

BOROUGH OF KETTERING

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Report Originator	Strategic Management Team	<i>Fwd Plan Ref No: A18/030</i>	
Wards Affected	All	16 th January 2019	
Title	DRAFT BUDGET PROPOSALS FOR 2019/20 AND MEDIUM TERM FINANCIAL STRATEGY		

Portfolio Holder: Cllr L Bunday

1 PURPOSE OF REPORT

The purpose of this report is to:

- a) Remind members of the context (and background) to the current budget setting process.
- b) Outline the draft budget figures for the Council's three main accounts for 2019/20 and to start the formal budget consultation process.
- c) Consider the main issues that are likely to impact on the Council's budgets in the medium term.
- d) 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 regularly 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:

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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).
Housing Revenue Account	All revenue expenditure and income on activities related to being a housing landlord.
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.

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

2.7 To help Members navigate this report, it contains seven sections:

Section A – Introduction (explains the context to the budget setting process).

Section B – Local Government Reorganisation (outlines the implications to the budget setting process and the Council’s immediate statutory responsibilities).

Section C – Budget Strategy (details the Council’s Policy Position and Financial Golden Rules / Principles).

Section D – General Fund (provides the detail to the General Fund Budget position for the current year and the detail to the 2019/20 draft budget and Medium Term Financial Strategy, risks, and specific comments about future levels of council tax).

Section E – Housing Revenue Account (provides the detail to the Housing Revenue Account position for the current year and the detail to the 2019/20 draft budget).

Section F – Capital Programme (provides the detail to the Capital Programme for both the General Fund and the Housing Revenue Account for the current year and the detail to the 2019/20 draft budget and the indicative programme from 2020/21 to 2023/24).

Section G – Summary, Conclusions and Recommendations

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3. SECTION B: LOCAL GOVERNMENT REORGANISATION

- 3.1 Members will be mindful of the current situation about the potential local government reorganisation in the County.
- 3.2 Whilst it is not necessary to repeat the background to this issue in this report, it is important that members understand what their statutory duties are in relation to the current budget setting process.
- 3.3 At the time of considering the draft budget proposals contained within this report, members of this council must take into account the financial projections for 2019/20 (and the subsequent medium term projections) when making decisions. Although the spectre of a new local government structure exists, at the time of making decisions, councillors must assume that the status quo will remain with regard to Kettering Borough Council and make informed decisions based upon the financial projections that are contained within this report. As such, full regard should be given to the financial estimates, pressures, business and funding risks into the medium term.
- 3.4 The Government is currently undertaking formal consultation on the proposal to replace the current local government structure by creating two new unitary authorities. The government consultation runs until the 25th January. Discussions with government officials indicate that a final decision is likely to take place around the end of March 2019, meaning that all the local authorities in the county will have to set their individual budgets for 2019/20, prior to any decision being made. Clearly, members of all local authorities in the county need to be aware of this major impending decision when considering their council's budget, however at the present time it doesn't alter their statutory duties in budget setting.
- 3.5 Members will recall that at the extraordinary meeting of Full Council at the end of August 2018, it was agreed that all eight local authorities in the County would initially contribute £500,000 each towards the cost of moving the unitary programme forward. It was agreed by Council that this would be funded from either existing budgets or reserves. Should the government formally approve the creation of two new unitary councils it is anticipated that this figure will need to be supplemented in due course; any additional funding will need to come from reserves and will be included in future reports to members (as appropriate). Because this is being funded currently from reserves (due to the one-off nature), it does not form part of the base revenue budget.

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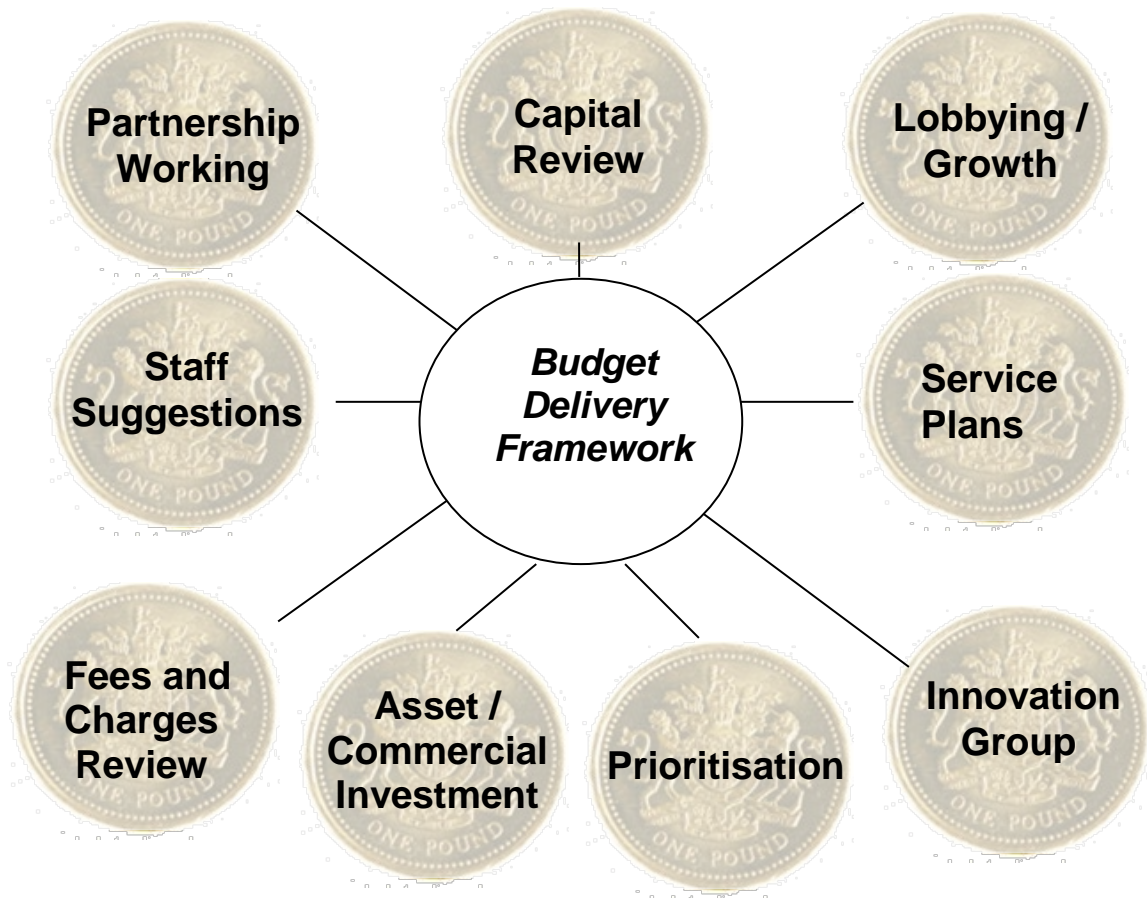
4. SECTION C: BUDGET STRATEGY

POLICY POSITION

- 4.1 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 largely successful, although it remains a significant challenge in the medium term given the increasing external funding challenges that the Council faces (and from fact that the council tax has remained at the same level for the past 8 years - since 2011/12). The budgets for 2018/19 are being closely monitored throughout the year and significant variances are being reported to the Executive as part of these monthly reports.
- 4.2 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, the Council's approach has ensured that we are 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.
- 4.3 However, like many other local authorities, the Council continues to experience significant demand (and cost) pressures in areas such as homelessness prevention, and recycling.
- 4.4 The Council's success in delivering a balanced budget over the past number of years (without having to consider making any front line service reductions) has come from having a clear and well established policy position – in particular, the Council adhering to its budget guiding principles. From previous reports, Members will be aware that savings of this scale are becoming increasingly difficult to meet. For the Council to 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:

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- 4.5 Since 2010, the Council has successfully delivered around £12.8m through ‘efficiencies, savings, and income generation’ – this has been a challenging task. To have a realistic chance of continuing to balance its budget into the medium term, all of the above frameworks must continue to make a positive contribution. One of these sources alone will not provide the mechanism to set a balanced budget, it has to be a balanced approach.
- 4.6 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:

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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);
- 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

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- 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

4.7 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:

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.*

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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 antisocial 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’;

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

4.8 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 measures required to balance the budget for the past eight years.

4.9 Whilst members have a statutory duty to set the budgets for 2019/20 (taking into account the medium term), section b outlined the issue of potential local government re-organisation. Should the government subsequently approve a new local government structure in Northamptonshire, the Council may wish to reconsider / revise its suite of guiding principles at that time, presumably in tandem with any ‘shadow’ governance arrangements that may be implemented at the same time.

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5 Section D: General Fund

Background (General Fund)

- 5.1 This Section firstly presents the Council's General Fund Medium Term Financial Forecast (Table 2). The notes to the Medium Term Financial Forecast are included at Appendix A.
- 5.2 This section then goes on to provide an update on the 2018/19 budget position and the detail to the 2019/20 draft budget and considers a number of key income streams, namely the National Grant Settlement, New Homes Bonus, Business Rates and Council Tax. This section also covers the medium term prospects for the General Fund.
- 5.3 The Medium Term Financial Strategy has been updated and 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 the provisional grant settlement and is the last year of the current four year settlement which covered the period 2016/17 – 2019/20.
 - **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.

Members have commented in previous budget rounds that they have found the use of the 'zones' useful. As such, the same format has been used for the current budget process.

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TABLE 2 - 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	11,118	10,385	10,107	10,482	10,364
2	Forecast Resources:						
	Government Grant						
2a	Revenue Support Grant	(171)	0	0	0	0	0
2b	Business Rates	(2,428)	(2,484)	(2,000)	(2,000)	(2,000)	(2,000)
	Total Government Grant	(2,599)	(2,484)	(2,000)	(2,000)	(2,000)	(2,000)
	Council Tax / Coll'n Fund	(300)	(350)	(100)	(100)	(100)	(100)
	Income From Council Tax	(6,521)	(6,722)	(6,823)	(6,926)	(7,030)	(7,135)
	Total Resources	(9,420)	(9,556)	(8,923)	(9,026)	(9,130)	(9,235)
3	Budget (Surplus) / Deficit	1,473	1,562	1,462	1,081	1,352	1,129
4	'efficiencies' Identified	(1,473)	(1,562)	0	0	0	0
5	'efficiencies' - To be Identified	0	0	(1,462)	(1,081)	(1,352)	(1,129)
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

Please note * 'efficiencies' denotes efficiencies, savings, and income generation.

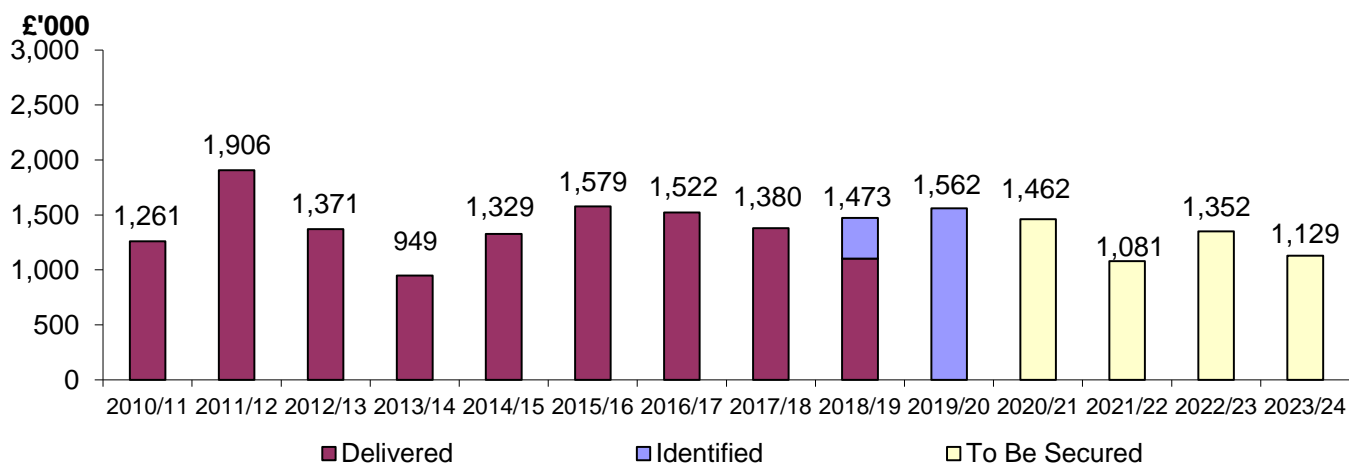
5.4 As clearly outlined in previous budget reports considered by the Executive and Full Council, the best estimates of the ongoing efficiency savings targets going forward are at least of a similar scale to those already met, Chart 1 shows:

- Efficiencies of £12.8m have been identified and delivered between 2010/11 – 2018/19;
- Efficiencies of £1.562m have been identified and need to be delivered for 2019/20;
- Efficiencies of around £5m need to be identified and delivered over the next four years (2020/21 – 2023/24).

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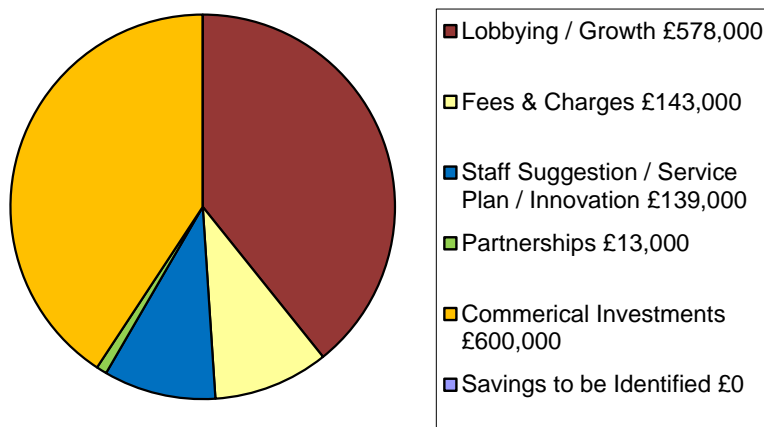
Chart 1
Efficiencies / Savings / Income Generation



2018/19 Update (General Fund)

- 5.5 From when the 2018/19 budget was set, Members will recall that additional ongoing 'efficiencies' of £1,473,000 were required to set a balanced budget.
- 5.6 Those 'efficiencies' were identified before the budget was formally set and are summarised in Chart 2:

Chart 2
Framework Efficiencies for the next Year (2018/19)



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- 5.7 As explained in previous budget reports although we have traditionally referred to the term 'savings', in reality these are a combination of efficiencies, savings and income generation. Table 3 illustrates how the efficiencies in 2018/19 are being delivered:

Table 3 – 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

- 5.8 Members will recall that £600,000 of the identified framework efficiencies for 2018/19 came from additional income through commercial investments. The Executive at the April 2017 meeting approved a Commercial Property Investment Strategy providing a framework for Kettering Borough Council to compete in the property market on an equal footing enabling the acquisition of properties for investment income.
- 5.9 The Council has worked hard on this workstream and the acquisitions made during 2017/18 continue to generate the expected returns. The Council is continuing to progress a number of commercial investment opportunities and these will be reported to future Executive meetings – once the acquisitions have been completed – the Council remains on target to meet the estimated income for 2018/19.
- 5.10 All the commercial investments that have been done to date have been done in accordance with the requirements of (1) the Council Constitution and (2) the Council's Investment Strategy. Work is ongoing on further commercial investments to ensure that the Council remains ahead of the curve in this regard.

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5.11 The Council remains on target to deliver the majority of the 2018/19 framework efficiencies shown in Table 3. Table 4 provides further information – relating to the composition of the 2018/19 efficiency savings.

Table 4 – 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

5.12 Overall the General Fund remains broadly on target to be delivered within budget for 2018/19 however there continues to be some areas of volatility. The main budgets showing volatility are summarised in Table 5 and have been reflected in the Council's revised budget and will continue to be closely monitored.

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Table 5 – General Fund Projected Variances (2018/19)		
	Projected Variances November	Reason
Business Rates	£440,000 (favourable)	This reflects the estimated retained growth from the Business Rates Retention Scheme.
Borrowing Costs	£310,000 (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	£240,000 (favourable)	The additional income reflects changes in investing surplus cash in line with the Council's Treasury Management Strategy.
Homelessness	£700,000 (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	£410,000 (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	£120,000 (favourable)	The General Fund budget consists of many budgets to which there is some degree of variation – overall current projections show this as a favourable variance.

5.13 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. The monitoring of these items typically takes place through the monthly budget reports to the Executive.

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5.14 The General Fund working balance is estimated to be £1.4m at 31st March 2019. This is in line with the original budget figures for the year.

2019/20 Draft Budget (General Fund)

5.15 The provisional Local Government Financial Settlement and the New Homes Bonus figures for 2019/20 were due to be announced by the Government on 6th December – however the announcement was delayed until 13th December as the Government continued to debate on the Brexit deal. The Council's Medium Term Financial Strategy (Table 2) has been updated to reflect the Provisional Settlement and the announcement on New Homes Bonus; these are both considered in more detail later in this section.

5.16 The detailed work on the budget has now been completed and the total efficiencies required to deliver a balanced budget has reduced from £1,796,000 to £1,562,000. The reduced target is reflected in the Medium Term Financial Strategy (Table 2) and the main reason for the reduced target follows the Government's announcement to remove Negative RSG in 2019/20, something that the Council has been strongly lobbying for.

5.17 The previous budget report to this Committee in December outlined that efficiencies of £1,443,000 had already been identified – at the time leaving £353,000 still to be identified. Following the completion of the detailed draft budget process the target was reduced by £234,000 to £1,562,000 – the remaining savings target of £119,000 is being delivered through a number of smaller initiatives to those previously reported and include additional income from Fees and Charges of £70,000 consisting of a 2% increase in Crematorium Fees (£28,000) inflationary increases for Recycling Credits (£22,000), additional income from increased usage (Garage Rents £10,000 and Cemeteries Fees £10,000) and Operational changes to service delivery £49,000.

5.18 This means that the Council will be in a position to set a 'balanced budget' for 2019/20 – subject of course to successfully delivering the savings during the year **and** members not increasing the savings target during the budget process. The identified savings are summarised in Chart 3 and Table 6:

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

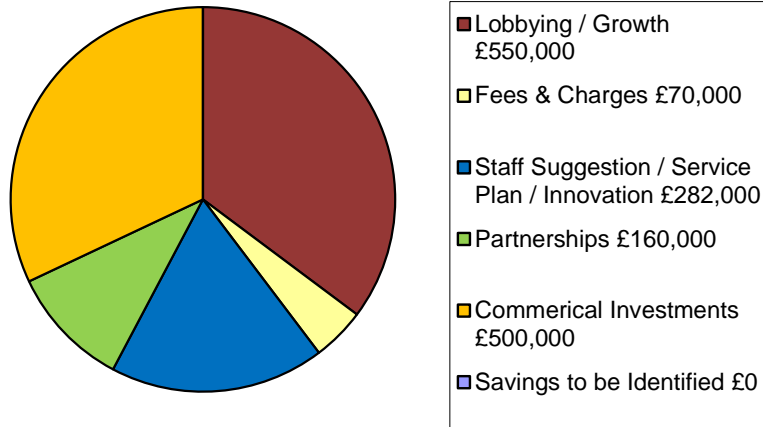


Table 6 – Framework Efficiencies 2019/20

Framework	Additional Income £'000	Reduced Expenditure £'000	Total £'000
Lobbying / Growth	550	0	550
Fees & Charges	70	0	70
Staff Suggestion / Service Plan / Innovation	280	2	282
Partnerships	110	50	160
Commercial Investments	500	0	500
Total	1,510	52	1,562

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5.19 Table 7 provides further information – relating to the composition of the 2019/20 Framework efficiencies:

Table 7 – Composition of 2019/20 Efficiencies		
Framework	Saving	£'000
Commercial Investments	Income from Commercial Investments	500
Lobbying / Growth	Business Rates Income	400
Staff / Innovation	Treasury Management Income	280
Partnerships	Joint Working	110
Lobbying / Growth	Homelessness Grant	83
Lobbying / Growth	New Homes Bonus	67
Fees & Charges	Crematorium Income	28
Fees & Charges	Recycling Credits	22
Various	Minor Variations	72
Total		1,562

5.20 For information, Table 8 summarises and compares the composition of the efficiencies for 2018/19 and 2019/20:

Table 8 – Identified Efficiencies	2018/19		2019/20	
	£'000	%	£'000	%
Lobbying / Growth	(578)	39	(550)	35
Fees and Charges	(143)	10	(70)	5
Staff Suggestions / Service Plan / Innovation	(139)	9	(282)	18
Partnerships	(13)	1	(160)	10
Commercial Investments	(600)	41	(500)	32
Total Identified Framework Savings	(1,473)	100	(1,562)	100

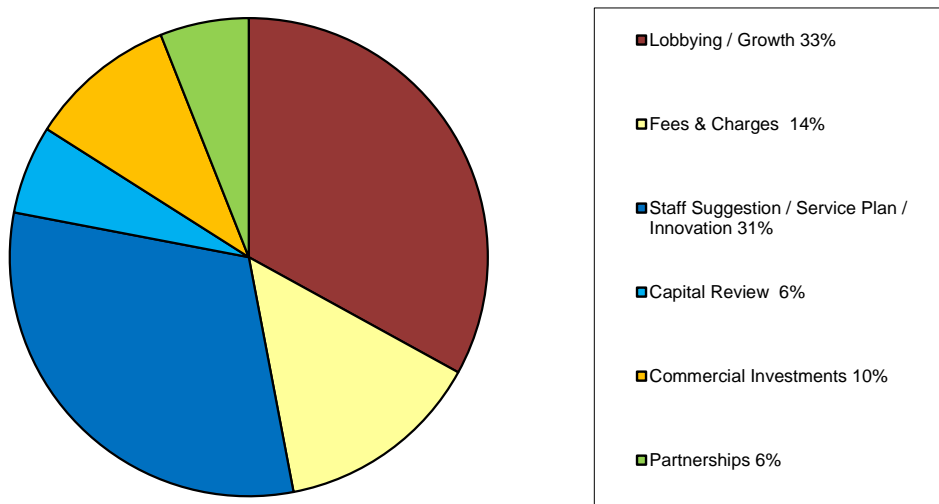
5.21 Around two thirds of the efficiencies identified for 2019/20 have been generated through a combination of Lobbying / Growth and Commercial Investments – it is important that all work streams contribute to the challenging targets.

5.22 Chart 4 details where the total framework efficiencies have been identified since the frameworks were implemented back in 2010:

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Chart 4 - Total Identified Framework Efficiencies



Key Service Pressures (General Fund)

5.23 The Council will need to continue to keep its key budget assumptions under review throughout 2019/20. 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.

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 will continue to be monitored closely.

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 possible that the Council will continue to come under pressure to take on new responsibilities or provide substitute funding as partners change their service levels and delivery models.

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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 Financial Guiding Principles and in particular point 'i' which is reproduced below:

- 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.

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

5.28 An update on the progress of the Shared Street Scene project between Corby Borough Council and Kettering Borough Council was reported to the November Executive. A significant amount of work has been undertaken during the last 12 months and the Shared Service will commence on 2nd February 2019.

5.29 The Shared Service is reflected in both the 2018/19 Revised and 2019/20 Draft Budgets –this results in an increase in gross expenditure and gross income of around £5m in 2019/20 (these are set out in Appendix A – Pages 15 - 18) and results in net financial benefit of around £110,000 to this Council. This has been reflected in the 2019/20 efficiency savings. Whilst delivering a financial benefit the shared service will also deliver service enhancements.

Local Government Funding

Provisional Grant Settlement

5.30 Members will recall that three years ago the Council (along with 97% of other authorities) agreed a four year grant settlement with the Government. 2019/20 will be the final year of this agreement.

5.31 The ability to plan with greater certainty can be better met when there are multi-year settlements – whilst the four year settlements agreed back in 2016/17 provided better foundations for medium term planning – the ability to plan for the medium term diminishes as we get closer to the end of the four year period. Medium Term planning is made more difficult as the financial landscape is much more uncertain from 2020/21.

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5.32 The Government announced the Provisional Finance Settlement on 13th December. Members will recall that this Council's RSG reduced to nil in 2019/20 and that the Government made a further adjustment in 2019/20 whereby the Council rather than receiving a grant was due to make a payment to the Government of £250,000 this had been reflected in the Council's MTFS.

5.33 In 2019/20 negative RSG nationally amounts to around £153m and affects over 160 authorities – there has been strong representation from the local government sector around removing negative RSG. This is something that this Council strongly supported and it is pleasing that the Government following a consultation have decided to remove negative RSG which results in additional resources of £250,000 to those previously being modelled.

5.34 Table 9 summarises the levels of core funding in 2019/20 that the Council had been modelling in the MTFS and the funding levels that were announced in the Provisional Settlement.

Table 9 – Local Government Core Funding			
Funding	MTFS £'000	Provisional Settlement £'000	Change £'000
Business Rates	(2,484)	(2,484)	0
RSG	250	0	(250)
Total	(2,234)	(2,484)	(250)

5.35 The level of Government Funding in 2018/19 was £2.599m, the 2019/20 Provisional Settlement is £2.484m meaning a reduction in core funding of £0.115m. Although members can take some comfort from the fact that the reductions in core funding in 2019/20 are smaller than previous years, the size of the on-going reductions in core funding should still be recognised, and over recent years these total around £5m.

5.36 The basis of New Homes Bonus funding is proposed to remain the same as in the current year. The Executive Committee approved a revised strategy for the use of NHB funding in 2017 – this remains the strategy that is being used in the base budgets.

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Business Rates

- 5.37 The current Business Rates Retention Scheme took effect from 1 April 2013 and allowed authorities that experience a growth in business rates income (above treasury targets) to retain some of the money. The growth would be subject to a levy payment to the Government.
- 5.38 Members will recall that Kettering administers the Pool on behalf of the Northamptonshire authorities. The Northamptonshire pool has been successful in that it has allowed the pool members to retain more funding because the 'levy' that has to be paid to the Government (on business rates growth) is lower in such an aggregate pool position.
- 5.39 It was reported to Members at the September Executive meeting that the government during Summer 2018 had issued a 'prospectus' that invited local authorities to become pilot authorities for the 75% Business Rates Retention Scheme.
- 5.40 Officers across the County compiled a joint bid submission to become a Pilot in 2019/20 for 75% Business Rates Retention which would enable more of the growth to be retained locally. The bid had the agreement of all local authorities within the county area (Districts and the County Council).
- 5.41 There are potential significant financial benefits from being a Pilot authority as the additional growth in retained revenues under the pilot arrangement being half of the former national share would be retained locally.
- 5.42 Members were advised that the bids for Pilots would be a competitive process. There was significant interest to become pilots and the Government received a total of 35 bids.
- 5.43 Northamptonshire has been selected as a pilot along with 14 other Pools to be Pilots for 75% Business Rate Retention. Becoming a Pilot in 2019/20 for 75% Business Rates Retention will enable more of the growth to be retained locally - which is good news for Northamptonshire. The financial benefit for Northamptonshire is estimated to be around £17m.
- 5.44 The composition of the Northamptonshire Pool for 75% Business Rates Retention will include Northampton Borough (they are not currently part of the 2018/19 Northants Pool) meaning all 8 Northamptonshire authorities form part of the 2019/20 Pilot.
- 5.45 Further changes to Business Rates were announced as part of the Provisional Financial Settlement whereby the local share for Business rate retention is to increase from 50% to 75% by 2020/21 – being a Pilot of 75% Business Rates Retention will enable all the Northamptonshire authorities to effectively test parts of the new system before implementation in 2020/21.

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Consultations

5.46 At the same time as issuing the provisional finance settlement, the Government also issued two major consultation papers that will have significant implications on how local authority funding operates from 2020 onwards.

5.47 The two main consultation papers are on the following:

- **Fair Funding Review**

This is about how the quantum of local authority funding will be allocated between different tiers of local government. In effect, the review will allocate priority spending (based upon things like population, need etc.) alongside government spending priorities.

It is widely anticipated in local government that this review is likely to allocate more funding towards national priority areas such as adult social care, and children's services rather than be beneficial to the services that borough and district councils provide.

Accordingly, this review poses a major funding risk to local authorities such as Kettering Borough Council in the medium term.

- **Business Rates Retention**

Following on from the above, the way that the business rate retention scheme operates in the future will have major financial implications for the Council.

As a local authority, we have benefitted well under the present system due to the above average increase in our business base in the borough. This has benefitted the Council (and our revenue budget) by £m's over the past few years.

The system will be re-based in 2020 (alongside a number of other reforms). This could run a significant risk for local authorities such as Kettering who have been managing to help facilitate significant business growth over the past few years. It could result in a significant proportion of our increased business rates funding being taken away and effectively re-allocated to other areas as part of this (and the Fair Funding Review). This is a very significant funding risk for the medium term, one that should not be underestimated.

5.48 The Council will be responding to these key consultations, which were announced alongside the provisional settlement and close on 21 February 2019.

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Medium Term Prospects

5.49 As part of the 2019/20 budget process the key underlying assumptions have been updated and remodelled. The level of 'efficiencies' required over the four year period 2020/21 – 2023/24 has increased by around £400,000 - this is illustrated in Table 10.

Table 10 – Medium Term Financial Savings	November Executive £000	Current MTFs £000	Difference £000
2020/21	1,115	1,462	347
2021/22	1,375	1,081	(294)
2022/23	1,060	1,352	292
2023/24	1,059	1,129	70
Total Efficiencies – to be secured	4,609	5,024	415

5.50 Whilst Table 10 illustrates that the projected efficiencies required over the four year period (2020/21 – 2023/24) are around £5m. Members are reminded that since 2010/11 the Council **has delivered efficiencies of £12.8m and have identified further efficiencies of £1.562m in 2019/20.**

5.51 For District Councils, it is fair to say that the period from April 2020 is the most uncertain in recent local government history. It is increasingly likely that the majority of future government funding will be prioritised for essential care services such as adult social care, and children's services – this is likely to be at the continued expense of some of the funding that currently is provided to District and Borough Councils. Council's (such as Kettering) who have helped facilitate above average business growth, are also likely to see a very significant reduction in the overall monies received from the new business rates retention system.

5.52 Although both of the above are difficult (if not currently impossible) to model properly in the MTFs, what is clear is that significant financial challenges lay ahead in the medium term.

5.53 When the external funding pressures are considered alongside the current demand pressures for services such as homelessness, and recycling – the magnitude of the medium term challenge is clear, and needs to be prepared for.

COUNCIL TAX

5.54 The council tax level for 2019/20 will be considered by the Executive in February but can only be set by full Council at its meeting on 27th February 2019, once the budget consultation has been completed and the officers' report has been fully and properly considered. When discharging their statutory duties,

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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.

- 5.55 Kettering Borough Council has kept the level of its council tax at the same amount for the past 8 years (since 2011/12). The current levels are shown in Table 11:

Band	A	B	C	D	E	F	G	H
Annual Council Tax	£136.93	£159.75	£182.57	£205.39	£251.03	£296.67	£342.32	£410.78
Weekly Council Tax	£2.63	£3.07	£3.51	£3.95	£4.83	£5.70	£6.58	£7.90

- 5.56 Between 2011 and 2016 the Government heavily encouraged local authorities to freeze their council tax each year. This resulted in the introduction of an annual referendum threshold together with annual Council Tax Freeze grants as an incentive for those Councils that did not increase their council tax.
- 5.57 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.
- 5.58 When announcing the provisional Local Government Finance Settlement for 2018/19, the Government changed the limits for councils in relation to Council Tax Setting. The referendum limit for Districts and Boroughs for 2018/19 was the higher of a 3% increase or £5 for a Band D property – the limits for 2019/20 are unchanged.
- 5.59 For Kettering Borough Council this means the referendum limit is a 3% increase which represents an annual increase of £6.16 per Band D property equivalent to an increase of 12p per week. The average Band in Kettering Borough is a Band B and this would represent an increase of 9p per week – such an increase would generate additional council tax income of around £200,000 during 2019/20. When calculating the provisional finance settlement for 2019/20, the Government has assumed that all local authorities will increase their respective council tax by the threshold level.
- 5.60 Following the established practice of previous years, the Council's Medium Term Financial Strategy (shown in Table 2) is shown prior to the consideration of any council tax increases. Members will need to consider the advice of Officers, the medium term financial projections, the resultant savings that are required each year and the overall level of uncertainty regarding levels of

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Government funding and service risks when considering council tax levels for 2020/21 (and subsequent years). The stronger the council tax yield – the greater the flexibility to deal with the future.

- 5.61 Although the draft budget figures for 2019/20 currently show a balanced budget (at the same level of council tax), the increasing medium term pressures / risks clearly indicate that a continuation of the councils previous council tax freeze 'policy' is no longer sustainable.
- 5.62 The clear advice from the professional officers of the Council is that members should consider increasing the level of council tax for 2019/20 by the threshold limit amount (i.e. 3%). Taking into account the significant financial risks that the council is likely to face in 2020, this is the most prudent course of action to take.

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6 Section E: HOUSING REVENUE ACCOUNT

Background

- 6.1 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.
- 6.2 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 following strategy for financing the housing debt:

The amount to borrow	£72.9m
Who to borrow from	Public Works Loan Board (preferential rates)
A 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)

- 6.3 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.
- 6.4 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. The housing debt at 31st March 2018 was £55.9m. The 2018/19 budget provides for a further debt repayment of £3m which would reduce the debt to £52.9m at 31st March 2019 whilst the draft 2019/20 budget provides for a further debt repayment of £3.5m reducing the debt to £49.4m at 31st March 2020.

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2018/19 Update (HRA)

- 6.5 The updated projected outturn for the Housing Revenue Account is shown in Table 12. Overall the Housing Revenue Account is currently projected to come in on budget. The detailed composition of the Housing Revenue Account can be seen by reference to Appendix A – Section 2.

Table 12	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,359	15,145	(214)
Gross Income	(15,359)	(15,145)	214
Net Expenditure	0	0	0

- 6.6 The main variances on the 2018/19 projected outturn relates to income being around £214,000 less than budget this results from void times being higher than budgeted and a higher number of Right to Buy Sales than anticipated, resulting in lower income levels. The expenditure is £214,000 lower than budget, this is mainly due to the 2018/19 self-financing loan of £3m being funded through a combination of revenue resources (£2.8m) and attributable debt (£200,000), which are receipts that are set aside when the number of RTB sales exceed those that were included in the Self Financing Determination, effectively recognising that there are loans from the additional RTB sales that need to be repaid and were higher than those included in the Self Financing determination. The assumed RTB sales in 2018/19 were 15 and the projected sales are 35. The HRA balance is estimated to be maintained at £850,000 at 31st March 2019.

2019/20 Draft Budget (HRA)

- 6.7 A summary of the draft HRA budget for 2019/20 is included at Appendix A - Section 2 of the budget booklet. The high level summary is reproduced in Table 13:

Table 13 - Housing Revenue Account	Draft Budget 2019/20
	£'000
Gross Expenditure	15,318
Gross Income	(15,318)
Net Expenditure	0

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- 6.8 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.
- 6.9 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.
- 6.10 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) in the third year (2018/19) the impact will be in the order of £3m (cash) and in 2019/20 the cash impact is in the order of £5m – 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 2). 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. As Universal Credit is introduced nationally there is likely to be a consultation around how rent increases above national guidelines could be constrained going forward, updates regarding this will form part of future reports to the Executive.
- 6.11 The Government have said that councils and housing associations will be allowed to raise rents by CPI plus 1% for five years from 2020 – it is however expected to take until around 2022/23 to get back to rent levels that were being charged in 2015/16 which is a direct result of the 1% rent reduction.
- 6.12 The overall reduction in rental income in 2019/20 is around £57,000 – the composition of this reduction is summarised in Table 14.

Table 14 – Changes in Rent Levels	
Description	£'000
Additional Weeks rent (53 Week Year)	(290)
New Properties (Montrose House)	(29)
RTB Sales	176
1% Rent Reduction	152
Increase in Void Levels to 2% from 1.68%	49
Total Reduction in Rent from 2018/19 to 2019/20	57

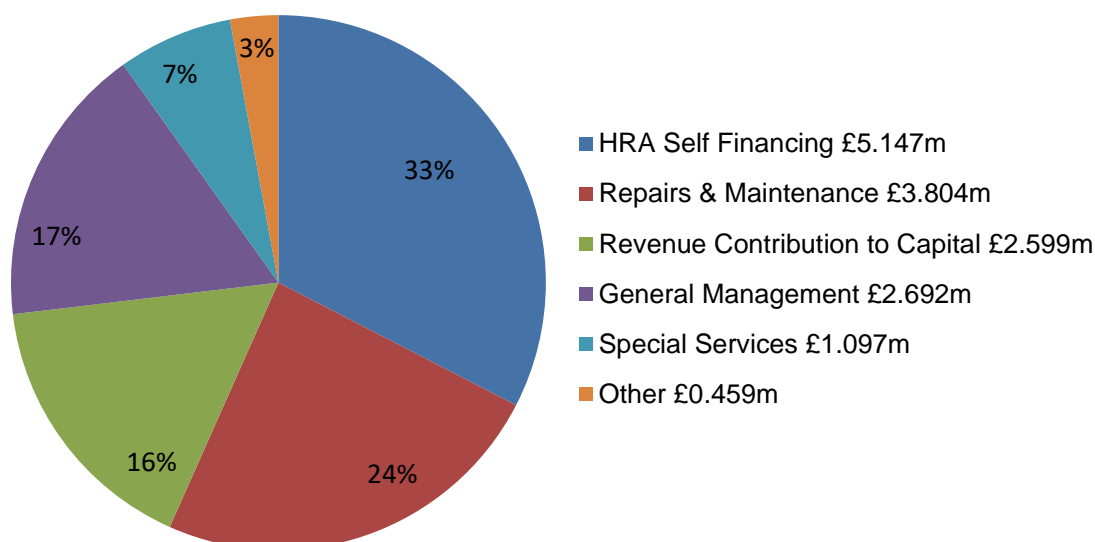
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6.13 The main areas of expenditure within the HRA budget are:

- **HRA Self Financing** - This relates to the repayment of both the Principal and Interest for the Self Financing loan.
- **Repairs & Maintenance** – The costs for response and planned maintenance.
- **Revenue Contribution to Capital** – Contribution from Rents to fund capital expenditure
- **General Management** – The costs of managing the Council's housing stock.
- **Special Services** – Cost of running the Council's sheltered housing schemes.

6.14 The following Chart helps to illustrate where the revenue money is budgeted to be spent in 2019/20:



6.15 The draft budget will be discussed by the Tenants' Forum at its meeting of 7th February 2019 along with the proposal for rent setting. This will be reported back to the Executive meeting on 13th February 2019 for approval.

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7 Section F: CAPITAL PROGRAMME

2018/19 Capital Programme Update

- 7.1 The updated projected outturn for the Capital Programme is shown in Table 15. The detailed composition of the Capital Programme can be seen by reference to Appendix A – Section 3.

Table 15 - Capital Programme	Current Budget 2018/19	Projected Outturn 2018/19	Variance (underspend) / overspend
	£'000	£'000	£'000
Expenditure			
HRA Schemes	7,386	3,717	(3,669)
General Fund Schemes	39,915	39,915	0
	47,301	43,632	(3,669)
Financing			
Capital Receipts	2,213	1,113	(1,100)
Prudential Borrowing	41,309	38,740	(2,569)
Revenue Contribution	2,589	2,589	0
Grants and Contributions	1,190	1,190	0
	47,301	43,632	(3,669)

- 7.2 The 2018/19 capital programme is currently projected to be around £3.67m different to the budget due to phasing / timing differences on two new build schemes. This relates to £2.842m for the new build at Scott Road and £0.827m for Albert Street – both of these are timing variances with the schemes estimated to complete in 2019/20. The budgets need to be re-profiled between the years accordingly.
- 7.3 Table 15 illustrates that based upon the latest estimates for 2018/19; prudential borrowing of £38.7m will be required to finance the programme
- 7.4 Borrowing is in accordance with the Prudential Code and the borrowing that the Council undertakes to finance its capital programme is required to deliver the commercial strategy which also increases the asset valuations that the Council holds on its balance sheet that is published annually in the Statement of Accounts.

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Draft Capital Programme (2019/20 – 2023/24)

- 7.5 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 2019/20 together with indicative funding for the following four years.
- 7.6 The draft capital programme for 2019/20 – 2023/24 is detailed in Appendix A – Section 3. The high level summary is reproduced in Table 16.

Table 16 - Capital Programme	Draft Budget 2019/20	Indicative Estimate 2020/21	Indicative Estimate 2021/22	Indicative Estimate 2022/23	Indicative Estimate 2023/24
	£'000	£'000	£'000	£'000	£'000
Expenditure					
HRA Schemes	3,822	4,159	4,430	4,500	4,260
General Fund Schemes	25,468	23,912	25,762	23,962	21,312
	29,290	28,071	30,192	28,462	25,572
Financing					
Capital Receipts	1,324	1,478	1,689	1,698	1,396
Prudential Borrowing	23,460	23,272	25,122	23,322	20,672
Revenue Contribution	2,728	2,821	2,881	2,942	3,004
Grants and Contributions	1,778	500	500	500	500
	29,290	28,071	30,192	28,462	25,572

- 7.7 The Councils current policy to yield more income from commercial investment projects to generate revenue to help support the revenue account has been clearly outlined in this report and previous reports to both the Executive and Council.
- 7.8 The draft 2019/20 General Fund capital programme also includes a budget of £2m for proactive intervention measures into the housing market. This investment would continue to mitigate the significant revenue pressures arising from the increasing demand in homelessness applications which would reduce the reliance on the use of Bed and Breakfast and nightly paid accommodation – which is the most expensive form of temporary accommodation. The budget would also be used for appropriate and effective management of General Fund housing requirements. In effect, there will be significant invest to save budgets that should yield significant revenue savings for the general fund.
- 7.9 Members are required to approve the capital programme for 2019/20 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.

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7.10 The indicative programme from 2020/21 to 2023/24 includes two new major projects. The first is for a new depot site, this is required to incorporate the larger shared street scene service on one footprint to ensure the service is delivered efficiently and effectively. The second a recycling project / facility is to consider the best way to have a sustainable service into the medium term (including appropriate disposal arrangements).

7.11 Although too early to include anything in the capital programme for the redevelopment of London Road – the site assembly is largely complete and the development brief is currently taking place. A report will be brought back to the Executive and Council in due course to:

- a) Agree the preferred option for the redevelopment of the London Road site and;
- b) Agree changes to the Capital Programme.

7.12 From reference to Table 16 it can be seen that:

- The draft programme for 2019/20 is £29.3m
- The indicative programme from 2020/21 – 2023/24 is between £25.5m and £30.2m 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 2019/20. 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.

7.13 Borrowing – the estimate for borrowing for 2019/20 is £23.46m. 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.

7.14 Capital Investment Strategy – The Council will be required to approve a Capital Investment Strategy – this is a new requirement and will be considered by the Executive at its February meeting before being reported to Full Council on the 27th February. The Capital Investment Strategy provides the policy framework for Capital Investment and provides links to the Corporate Plan and Treasury Management Strategy.

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8. Section G: SUMMARY & CONCLUSIONS

2018/19

- 8.1 The Council has continued to successfully use the 'budget delivery framework' for the delivery of efficiencies.
- 8.2 Since 2010, the Council will have delivered a total of £12.8m of efficiencies by the end of March 2019.

2019/20

- 8.3 Taken in isolation, most of the main issues are 'known' for 2019/20 at this stage.
- 8.4 The Council had budgeted for a grant reduction of £365,000 (14%) for 2019/20 the provisional figure from the Government was a reduction of £115,000 (4.5%). This was £250,000 better than previously being modelled in the Council's MTFS owing to negative RSG being removed.
- 8.5 Prior to the consideration of any council tax increase, it is estimated that **£1,562,000 of 'efficiencies' will be required.** We will start 2019/20 in a similar position to 2018/19 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 2019/20. The remaining 'savings' have also been identified the Council will need to remain focused and stick to its Financial Golden Rules and Financial Guiding Principles if these are to be successfully delivered.
- 8.6 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.
- 8.7 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.
- 8.8 Members will need to consider the medium term projections and associated risks when deciding a level of council tax for 2019/20. In light of these, officer advice is to consider a council tax increase of the threshold level (3%) for 2019/20.
- 8.9 **A capital programme of around £29.3m** is a significant commitment and clearly demonstrates the Council's strategy regarding commercial investments.

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8.10 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 Medium Term

2020/21 and Beyond

8.11 The levels of uncertainty and reductions in government funding in the medium term are very significant and should not be understated.

8.12 It is fair to say that the local government as a Sector has not seen such volatility and uncertainty in funding levels from the Government in recent times. The scale of these changes could see reductions for this Council of anywhere between £2m and £4m over the next few years.

8.12 Both the resetting of the baseline and the review of the funding formula could have a significant impact on the Council’s Medium Term Financial Strategy.

Other Considerations

8.13 The projections in all years rest on the Executive’s adherence to the “*Financial Golden Rules and Financial Guiding Principles* (para 4.6 and 4.7).

8.14 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.

9 CONSULTATION AND CUSTOMER IMPACT

9.1 The formal budget consultation period is from 16th January 2019 to 27th February 2019 when the Council sets its council tax for 2019/20. 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 13th February 2019.

10 POLICY IMPLICATIONS

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

11 USE OF RESOURCES

11.1 The implications on the Council’s resources will be considered throughout the durable budget reports.

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12 **RECOMMENDATIONS**

That the Executive Committee:

- 12.1 Refers the draft budgets for 2019/20 (as contained in the separate budget booklet) to Scrutiny for comment in accordance with the Council's Constitution.
- 12.2 Note the current budget position for 2018/19.
- 12.3 Recognise that the task of balancing the budget in future years is becoming increasingly difficult especially in the light of increasing service pressures, a national review of the Business Rates Retention Scheme and the Government review of the Fair Funding Formula.
- 12.4 Note that the budget consultation period will run from 16th January 2019 to 27th February 2019. The budgets and level of Council Tax for 2019/20 will be set at a meeting of Full Council on 27th February 2019.

Background Papers:

Previous Reports/Minutes:

Monthly Durable Budget Reports
(April 2010 to date)