the means for delivering savings in future years is already established – a capital programme of £20m in 2017/18 should enable this strategy to be followed. Members should be reassured that, prior to investment in any significant schemes, Council would need to approve the appropriate budget sum.

5.35 Members are required to approve the capital programme for 2017/18 and approve a five-year rolling capital programme with commitment given for schemes in years 2 to 5 to assist with scheduling and achieving the programme.

5.36 The draft capital programme for 2017/18 – 2021/22 is detailed in Appendix A – Section 2. The high level summary is reproduced in Table 14.

Table 14 - Capital Programme	**Draft Budget 2017/18**	**Indicative Estimate 2018/19**	**Indicative Estimate 2019/20**	**Indicative Estimate 2020/21**	**Indicative Estimate 2021/22**
	£'000	£'000	£'000	£'000	£'000
Expenditure					
HRA Schemes	4,001	3,225	3,253	3,475	3,469
General Fund Schemes	21,772	21,597	21,167	21,167	21,167
	25,773	**24,822**	**24,420**	**24,642**	**24,636**
Financing					
Capital Receipts	1,006	453	692	642	350
Prudential Borrowing	21,007	20,557	20,527	20,527	20,527
Revenue Contribution	3,233	3,312	2,701	2,973	3,259
Grants and Contributions	527	500	500	500	500
	25,773	**24,822**	**24,420**	**24,642**	**24,636**

5.37 From reference to Table 14 it can be seen that:

- The draft programme for 2017/18 is £25.8m

- The indicative programme from 2018/19 – 2021/22 is around £24.5m per annum.

- In line with the Council's prioritisation guiding principles, a global capital budget sum of £20m has been included in the Capital Programme each year from 2017/18. This will provide a source of funding for the Council to use when pursuing commercial property deals or investments that yield a positive revenue return.

- Also in line with the Council's prioritisation guiding principles and asset / commercial investment workstream – it is likely that should any major investment opportunity arise during the year they will be the subject of specific reports to Executive and / or Full Council. As such budgets would need to be incorporated at the point of Council approval.

5.38 **Capital Receipts** –The capital programme for 2016/17 to 2021/22 assumes funding from Right to Buy receipts of £100,000 per annum.

5.39 **Borrowing –** the estimate for borrowing for 2017/18 is £21.007m. The main contributor to the borrowing costs is the increased commercial investment budget. The additional revenue from these investments is shown net of MRP and borrowing costs. To finance such investments the Council will need to borrow externally in accordance with the Council's Treasury Management Strategy.

DRAFT HOUSING REVENUE ACCOUNT (HRA) 2017/18

5.40 A summary of the draft HRA budget for 2017/18 is included at Appendix A - Section 3 of the budget booklet. The high level summary is reproduced in Table 15:

Table 15 - Housing Revenue Account	**Draft Budget 2017/18**
	£'000
Gross Expenditure	15,586
Gross Income	(15,586)
Net Expenditure	**0**

5.41 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.

5.42 The Government announced in summer 2013 that from 2015/16 social rents would rise by CPI plus 1% each year for ten years, previously social rents were rising by RPI plus 0.5% plus £2. Members will recall that in the Chancellor's Budget Statement on 8 July 2015 it was announced that social rents would reduce by 1% a year for the next four years which was clearly at odds with the ten year rent setting formula.

5.43 The differential impact on the rental income in the Council's Medium Term Financial Strategy on the previous formula (CPI + 1%) vs a reduction of 1% for four years is in the order of **£65m** (cash) over the life of the 30 Year Business Plan.

5.44 The impact in the first year (2016/17) was in the order of £500,000 (cash) in the second year (2017/18) the impact will be in the order of £1.5m (cash) – the rental income in the Housing Revenue Account reflects the 1% rent reduction (this is the income assumed in the income figure in Appendix A Section 3). Whilst authorities can charge more or less than the guidelines issued by central government they will nonetheless be constrained by the limit rent – which is the maximum that can be charged based on the formula prescribed by central government.

5.45 The reduced rental income (as a result of the change in Government policy) has meant that the HRA business plans were redrafted. Consequently revenue funding for the capital programme has reduced – the impact being that the capital programme has been revised accordingly. Further work is ongoing regarding the levels of capital investment required in the medium term for the housing stock – as such the programme may need to be amended further in due course.

5.46 The draft budget will be discussed by the Tenants' Forum at its meeting of 9th February 2017 along with the proposal for rent setting. This will be reported back to the Executive meeting on 15th February 2017 for approval.

5.47 2017/18 is the sixth year of the self-financing system and whilst it enables the Council to benefit from the greater certainty as the Council repays debt and interest on the loans opposed to receiving an annual subsidy determination which was usually notified in December, there has been significant financial implications from a new rent setting formula as outlined in 5.42 – 5.45.

5.48 The subsidy payments have been replaced with principal repayments and interest payments which are a direct result of the borrowing of £72.9m undertaken to finance the 'self-financing' payment. The housing debt at 31st

March 2016 was £62.4m. The 2016/17 budget provides for a further debt repayment of £3.5m which would reduce the debt to £58.9m at 31st March 2017.

5.49 In the Autumn Statement, the Chancellor confirmed that the Government have decided not to implement Pay to Stay, which would have required Council Tenants with taxable incomes over £31,000 to pay a market or a near market rent.

5.50 However, the commitment to extending Right to buy to housing associations was reaffirmed. The Government are considering how the legislation on Higher Value Assets will be implemented. The intention had been that local authorities would be required to make a payment to central government based on their High Value Assets – the actual means for how this would work had not been determined. No such payments will be required in 2017/18 – and announcements regarding how this will operate will be made in due course – this is an area that is likely to create additional financial pressures for the HRA.

5.51 The other key elements of the budget are;

a) Rents – income expected from tenants.
b) Repairs & Maintenance – The costs for 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.

5.52 Appendix A – Section 3 shows the composition of the draft budget for 2017/18.

5.53 It was also reported to the December Executive that the government will be publishing a White Paper early in the new year, setting out a comprehensive package of reform to increase housing supply and make housing more affordable; this is still awaited.

6 SECTION E – MEDIUM TERM FINANCIAL FORECAST

Medium Term Budget

6.1 The Council's updated medium term financial forecast is shown in Table 16 below and is reproduced at Appendix D with supporting notes.

TABLE 16 - MEDIUM TERM FINANCIAL FORECAST							
		Zone of "Predictability"		Zone of "Unpredictability"		Severe Unpredictability	
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
		£000	£000	£000	£000	£000	£000
1	**Net Council Budget**	**11,497**	**10,948**	**10,704**	**10,398**	**9,883**	**9,766**
2	**Forecast Resources:**						
	Government Grant						
2a	Revenue Support Grant	(1,161)	(546)	(171)	250	0	0
2b	Business Rates	(2,310)	(2,357)	(2,433)	(2,520)	(2,000)	(2,000)
	Total Government Grant	**(3,471)**	**(2,903)**	**(2,604)**	**(2,270)**	**(2,000)**	**(2,000)**
	Council Tax / Coll'n Fund	(250)	(250)	(250)	(200)	(200)	(200)
	Income From Council Tax	(6,254)	(6,415)	(6,511)	(6,609)	(6,708)	(6,809)
	Total Resources	**(9,975)**	**(9,568)**	**(9,365)**	**(9,079)**	**(8,908)**	**(9,009)**
3	**Budget (Surplus) / Deficit**	**1,522**	**1,380**	**1,339**	**1,319**	**975**	**757**
4	**Savings Identified**	**(1,522)**	**(1,380)**	**0**	**0**	**0**	**0**
5	**Savings - To be Identified**	**0**	**0**	**(1,339)**	**(1,319)**	**(975)**	**(757)**
6	**Budget (Surplus) / Deficit**	**0**	**0**	**0**	**0**	**0**	**0**
	GENERAL FUND WORKING BALANCE						
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		£000	£000	£000	£000	£000	£000
7	**Estimated Opening Balance**	**(1,415)**	**(1,425)**	**(1,435)**	**(1,435)**	**(1,435)**	**(1,435)**
8a	Town Centre Initiatives	40	40	0	0	0	0
8b	Transitional Grant	(50)	(50)	0	0	0	0
9	**Estimated Closing Balance**	**(1,425)**	**(1,435)**	**(1,435)**	**(1,435)**	**(1,435)**	**(1,435)**

6.2 The forecast comprises the following 'Zones'

- **Zone of Predictability** – covers the current financial year - for which the level of government funding is known, and 2017/18 - for which the provisional level of grant funding has been announced.

- **Zone of Unpredictability** – The future levels of government grant for the period 2018/19 – 2019/20 are based on indicative figures provided as part of the 2017/18 financial settlement which form part of the ‘four year settlement’ figures (that were previously reported to this Committee).

- **Severe Unpredictability** – Based upon the figures in the MTFS, the Council would need to identify and deliver further savings of around £1m in 2020/21 and around £750,000 in 2021/22. Of course, these can only be high level assumptions at the present time.

New Homes Bonus

6.3 As mentioned in the previous paragraphs, the future operation on the New Homes Bonus scheme will have a significant impact on the Council’s medium term budget position.

6.4 Although figures for 2017/18 are known, the figures for the period 2018/19 – 2021/22 are not known in full however the Council is able to better estimate the levels of NHB funding following the recent announcements (although this is dependent on Housing Growth and the outcome of the consultation regarding withholding payments for homes that are built on appeal). The following revised assumptions / numbers have been used in the medium term financial strategy and are shown in Table 17.

Table 17 New Homes Bonus Comparison

	2016/17 £’000	2017/18 £’000	2018/19 £’000	2019/20 £’000	2020/21 £’000	2021/22 £’000
MTFS Dec 15	1,407	1,407	1,132	857	857	857
Revised MTFS	1,407	1,555	1,280	1,005	1,005	1,005
Difference	0	148	148	148	148	148

6.5 What this means is that funding for NHB in 2017/18 has increased by £148,000 and the MTFS continues to model further reductions of £275,000 in budget in 2018/19 and 2019/20. It is important to note that we will need to continue to revise the budget figures for future years - however the Council can at least consider the 2017/18 budget in the knowledge that the figure is already known.

6.6 In cash terms the level of reductions in both Core Grant and New Homes Bonus funding is significant – Table 18 shows the estimated cash reduction for these two funding streams over the period 2016/17 to 2021/22.

Table 18 Annual Cash Reductions in Grant Funding				
Year	**Estimated Annual Reduction in Government Grant £'000**	**Estimated Annual Reduction in NHB £'000**	**Estimated Reduction in Core Grant and NHB £'000**	**Estimated Cumulative Reduction in Core Grant and NHB £'000**
2016/17	509	N/A	509	509
2017/18	568	371	939	1,448
2018/19	299	374	673	2,121
2019/20	334	174	508	2,629
2020/21	500	174	674	3,303
2021/22	0	174	174	3,477
Total	**2,210**	**1,267**	**3,477**	**N/A**

Business Rates

6.7 The Government announced in the Autumn Statement 2015 that it would effectively end paying any Revenue Support Grant by 2020 and would move to a new system of 100% retention of Business Rates.

6.8 There was a formal consultation in Autumn 2016 about how the new system will operate which the Council responded to this was reported to the September 16 Executive. The Government said that new responsibilities will be given to Local Government as part of a new system – however it is not clear what these responsibilities are and how these will be funded.

6.9 A more detailed technical consultation on Business Rates is expected during 2017. As with previous consultations this will be a key area of focus for the Council – it has been reported to Members in previous Executive reports that this Council has been successful in getting itself represented at a professional level on the national working groups looking at this issue.

6.10 This is a major issue / risk for the Council and one that the authority has and continues to be involved in on a national level.

6.11 Previously, KBC have helped shape the format of changes to the Business Rates scheme to the advantage of all authorities in the County – much work and resource is being required once again.

6.12 The potential ramifications of changes to the Business Rates scheme should not be understated – there have been very few (if any) major changes in funding mechanisms over recent years that have actually resulted in local authorities being better off financially in the medium term – housing finance being one very good example. It would be prudent to assume the same in relation to Business Rates.

Council Tax

6.13 Since 2010, the Government have heavily encouraged local authorities to freeze their Council Tax each year. This resulted in the introduction of an annual referendum threshold (generally 2%) together with annual Council Tax Freeze grants as an incentive for those Councils that did not increase their Council Tax.

6.14 The 2016/17 grant settlement signalled a major policy change by the Government in relation to Council Tax levels – where there was no longer an emphasis (or indeed any incentives) to freeze Council Tax from 2016/17. The same is true for 2017/18.

6.15 When announcing the provisional Local Government Finance Settlement for 2017/18, the Government also changed the referendum limits for Councils in relation to Council Tax setting. The referendum limit for 2017/18 is the greater of 2% or £5 (Band D).

6.16 For Kettering Borough Council, the referendum limit is £5. This is the equivalent of a 2.4% increase and would generate additional council tax income of £156,000 during 2017/18.

6.17 When calculating the core grant settlement, the Government have assumed that all Shire Counties will increase their Council Tax by the threshold amount for 2017/18. The indicative grant levels for the period 2018/19 – 2019/20 also assumes that <u>all</u> local authorities will increase their Council Tax levels up to the threshold each year.

6.18 Following the established practice of previous years, the Council's medium term financial strategy (shown in Table 16) is shown prior to the consideration of any Council Tax increases. Members will need to consider the medium term financial projections, the resultant savings that are required each year and the overall level of uncertainty and risks when considering Council Tax levels for 2017/18 (and subsequent years). The stronger the Council Tax yield – the greater the flexibility to deal with the future.

6.19 The overall scale of budget reduction continues to be very significant. Collectively the Council has coped well by delivering a balanced budget despite having no council tax increase, no cuts to front line services, and no reduction to overall funding for the voluntary sector since 2011/12. This has only been achievable by following the budget guiding principles and making sure that other income sources, such as fees and charges, are harvested in line with their previously agreed guiding principles – this will remain important moving forward, especially in relation to income generation.

6.20 The reality of the Council being able to deliver a balanced budget in this period will be more challenging – the Council will need to carefully consider its main sources of income (Council Tax, Fees and Charges) at the same time as progressing it's commercial investment projects whilst also starting to consider its priorities for services (and levels of services) if a balanced budget is to be achieved in the medium term. The commonly referred to 'triple zero' success of recent times is unlikely to be achievable in the medium term, indeed any one element of this will put additional pressure on existing levels of service and resources. As previously stated, Government Grant Allocations, assume that the Council will increase its Council Tax by 2% in 2017/18.

Medium Term Prospects

6.21 The Council's budget process has included a full review of the Medium Term Financial Strategy and has resulted in a number of assumptions being remodelled. The level of savings needed over the four year period 2018/19 – 2021/22 has remained broadly the same although has reduced slightly from £4.449m to £4.390m. This is illustrated in Table 19:

Table 19 – Medium Term Financial Savings	**December Executive £000**	**Current MTFS £000**	**Difference £000**
2018/19	1,274	1,339	65
2019/20	1,311	1,319	8
2020/21	1,096	975	(121)
2021/22	768	757	(11)
Total Savings – to be secured	**4,449**	**4,390**	**(59)**

6.22 Whilst Table 19 illustrates that the projected savings required over the four year period 2018/19 – 2021/22 are around £4.4m. Members are reminded that since 2010/11 the Council **has delivered savings of £9.9m and have identified further savings of £1.4m in 2017/18** (as detailed in Table 4). Hitherto, the Council has been able to close the budget gap without increases in Council Tax, cuts to front-line services, or cuts to voluntary sector funding. The scope for closing the projected budget gaps will be dependent on progressing the asset / commercial investment work stream whilst also reconsidering future levels of Council Tax and other income generating opportunities.

6.23 As previously outlined in this report, there are significant pressures and risks over the medium term in relation to the following:

- New Homes Bonus Funding – the reduction in the number of years NHB is paid and the introduction of a baseline is going to significantly reduce what authorities receive in NHB funding.

- Business Rates Review – the impact on authorities of a new valuation list and the move to 100% Business Rates Retention is going to increase the volatility associated with Business Rates. – A more detailed technical consultation on Business Rates is expected in 2017.

- The transfer of new responsibilities to local government and ensuring these are fully funded and not an additional pressure.

- Commercial Investments – Developing a balanced portfolio of revenue generating assets that produce the levels of income required to deliver a balanced budget.

6.24 The Council tax level for 2017/18 will be considered by the Executive in February but can only be set by full Council at its meeting on 1st March 2017, once the budget consultation has been completed and the officers' report has been fully and properly considered. When discharging their statutory duties, Members will need to give due regard to the issues facing the authority in the medium term, especially in relation to the changing financial landscape in relation to those issues outlined in this report.

Public Service Delivery

6.25 The financial and service pressures being faced by other public sector service providers (especially Northamptonshire County Council and the Health Sector) will continue to be a challenge to all. Whilst there has been some reference to future local government structures, this Council has always been very clear that the focus should be on 'Public Sector Delivery' not 'local government structures'. Having said this, the potential for this subject to consume significant amounts of capacity and resource should not be underestimated.

6.26 Members will recall that at a meeting of Full Council in April 2016, the Council resolved that it would participate in a joint study (with other Districts within the County who also wanted to participate) looking at the options for the future delivery model for public services in the County. The Council resolution was also clear that if change were to follow – that its policy position was that a structure based upon 'North Northamptonshire' (in so far as Kettering was concerned) would be preferred.

7. SUMMARY & CONCLUSIONS

2016/17

7.1 The Council has continued to use its own specific 'budget delivery framework' for the delivery of savings. The challenge was to turn the 'paper based savings exercise' into reality so that the £1,522.000 of savings were actually delivered – this is being successfully delivered.

7.2 Since 2010, the Council will have delivered a total of £9.9m of savings by the end of March 2017. The delivery of savings of this magnitude will become increasingly more difficult to achieve.

2017/18

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

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

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

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

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

7.8 Members will need to consider the medium term projections and associated risks when deciding a level of council tax for 2017/18. Given that the level of KBC's Council Tax has been frozen for six years, members will need to seriously consider what a sustainable strategy is for its level of Council Tax for 2017/18 (and the medium term) as part of this budget process.

7.9 **A capital programme of around £25m** is a significant commitment and clearly demonstrates the Council's strategy regarding commercial investments.

7.10 The Council uses the budget **"swingometer"** as detailed at Appendix A – Section 1 to highlight and assess the sensitivity of the most volatile and material budgets. The "swingometer" shows some significant swings reflecting the economic climate. It must be stressed however that the Council has an excellent track record of spending at or around budget, even when faced with significant in year pressures, and a strong balance sheet with a level of reserves sufficient to cover the risks outlined in the "swingometer".

The Medium Term

2018/19 and Beyond

7.11 Assumptions have been made for future levels of government grant (and other funding changes) these are based on indicative figures provided as part of the 2017/18 financial settlement following the authorities decision to accept a four year grant settlement.

7.12 The levels of uncertainty and reductions in government funding in the medium term are very significant. Changes to NHB funding will result in significant reductions. The major review of business rates is also likely to bring significant change – this will only become clearer as time progresses. Neither of these should be underestimated.

7.13 The Council's strong and controlled budgetary position is a direct result of the adherence to the guiding principles that have been diligently followed over recent years. The challenges faced in the medium term mean that it is even more important that the guiding principles are followed if the council is to remain in a relatively good financial position.

7.14 Based upon the assumptions applied, the future years' budgets would require ongoing year on year savings of the following (on top of the £11.3m of ongoing savings achieved since 2010);

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

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

7.16 Hitherto, the Council has been able to close the budget gap without increases in Council Tax, cuts to front-line services, or cuts to voluntary sector funding. The scope for closing projected budget gaps will be dependent on progressing the commercial investment workstream whilst also reconsidering future levels of Council Tax. Maintaining Council Tax at its current level into the medium term is unlikely to be sustainable.

Other Considerations

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

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

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

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

8 CONSULTATION AND CUSTOMER IMPACT

8.1 The formal budget consultation period is from 18th January 2017 to 1st March 2017 when the Council sets its Council Tax for 2017/18. The budget timetable is detailed at Appendix B. Comments from the consultation process will be reported to the Executive for consideration at its meeting on 15th February 2017.

9 POLICY IMPLICATIONS

9.1 There are no direct policy implications as a result of this report.

10 USE OF RESOURCES

10.1 The implications on the Council's resources will be considered throughout the durable budget reports.

11 RECOMMENDATIONS

That the Executive Committee:

11.1 Refers the draft budgets for 2017/18 (as contained in the separate budget booklet) to Scrutiny for comment in accordance with the Council's Constitution.

11.2 Note the current budget position for 2016/17.

11.3 Recognise that the task of balancing the budget in future years is becoming increasingly difficult especially in the light of increasing service pressures, reduced national funding and changes to New Homes Bonus funding.

11.4 Note that the budget consultation period will run from 18th January 2017 to 1st March 2017. The budgets and level of Council Tax for 2017/18 will be set at a meeting of Full Council on 1st March 2017.

Background Papers:	Previous Reports/Minutes:
Title of Document: Estimate Working Papers Contact Officers: M Dickenson	Monthly Durable Budget Reports (April 2010 to date)