

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	<i>Fwd Plan Ref No: A18/021</i>	
Wards Affected	All	17 th October 2018	
Title	DURABLE BUDGET REPORT		

Portfolio Holder: Councillor Lloyd Bunday

1 PURPOSE OF REPORT

The purpose of the report is to:

- a) Remind Members of the context / background to the council's budget and medium term financial strategy;
- b) In Line with best practice, provide a mid-year update on Treasury Management;
- c) Draw Members attention to the reports that are currently being considered by Northamptonshire County council in relation to their latest budgetary projections.

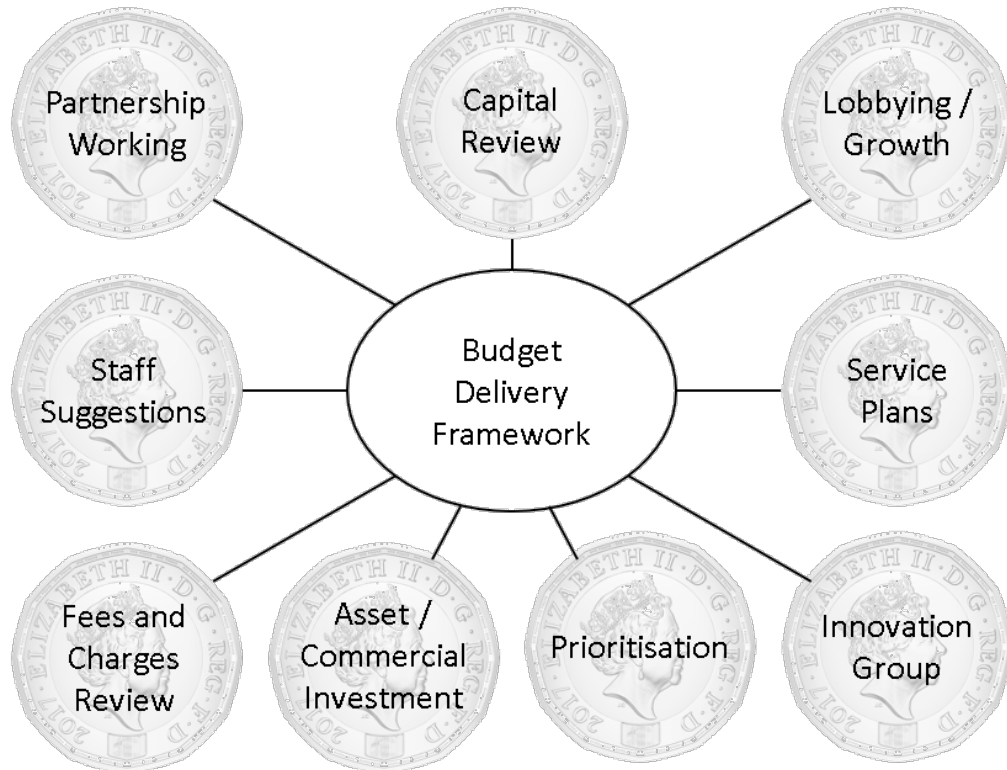
2. BACKGROUND

- 2.1. The Council's 2018/19 budget was approved by Council at its meeting on 28th February 2018. In terms of setting a balanced budget, the Council's strategy to date has been successful, although it has to be stressed that the budget setting process is a paper exercise and all the changes being proposed have to be realised and delivered over the next year if we are to avoid additional strain being placed on the following years' budgets. The budgets for 2018/19 will be closely monitored throughout the year and any variances will be reported to the Executive as part of the Durable Budget report.
- 2.2. Members will appreciate that the strategies the Council has adopted over the past few years have generally kept the authority in a good position from which to move forward. In Kettering, our approach ensured that the Council was able to pro-actively deal with the challenges faced through: -
 - ♦ Anticipating and trying to influence major 'Big Ticket' items;
 - ♦ Having a well-motivated and flexible workforce that is pro-active in helping to deliver services.
- 2.3. The Council's success in delivering a balanced budget over the past number of years has come from the Budget Delivery Framework however savings of this magnitude are becoming increasingly difficult to maintain. For the Council to

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remain in the best possible shape in the medium term it will need to ensure that it 'delivers' on all aspects of its budget framework as outlined below:



2.4. The Council has already done an impressive job of delivering around £11.3m of 'efficiency savings' to date. The Council's financial 'golden rules' and the financial 'guiding principles' provide a strong basis for the Council's medium term financial strategy. Both of these are specifically for the Council's General Fund budgets (revenue and capital) – for ease of reference these are reproduced below:

Financial Golden Rules;

- a. The General Fund Working Balance should not fall below £1m or 10% of net revenue expenditure (whichever is the greater);
- b. When setting the level of council tax, members should always consider the medium term outlook to ensure that a sustainable budget position is maintained;
- c. The Council must always ensure that adequate funding is provided to cover all of its statutory and regulatory responsibilities;
- d. Should the Council decide to allocate significant additional / new funding to a specific service – it should identify where the required funding is coming from (or compensating savings are to be made);

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- e. When setting the Capital Programme, in addition to meeting statutory responsibilities, priority will be given to schemes that are beneficial to the council's overall revenue budget position;
- f. The council must ensure that it has an overall level of revenue reserves that are appropriate for the overall level of risks that the organisation faces – including potential national funding changes;
- g. In line with the council's investment strategy, the council will look to invest in schemes that will have a positive impact over the medium term on its budget position including taking out long-term debt financing (where there is an appropriate business case).

Financial Guiding Principles;

- i. When funding for a specific service is reduced / withdrawn (from national government or another provider) the council should not substitute itself as a provider or funder of the service – unless there are exceptional circumstances;
- ii. When considering the Capital Programme, due regard is given to ensure that existing council assets are properly maintained;
- iii. Where decisions are required about the priority of funding for services, the following is followed;

Priority 1 - Statutory Requirements

Priority 2 – Fit to Council Objectives of;

- ◆ Better Town Centres
- ◆ Better Jobs
- ◆ Better Education Offer

- iv. Continue to seek strategic partnerships with other public sector providers to help protect services for our residents – especially those that help promote economies of 'scope' rather than 'scale';
- v. To maximise the resources that are available to the authority, the council will continue to actively lobby the Government on relevant issues.

Housing Revenue Account Guiding Principles

2.5. The HRA Golden Rules and Guiding Principles were approved by the Executive at the meeting on 23rd May for ease of reference they are reproduced below:

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HRA Financial Golden Rules;

- a. *The Housing Revenue Account Working Balance should not fall below £300,000;*
- b. *When setting the level of rents, members should always consider the national policy position;*
- c. *The Council must always ensure that adequate funding is provided to cover all of its statutory and regulatory responsibilities;*
- d. *Should the Council decide to allocate significant additional / new funding to a specific service – it should identify where the required funding is coming from (or compensating savings are to be made);*
- e. *The council must ensure that it has an overall level of revenue reserves that are appropriate for the overall level of risks that the HRA faces – including potential national funding and policy changes.*

HRA Financial Guiding Principles;

- i. *When funding for a specific service is reduced / withdrawn (from national government or another provider) the council should not substitute itself as a provider or funder of the service – unless there are exceptional circumstances.*
- ii. *When setting the HRA budgets and considering the HRA Capital Programme, due regard is given to ensure that expenditure protects the long term viability of the Council's housing stock by making sure the assets are properly maintained and have the ability to meet the Borough's housing needs.*
- iii. *Where decisions are required about the priority of funding for services, the following is followed;*

Priority 1 - Statutory Requirements

Priority 2 – Investment in Existing Housing Stock

Priority 3 – Fit to Housing Strategy of;

- ♦ *Increasing housing supply across all tenures*
 - ♦ *Ensuring safe and healthy homes, reducing the opportunity for crime and anti-social behavior*
 - ♦ *Helping people to live independently*
- iv. *Continue to seek strategic partnerships with other public sector providers to help protect services for our residents – especially those that help promote economies of 'scope' rather than 'scale';*

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- v. *To maximise the resources that are available to the authority, the council will continue to actively lobby the Government on relevant issues.*

3. UPDATE OF KEY ISSUES AND BUDGET PROJECTIONS

- 3.1 The Council's Medium Term Financial Strategy is reproduced in Table 1. The forecast has been updated to reflect the fact that we have 'closed' the 2017/18 financial year and now incorporates the financial year 2023/24 – notes to the Medium Term Financial Forecast are included at **Appendix A**.

TABLE 1 - MEDIUM TERM FINANCIAL FORECAST							
		Zone of "Predictability"		Zone of "Unpredictability"			
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
		£000	£000	£000	£000	£000	£000
1	Net Council Budget	10,893	10,900	9,933	10,294	10,082	10,185
2	Forecast Resources:						
	Government Grant						
2a	Revenue Support Grant	(171)	250	0	0	0	0
2b	Business Rates	(2,428)	(2,484)	(2,000)	(2,000)	(2,000)	(2,000)
	Total Government Grant	(2,599)	(2,234)	(2,000)	(2,000)	(2,000)	(2,000)
	Council Tax / Coll'n Fund	(300)	(250)	(100)	(100)	(100)	(100)
	Income From Council Tax	(6,521)	(6,620)	(6,718)	(6,819)	(6,922)	(7,026)
	Total Resources	(9,420)	(9,104)	(8,818)	(8,919)	(9,022)	(9,126)
3	Budget (Surplus) / Deficit	1,473	1,796	1,115	1,375	1,060	1,059
4	Efficiencies Identified	(1,473)	(883)	0	0	0	0
5	Efficiencies - To be Identified	0	(913)	(1,115)	(1,375)	(1,060)	(1,059)
6	Budget (Surplus) / Deficit	0	0	0	0	0	0
GENERAL FUND WORKING BALANCE							
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		£000	£000	£000	£000	£000	£000
7	Estimated Opening Balance	1,415	1,375	1,335	1,295	1,295	1,295
8	Town Centre Initiatives	40	40	40	0	0	0
9	Estimated Closing Balance	1,375	1,335	1,295	1,295	1,295	1,295

The forecast comprises the following 'Zones'

- ♦ **Zone of Predictability** - covers the 2018/19 financial year - for which the level of government funding is known. The government funding for 2019/20 is based on indicative figures provided as part of the 2018/19 financial settlement which form part of the 'four year settlement' figures.

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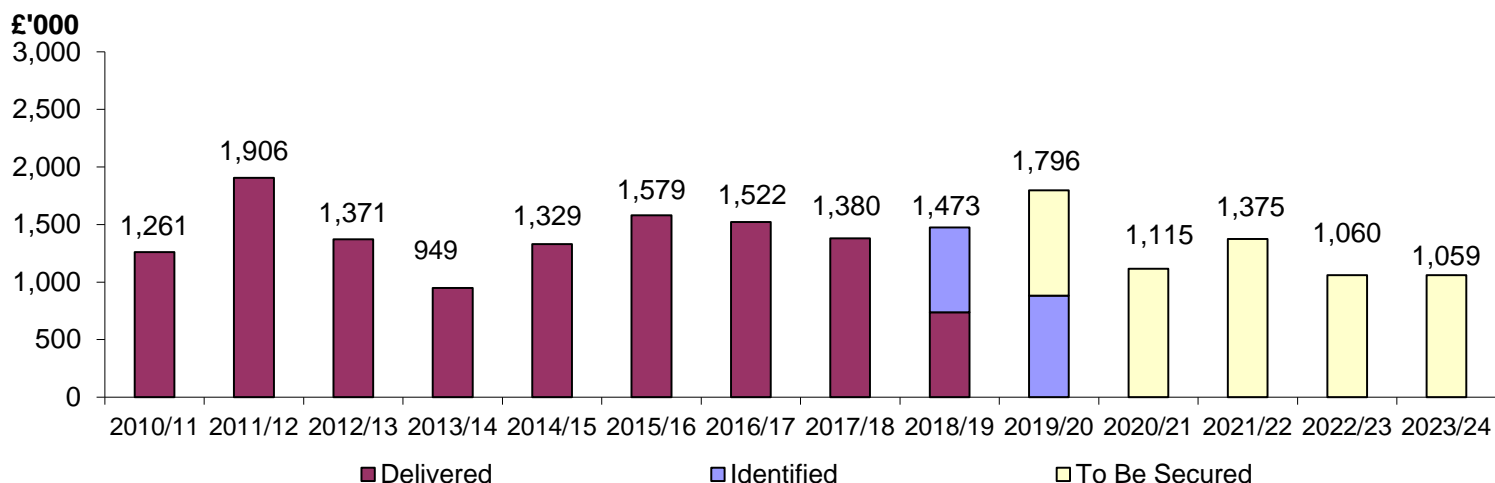
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- ♦ **Zone of Unpredictability** – This covers the period from 2020/21 which is when it is anticipated that the fairer funding formula review and Business Rates will be reset.

3.2 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing efficiency savings targets going forward are at least of a similar scale to those already met, Chart 1 shows:

- Efficiencies of £11.3m have been identified and delivered between 2010/11 – 2017/18;
- Efficiencies of £1.473m have been identified and need to be delivered for 2018/19
- Efficiencies of around £6.4m need to be identified and delivered over the next five years (2019/20 – 2023/24).

**Chart 1
Annual Budget Efficiencies / Savings**

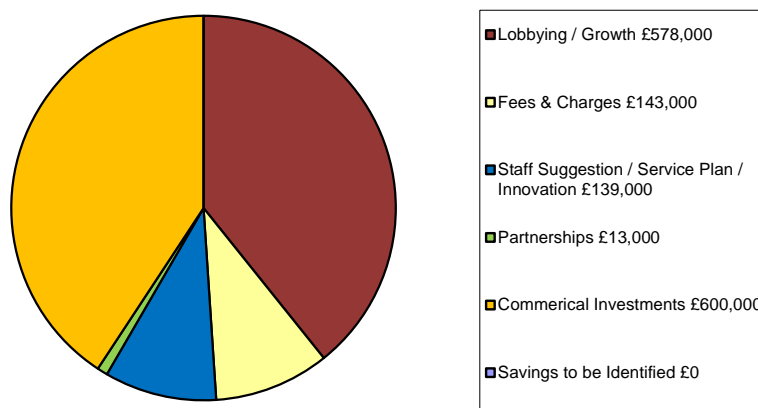


3.3 When the 2018/19 budget was set, Members will recall that additional ongoing efficiency savings of £1,473,000 were required to set a balanced budget. Those 'efficiency savings' were identified before the budget was formally set and are summarised in Chart 2:

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**Chart 2
Framework Efficiency Savings for the next Year
(2018/19)**



3.4 As explained in previous budget reports although we have traditionally referred to the term 'savings', in reality these are a combination of efficiency savings and additional income. Table 2 illustrates how the efficiency targets in 2018/19 are being delivered:

Table 2 – 2018/19 Budget Changes			
Framework	Additional Income £'000	Reduced Expenditure £'000	Total £'000
Lobbying / Growth	578	0	578
Fees & Charges	143	0	143
Staff Suggestion / Service Plan / Innovation	107	32	139
Partnerships	13	0	13
Commercial Investments	600	0	600
Total	1,441	32	1,473

3.5 Table 3 provides a reminder of the composition of the 2018/19 Framework efficiency savings.

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Table 3 – Composition of 2018/19 Budget Changes		
Framework	Saving	£'000
Commercial Investments	Income from Commercial Investments	600
Lobbying / Growth	New Homes Bonus Income	343
Lobbying / Growth	Increase in Planning Fees	135
Lobbying / Growth	Homelessness Grant	100
Staff / Innovation	Treasury Management Income	100
Staff / Innovation	Other schemes	39
Fees & Charges	Additional Income	77
Fees & Charges	Crematorium Income	66
Partnerships	Joint Working	13
Total		1,473

- 3.6 During each budget process, members are informed of a number of ‘big ticket’ items. These are typically items of large value that could have a disproportionate impact on the Council’s budget if they moved in an adverse fashion. Consequently these are monitored very closely and members and officers may occasionally try to influence (through lobbying) any changes that may take place especially when such changes are triggered through changes in national policy. These items are included in the Councils Swing – o – meter as detailed at **Appendix B**.
- 3.7 The General Fund remains broadly on target to be delivered within budget for 2018/19 however there continues to be some key areas of volatility – the most significant of these are shown in Table 4 – these remain unchanged to those reported to the September Executive meeting.

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Table 4 – General Fund Projected Variances (2018/19)		
	Projected Variance	Reason
Business Rates	£400,000 (favourable)	This reflects the estimated retained growth from the Business Rates Retention Scheme.
Borrowing Costs	£300,000 (favourable)	The Council continues to use internal reserves as a means of borrowing and the variance reflects lower borrowing costs from using internal reserves rather than borrowing from external institutions. The Council does however use external borrowing for commercial investments.
Property Funds	£280,000 (favourable)	The additional income reflects changes in investing surplus cash in line with the Council's Treasury Management Strategy.
Homelessness	£600,000 (adverse)	There has been a significant increase in the number of homeless applications, which is reflective of the picture across the country. Locally, the Council's response has been to ensure we are best placed to take action to prevent homelessness and, secondly, to minimise expenditure on expensive nightly paid accommodation and bed & breakfast hotels. This has involved utilising HRA properties for temporary accommodation and acquiring a number of properties on the open market to use as temporary housing for homeless households.
Recycling	£300,000 (adverse)	Increased cost for the disposal of co-mingled waste arising from a temporary change in gate fees owing to operational changes with the current provider.
Other Items	£80,000 (adverse)	The General Fund budget consists of many budgets to which there is some degree of variation – overall current projections show this as an adverse variance.

3.8 These areas will be closely monitored and reviewed as part of the forthcoming budget process – some of these (such as homelessness) are essentially demand led and reflective of national economic issues.

GENERAL FUND – 2019/20

3.9 Members should be aware that the indicative savings levels for the period 2019/20 are subject to a number of high level assumptions as part of the 'four year settlement' indicative levels of grant funding were provided for 2019/20 and these are reflected in Table 1.

3.10 As well as monitoring framework savings identified for 2018/19 work continues on identifying savings for the following year – 2019/20. Members are reminded that the Medium Term Financial Forecast required an additional £1,796,000 of ongoing savings to deliver a balanced budget in 2019/20.

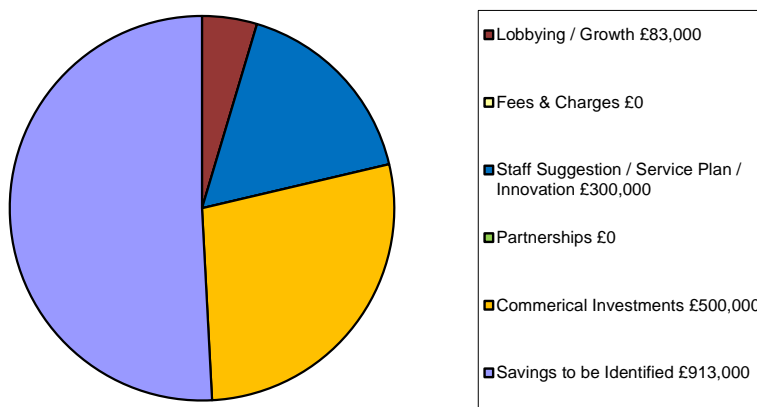
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3.11 Members are reminded that significant efficiency savings have been delivered in recent years as shown in Chart 1. It has been previously reported that savings of this magnitude are going to be difficult to maintain and this is emphasised by the 2019/20 budget process which will be more challenging than previous years.

3.12 It was previously reported to the September Executive that savings of £383,000 had been identified for 2019/20, further efficiencies of £500,000 have been identified these relate to additional income from Commercial Investments. Further savings of £913,000 are required in order to deliver a balanced budget for 2019/20. Chart 3 illustrates how the identified savings are to be delivered and the levels of savings that are required to deliver a balanced budget – to date around half of the savings have been identified.

Chart 3
Framework Savings for the next Year (2019/20)



3.13 It is important that the Council considers all frameworks and all income streams the Council continues to explore how further efficiency savings of around £913,000 can be delivered to meet the estimated savings target for 2019/20. As further savings are identified and resilience tested these will be reported to future Executive meetings.

3.14 There are a number of national announcements that will be made over the coming months, these include Government Grant, New Homes Bonus and Pilots of 75% Business Rates Retention – updates on these key areas will be reported to future Executive meetings.

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GENERAL FUND – 2020/21 – 2023/24

3.15 Given the work that the Government are undertaking about the future of Local Government funding – it is more difficult to look this far ahead with any degree of certainty. The future levels of grant from 2020/21 are much more uncertain and are a best estimate. The scale of the financial challenges from this point onwards will be highly dependent on how the Business Rates Retention Scheme operates over the next five years, together with the national ‘fairer funding review’.

4 CAPITAL PROGRAMME 2018/19 CURRENT FINANCIAL YEAR

4.1 A summary of the projected Capital Programme outturn monitoring statement as at 30th September is shown in Table 5.

Table 5 - Capital	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Expenditure			
HRA Schemes	6,168	6,168	0
General Fund Schemes	38,750	38,750	0
	44,918	44,918	0
Financing			
Capital Receipts	979	979	0
Prudential Borrowing	39,975	39,975	0
Revenue Contribution	2,674	2,674	0
Grants and Contributions	1,290	1,290	0
	44,918	44,918	0
Net Expenditure	0	0	0

5 HOUSING REVENUE ACCOUNT 2018/19 – CURRENT FINANCIAL YEAR

5.1 A summary of Housing Revenue Account monitoring at 30th September 2018 is shown in Table 6. The HRA is projecting an overspend of £250,000. The main pressure relates to income being around £175,000 less than anticipated, this results from increased void levels, resulting in lower income levels.

5.2 The main expenditure pressures are a result of increased expenditure on repairs and maintenance owing to an increase in the number of void properties. The void pressures are being managed under the Reinventing Repairs Service Improvement Programme the main objective of which is to reduce both the number of void properties and the turnaround time between lettings. This is an area of work that will continue to be closely monitored.

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Table 6 - HRA	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,359	15,434	75
Gross Income	(15,359)	(15,184)	175
Net Expenditure	0	250	250

6 TREASURY MANAGEMENT – MID YEAR UPDATE

- 6.1 The Treasury Management Policy Statement is a high level document, which defines the Council's policies and objectives of its Treasury Management activities.
- 6.2 To comply with the requirements of best practice, the Treasury Management Strategy is reported to members in advance of the forthcoming financial year, (this was approved by the Executive and Council at the February meetings) and a mid-year report that covers the following:
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy (6.3).
 - The Council's capital expenditure (prudential indicators) (6.4);
 - A review of the Council's investment portfolio, borrowing strategy and compliance with Treasury and Prudential Limits for 2018/19 (6.5 – 6.7).
- 6.3 The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for 2018/19 were approved by Council on 28th February 2018. There have been no policy changes to either of these strategies.
- 6.4 The current estimates for capital expenditure and financing arrangements since the capital programme was approved by Council on 28th February 2018 have all previously been reported to the Executive.
- 6.5 The Council's current investment and borrowing portfolios (as at 30 September 2018) are detailed in Table 7. These are in line with the Council's Treasury Management Strategy.

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Table 7	
Investment Portfolio	£000
Santander	10,058
Lloyds	3,542
Bank of Scotland	3,491
Rockspring (Property Fund)	5,000
Lothbury (Property Fund)	5,000
Other	12
Total	27,103

Borrowing Portfolio	£000
Daventry District Council	3,500
PWLB	95,003
Total	98,503

- 6.6 The Council's projected closing capital financing requirement (CFR) for 2018/19 is £144m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.
- 6.7 Table 8 shows the Council has estimated external borrowings of £137m at the 31st March 2019 and has partly utilised cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

Table 8	2018/19 Original Budget £000	2018/19 Current Projection £000
Gross Borrowing	127,852	136,756
Other Long Term Liabilities	3,722	117
Less Investments	20,024	29,612
Net Borrowing	111,550	107,261
CFR (year end position)	143,873	143,873
Operational Boundary (External Debt)	149,000	149,000
Authorised Limit	154,000	154,000

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7 AUTUMN BUDGET

- 7.1 The Chancellor of the Exchequer will be announcing the Budget Statement on 29th October, this is earlier than in previous years as the Autumn Budget has typically been late November. The Autumn Budget is now the only opportunity for the Chancellor to announce changes in fiscal policy as the Spring Statement only contains updates of economic and fiscal forecasts.
- 7.2 As in previous years we will provide a note to all Members following this announcement and we will provide a fuller briefing at the next Executive Committee and when we receive the LGA briefing we will make this available.
- 7.3 Given that this Autumn Budget is so close to the end of the current spending review period, it is unlikely to contain any announcements that affect spending plans in 2019/20.
- 7.4 It should provide headline information on the overall funding envelope and the timetable and process for Spending Review - how funding will be allocated between spending departments will from part of the spending review itself, this will cover the period 2020/21 to 2024/25.
- 7.5 The provisional financial settlement has typically been announced within a few weeks after the Autumn Budget. At this stage we are still expecting a provisional settlement in December 2018 although earlier announcements would be welcomed.

8 NORTHAMPTONSHIRE COUNTY COUNCIL – LATEST BUDGET PROJECTIONS

- 8.1 At the time of writing this report, NCC's Cabinet are due to consider the following three financial reports at their meeting on 9th October :
- Item 6 – Monthly revenue monitoring report for the financial year ending 31st March 2019 as at 31st August 2018 (period 5)
 - Item 7 - Stabilisation Plan
 - Item 8 - Medium Term Financial Plan Update

[The purpose of report 7 (Stabilisation Plan) was to set out the 2018/19 financial position and improve the Council's forecast budget shortfall for 2019/20.]

- 8.2 The three reports are public documents and can be accessed at the following link

<https://cmis.northamptonshire.gov.uk/cm5live/MeetingsCalendar/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/3205/Committee/399/Default.aspx>

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- 8.3 An extract from Appendix A of NCC's Stabilisation report (page 4) is shown at Appendix C this shows that when NCC set its budget for 2018/19 it estimated that it would have to deliver savings of £35.4m. NCC are reporting that around £24.2m of these are on target to be delivered in year, however in addition to the original savings of £35.4m there are in year pressures of £30.2m.
- 8.4 NCC has indicated that if additional savings of £18.2m (which have been identified through their stabilisation plan) can be delivered in 2018/19, the budget for 2018/19 can be balanced. This is a significant challenge and requires other previously identified savings to be delivered. Any further in year pressures that may arise will also need to be mitigated in full in year.
- 8.5 The Stabilisation Plan includes a number of issues that could impact directly on this Council and other Districts and Boroughs within the County. The proposals include reviewing the collection of Council Tax and Business Rates and the timing for how this is paid to NCC - details regarding this will be worked through with County Council colleagues – the Stabilisation Plan includes additional income of £8.3m in 2018/19 and £8.7m in 2019/20.
- 8.6 In addition the proposals seek to reduce the amount of recycling credits the Districts and Boroughs receive by not applying an annual increase and reviewing options around green waste – the Stabilisation Plan includes savings of £1.67m in 2019/20 from waste associated functions.
- 8.7 The County Council (and the Government appointed commissioners) have indicated that they wish to work with the District and Borough Councils on any issues that impact on the latter's budget. Such dialogue is to be welcomed. It is fair to say that the presentation of the figures in the report make difficult reading – hopefully the overall position will become clearer following the NCC Cabinet meeting.
- 8.8 At this stage NCC's stabilisation plan does not deal with the unfunded deficit of £35.3m this relates to the 2017/18 financial year and the closing position will be fully confirmed when the audit of the 2017/18 accounts has been concluded.
- 8.9 In the budget reports the County have stated that it is not possible for the Council to balance next year's budget without significant service reductions. In addition they will also develop plans to transform services and consider invest-to-save options.
- 8.10 The high level strategy for addressing the 2019/20 funding gap is to review its services in line with the core service provision this was approved on 9th August 2018. The key themes for addressing the funding gaps are as follows:
- Providing existing services in a more cost effective way through service redesigns, increased use of technology or invest to save initiatives;
 - Providing needs-based statutory services;

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- Ensuring discretionary spend is minimised; and
- Supporting local partners to deliver local services more efficiently.

8.11 It is important that NCC deliver a balanced budget that is sustainable for 2019/20 and beyond – the key dates for the 2019/20 Budget cycle are set out in the MTFP Update Report (Report 8 - Section 12) – for ease of reference they are reproduced below:

- **9th October Cabinet** – Outline Medium Term Financial Plan with outline budget stabilisation plan
- **24th October/28th November** – Overview and Scrutiny Committee Meetings
- **11th December Cabinet** - Approve the draft 2019/20 Budget and MTFP for public consultation
- **19th December** - Overview and Scrutiny Committee Meeting
- **December/January** – Budget proposals subject to Council scrutiny together with public consultation.
- **30th January 2019** - Overview and Scrutiny Committee Meeting
- **12th February 2019 Cabinet** - Draft 2019/20 Budget updated following feedback from consultation, scrutiny and its funding assumptions following the final Local Government Settlement. The final 2019/20 Budget and Council Tax decision and MTFP is approved by Cabinet for submission to Council.
- **21st February 2019** - Council approve 2019/20 Budget, Council Tax and MTFP

8.12 The scale of savings combined with limited contingency options, emphasises the challenges faced in delivering the current years' and next year's budget.

9 CONSULTATION AND CUSTOMER IMPACT

9.1 None as a direct consequence of this report. However members are reminded that the formal budget consultation period is from 16h January 2019 to 27th February 2019 when the Council sets its Council Tax for 2019/20. Comments from the consultation process will be reported to the Executive for consideration at its meeting on 13th February 2018.

10 POLICY IMPLICATIONS

10.1 As outlined in the report.

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11 USE OF RESOURCES

11.1 As outlined in the report.

12. RECOMMENDATIONS

That the Executive note the following:-

- a. the Council's current Medium Term Financial Forecast and the progress being made for the delivery of efficiency savings for 2019/20 and future years; Council's Medium Term Financial Strategy and associated guiding principles;
- b. the Treasury Management performance for the period 1st April – 30th September
- c. the financial challenges that are facing Northamptonshire County Council in both 2018/19 and 2019/20 and the potential implications to the Districts and Boroughs in Northamptonshire.

Background Papers:

Title of Document: Estimate Working Papers

Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports