

## BOROUGH OF KETTERING

|                          |  |                                     |           |
|--------------------------|--|-------------------------------------|-----------|
| <b>Committee</b>         | <b>EXECUTIVE</b>   | Item 10                             | Page<br>1 |
| <b>Report Originator</b> | Strategic Management Team  | <i>Fwd Plan Ref No:<br/>A15/030</i> |           |
| <b>Wards Affected</b>    | All  | 13th February 2019                  |           |
| <b>Title</b>             | <b>DRAFT BUDGET PROPOSALS FOR 2019/20 AND MEDIUM TERM FINANCIAL STRATEGY</b> |                                     |           |

**Portfolio Holder: Cllr Lloyd Bunday**

### **1 PURPOSE OF REPORT**

The purpose of this report is two-fold – firstly to provide any updates to the budget that have occurred since the last meeting, and secondly to report back comments that have been submitted during the budget consultation period (to date) to enable the Executive to: -

- a) reconsider the main budget issues and drivers and consider their impact on the medium term;
- b) make budget recommendations to full Council, including the recommended level of council tax for 2019/20;
- c) Formally approve the level of council house rents that will be charged for 2019/20;
- d) Provide a reminder on the Fair Funding Review and Business Rates Retention Consultations;
- e) Recommend a debt for write off in accordance with the Council's constitution.

### **2. BACKGROUND**

2.1. The Executive considered a comprehensive report on its initial budget proposals at its meeting of 16<sup>th</sup> January 2019. The report considered the draft proposals for the General Fund, Housing Revenue Account and Capital Programme. Members are recommended to refer back to that report for the detailed background to this budget report – although the key budget issues are again referred to in this report, the detail of the budget is not.

2.2. Members are also reminded of the current situation about the potential local government reorganisation in the County, 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.

## BOROUGH OF KETTERING

|                  |                  |         |        |
|------------------|------------------|---------|--------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 2 |
|------------------|------------------|---------|--------|

- 2.3. 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.
- 2.4. The Council's formal budget consultation period has been running since 16<sup>th</sup> January 2019 and will end on the 27<sup>th</sup> February 2019 (when the Council formally sets the budgets).
- 2.5. Since the January Executive Committee, the draft budget proposals have been discussed at a number of meetings including the formal Budget Consultation event on 24<sup>th</sup> January 2019.
- 2.6. Without repeating all of the detail previously reported in the January report, the 'key issues' section of that report is reproduced at **Appendix A** for context and ease of reference.

### **3. BUDGET CONSULTATION - COMMENTS**

- 3.1 The budget consultation period runs until the 27<sup>th</sup> February 2019 - when a meeting of Full Council will consider and set the budgets and the level of Council Tax for 2019/20.
- 3.2 A summary of the main comments that have been made through the main consultation meetings are summarised in **Appendix B**, as detailed below;

| <b>Appendix B</b> | <b>Comments From</b>   |
|-------------------|--|
| 1                 | Statutory Budget Consultation Meeting                        |
| 2 – 4             | Geographical Forums  |
| 5                 | Monitoring and Audit Committee (to be circulated separately) |
| 6                 | Research and Development (to be circulated separately)       |
| 7                 | Tenants Forum (to be circulated separately)                  |
| 8                 | Any Other Comments (to be circulated separately)             |

|                  |                  |         |        |
|------------------|------------------|---------|--------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 3 |
|------------------|------------------|---------|--------|

**4. GOVERNMENT GRANT SETTLEMENT 2019/20**

4.1 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 is the final year of this agreement.

4.2 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.

4.3 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.

4.4 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

## BOROUGH OF KETTERING

|                  |                  |         |        |
|------------------|------------------|---------|--------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 4 |
|------------------|------------------|---------|--------|

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.

- 4.5 The Council will be responding to these key consultations, which were announced alongside the provisional settlement and close on 21 February 2019 – owing to the timeframe for responding to the Consultation – the recommendations asks that delegated authority is given to the Council’s Section 151 Officer in consultation with the Finance Portfolio Holder.
- 4.6 The Provisional Local Government Finance Settlement for 2019/2020 was announced on 13<sup>th</sup> 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.
- 4.7 Table 1 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. It is expected that the Final Settlement will be announced on 5<sup>th</sup> Feb.

| <b>Table 1 – Local Government Core Funding</b> |                       |   |                         |
|--|-----------------------|---|-------------------------|
| <b>Funding</b>                                 | <b>MTFS<br/>£'000</b> | <b>Provisional<br/>Settlement<br/>£'000</b> | <b>Change<br/>£'000</b> |
| Business Rates                                 | (2,484)               | (2,484)                                     | 0                       |
| RSG  | 250                   | 0   | (250)                   |
| <b>Total</b>                                   | <b>(2,234)</b>        | <b>(2,484)</b>                              | <b>(250)</b>            |

It should be noted that the national funding reductions shown in Table 1 are in addition to those experienced before 2019/20. Over recent years the reductions in Government Grant total around £5m.

## BOROUGH OF KETTERING

|                  |                  |         |        |
|------------------|------------------|---------|--------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 5 |
|------------------|------------------|---------|--------|

### 5. UPDATE OF KEY ISSUES AND BUDGET PROJECTIONS

5.1 The budget figures have continued to be resilience tested during the budget period and have remained the same as those presented in the January report. The budget model (prior to the consideration of any change in council tax) is reproduced in Table 2. Notes to the MTFs are provided at **Appendix C**.

| 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           |
| <b>1</b>                                 | <b>Net Council Budget</b>         | 10,893                   | 11,118         | 10,385                     | 10,107         | 10,482         | 10,364         |
| <b>2</b>                                 | <b>Forecast Resources:</b>        |                          |                |                            |                |                |                |
|  | <b>Government Grant</b>           |                          |                |                            |                |                |                |
| <b>2a</b>                                | Revenue Support Grant             | (171)                    | 0              | 0                          | 0              | 0              | 0              |
| <b>2b</b>                                | Business Rates                    | (2,428)                  | (2,484)        | (2,000)                    | (2,000)        | (2,000)        | (2,000)        |
|  | <b>Total Government Grant</b>     | <b>(2,599)</b>           | <b>(2,484)</b> | <b>(2,000)</b>             | <b>(2,000)</b> | <b>(2,000)</b> | <b>(2,000)</b> |
|  | 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)        |
|  | <b>Total Resources</b>            | <b>(9,420)</b>           | <b>(9,556)</b> | <b>(8,923)</b>             | <b>(9,026)</b> | <b>(9,130)</b> | <b>(9,235)</b> |
| <b>3</b>                                 | <b>Budget (Surplus) / Deficit</b> | <b>1,473</b>             | <b>1,562</b>   | <b>1,462</b>               | <b>1,081</b>   | <b>1,352</b>   | <b>1,129</b>   |
| <b>4</b>                                 | 'efficiencies' Identified         | <b>(1,473)</b>           | <b>(1,562)</b> | <b>0</b>                   | <b>0</b>       | <b>0</b>       | <b>0</b>       |
| <b>5</b>                                 | 'efficiencies' - To be Identified | <b>0</b>                 | <b>0</b>       | <b>(1,462)</b>             | <b>(1,081)</b> | <b>(1,352)</b> | <b>(1,129)</b> |
| <b>6</b>                                 | <b>Budget (Surplus) / Deficit</b> | <b>0</b>                 | <b>0</b>       | <b>0</b>                   | <b>0</b>       | <b>0</b>       | <b>0</b>       |
| GENERAL FUND WORKING BALANCE             |                                   |                          |                |                            |                |                |                |
|  |                                   | 2018/19                  | 2019/20        | 2020/21                    | 2021/22        | 2022/23        | 2023/24        |
|  |                                   | £000                     | £000           | £000                       | £000           | £000           | £000           |
| <b>7</b>                                 | <b>Estimated Opening Balance</b>  | <b>1,415</b>             | <b>1,375</b>   | <b>1,335</b>               | <b>1,295</b>   | <b>1,295</b>   | <b>1,295</b>   |
| <b>8</b>                                 | Town Centre Initiatives           | 40                       | 40             | 40                         | 0              | 0              | 0              |
| <b>9</b>                                 | <b>Estimated Closing Balance</b>  | <b>1,375</b>             | <b>1,335</b>   | <b>1,295</b>               | <b>1,295</b>   | <b>1,295</b>   | <b>1,295</b>   |

5.2 The Medium Term Financial Strategy 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. Based upon the figures in the MTFs, the Council would need to identify and deliver further efficiencies of around;

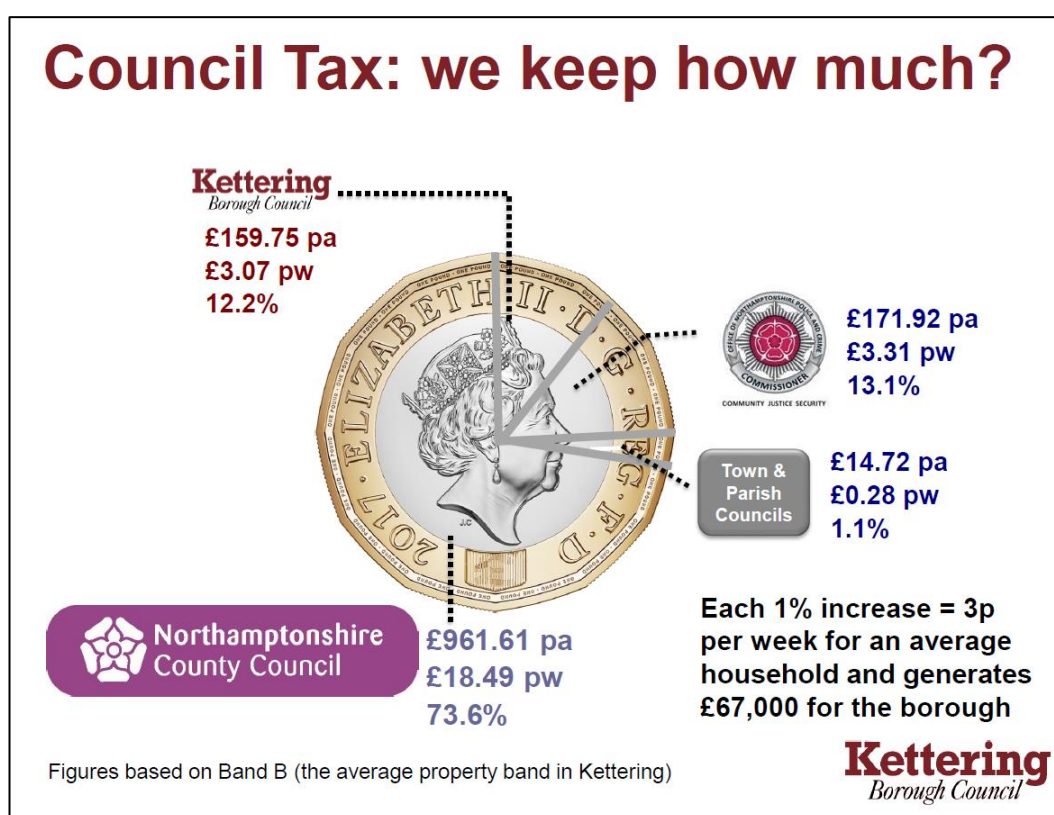
## BOROUGH OF KETTERING

|                  |                  |         |        |
|------------------|------------------|---------|--------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 6 |
|------------------|------------------|---------|--------|

- ◆ £1,462,000 in 2020/21,
- ◆ £1,081,000 in 2021/22
- ◆ £1,352,000 in 2022/23 and
- ◆ £1,129,000 in 2023/24

### 6. COUNCIL TAX SETTING

6.1 The following illustration serves to remind members of the relative size of the council tax figures that are under consideration.



6.2 Members are reminded that on the 1<sup>st</sup> January 2019 the Fire Authority transferred from Northamptonshire County Council to the Police and Crime Commissioner. This will have an impact on Council Tax levels for these two authorities from 1<sup>st</sup> April 2019, this will see a reduction in NCC's Council Tax and an increase in the PCCN Council Tax to reflect the change in responsibilities. Table 3 illustrates the impact of these changes based on 2018/19 Council Tax Levels.

## BOROUGH OF KETTERING

|                  |                  |         |        |
|------------------|------------------|---------|--------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 7 |
|------------------|------------------|---------|--------|

| <b>Table 3 – Transfer of the Fire Authority</b> |                  |                 |                  |
|---|------------------|-----------------|------------------|
| <b>Authority</b>                                | <b>Current</b>   | <b>Transfer</b> | <b>Revised</b>   |
| NCC   | £907.35          | (£45.89)        | £861.46          |
| PCCN  | £162.59          | £45.89          | £208.48          |
| <b>Total</b>                                    | <b>£1,069.94</b> | <b>£0.00</b>    | <b>£1,069.94</b> |

*The above figures are based on Band B Council Tax Charged in 2018/19*

- 6.3 At this meeting of the Executive Committee, members are required to recommend a level of council tax for 2019/20 to full Council for consideration.
- 6.4 When doing so, members must have regard to: -
- a. The medium term financial projections for the council's General Fund budget (statutory requirement)
  - b. The advice of its professional officers.
  - c. The financial (and business) risks that face the authority in the medium term.
- 6.5 Based upon the figures in the budget model (Table 2), the level of budget savings over the four year period (2020/21 – 2023/24) are around £5m
- 6.6 The Council's record in identifying and delivering efficiency savings over the past nine years, including the year under consideration (2019/20), are around **£14.3m** - as illustrated in Table 4.

| <b>Table 4 – 'Efficiency' Savings</b> | <b>£000</b>   |
|---------------------------------------|---------------|
| 2010/11                               | 1,260         |
| 2011/12                               | 1,910         |
| 2012/13                               | 1,330         |
| 2013/14                               | 950           |
| 2014/15                               | 1,330         |
| 2015/16                               | 1,580         |
| 2016/17                               | 1,520         |
| 2017/18                               | 1,380         |
| 2018/19                               | 1,473         |
| <b>Total</b>                          | <b>12,733</b> |
| 2019/20                               | 1,562         |
| <b>Total</b>                          | <b>14,295</b> |

## BOROUGH OF KETTERING

|                  |                  |         |        |
|------------------|------------------|---------|--------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 8 |
|------------------|------------------|---------|--------|

- 6.7 Between 2010 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 (generally 2%) together with annual Council Tax Freeze grants as an incentive for those Councils that did not increase their Council Tax.
- 6.8 However, the 2016/17 grant settlement signalled a major policy change by the Government in relation to Council Tax levels – where there was no longer an emphasis (or indeed any incentives) to freeze Council Tax from 2016/17. The same has been true for the years thereafter.
- 6.9 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 27<sup>th</sup> February 2019, once the budget consultation has been completed and the officers' report has been fully and properly considered. When discharging their statutory duties, Members will need to give due regard to the issues facing the authority in the medium term, especially in relation to the changing financial landscape in relation to those issues outlined in this report.
- 6.10 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 5;

| <b>Table 5 – Council Tax Levels for the past 8 years (since 2011/12)</b> |          |          |          |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>Band</b>  | <b>A</b> | <b>B</b> | <b>C</b> | <b>D</b> | <b>E</b> | <b>F</b> | <b>G</b> | <b>H</b> |
| 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    |

- 6.11 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.
- 6.12 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.



## BOROUGH OF KETTERING

|                  |                  |         |        |
|------------------|------------------|---------|--------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 9 |
|------------------|------------------|---------|--------|

- 6.13 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 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.
- 6.14 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.
- 6.15 The Council has seen significant changes to how the New Homes Bonus scheme operates and there are likely to be further significant changes to how Government Grant is distributed from 2020/21 following the Fair Funding Review. The Business Rates Retention scheme is to be reset from 2020/21 both of these could adversely impact on the Council's budget in the medium term.
- 6.16 Table 6 summarises the real terms impact of the Council's Council Tax freeze since 2011/12. If the current rate of inflation is used as a reference point, in effect local residents have experienced a real terms reduction in their local council tax for Kettering Borough Council of around 16.1% for the 8 year period.

| <b>Table 6</b> | <b>Actual / Estimated Inflation Rate</b> | <b>Council Tax Increase</b> | <b>Cumulative Real Terms Reduction</b> |
|----------------|--|-----------------------------|--|
| 2011/12        | 4.80%                                    | 0.00%                       | 4.80%                                  |
| 2012/13        | 2.70%                                    | 0.00%                       | 7.50%                                  |
| 2013/14        | 2.10%                                    | 0.00%                       | 9.60%                                  |
| 2014/15        | 1.00%                                    | 0.00%                       | 10.60%                                 |
| 2015/16        | 0.10%                                    | 0.00%                       | 10.70%                                 |
| 2016/17        | 1.50%                                    | 0.00%                       | 12.20%                                 |
| 2017/18        | 2.80%                                    | 0.00%                       | 14.00%                                 |
| 2018/19        | 2.10%                                    | 0.00%                       | 16.10%                                 |

- 6.17 The overall scale of budget reduction continues to be very significant. Collectively the Council has coped well by delivering a balanced budget despite having no council tax increase, no cuts to front line services, and no reduction to overall funding for the voluntary sector since 2011/12. This has only been achievable by following the budget guiding principles and making sure that other income sources, such as fees and charges, are harvested in line with their previously agreed guiding principles – this will remain important moving forward, especially in relation to income generation where around 97%

## BOROUGH OF KETTERING

|           |                  |         |            |
|-----------|------------------|---------|------------|
| Committee | <b>EXECUTIVE</b> | Item 10 | Page<br>10 |
|-----------|------------------|---------|------------|

of the efficiency savings for 2019/20 are being delivered through additional income.

- 6.18 The reality of the Council being able to deliver a balanced budget in the medium term will continue to be more of a significant challenge – the Council will need to continue to carefully consider its main sources of income (Council Tax, Fees and Charges, Commercial Income generation) whilst also starting to consider its priorities for services (and levels of services) if a balanced budget is to be achieved in the medium term.
- 6.19 Although through this budget process members will only be setting a level of council tax for 2019/20, this should be done by reference to the medium term and the risks faced. The Council's previous external auditors (KPMG) as part of their Value for Money opinion made the following comments:

*The financial pressure on the Authority is therefore likely to increase over the coming years and it is imperative that work continues to identify savings well in advance of the periods of unpredictability most especially savings which may require initial investment and a longer lead time to realise their benefits.*

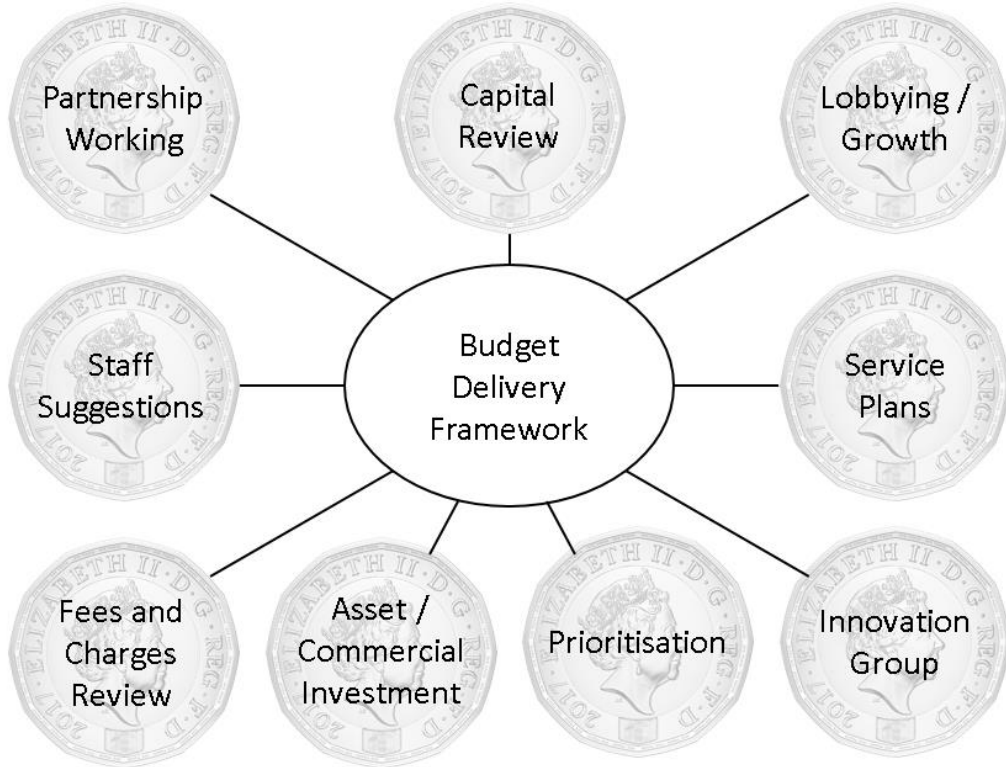
*Furthermore, difficult decisions will need to be made in respect of other sources of funding such as Council Tax, as more Authorities begin to increase this in order to mitigate the financial pressures felt elsewhere and maintain the desired level of services to the public.*

- 6.20 It is fair to say that the Council is likely to have to make some difficult choices about service priorities and service levels as we progress through the latter years of the medium term financial strategy. Given the continued reductions in Government Grant, the medium term funding risks, and the increased income targets for commercial investments.
- 6.21 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.
- 6.22 The Executive Committee are required to make a formal Council Tax recommendation to full Council for consideration at the meeting on 27<sup>th</sup> February 2019. Although through this budget process members will only be setting a level of council tax for 2019/20, this must be done by reference to the medium term and the risks faced.
- 6.23 As outlined at the Council's recent budget consultation meeting, for the Council to remain in the best possible shape in the medium term it will need to

## BOROUGH OF KETTERING

|           |                  |         |         |
|-----------|------------------|---------|---------|
| Committee | <b>EXECUTIVE</b> | Item 10 | Page 11 |
|-----------|------------------|---------|---------|

ensure that it 'delivers' on all aspects of its budget framework. The Council's budget framework is reproduced below:



6.24 The Council has already done a good job of delivering around £13m of 'efficiency savings' to date. 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 in the medium term, all of them must contribute.

## BOROUGH OF KETTERING

|                  |                  |         |         |
|------------------|------------------|---------|---------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 12 |
|------------------|------------------|---------|---------|

### 7. DRAFT CAPITAL PROGRAMME (2019/20 – 2023/24)

7.1 The draft Capital Programme was reported to the Executive as part of the initial budget proposals in January and has since been the subject of consultation and further review. The programme is summarised in Table 7.

| <b>Table 7 - Capital Programme</b> | <b>Draft Budget 2019/20</b> | <b>Indicative Estimate 2020/21</b> | <b>Indicative Estimate 2021/22</b> | <b>Indicative Estimate 2022/23</b> | <b>Indicative Estimate 2023/24</b> |
|------------------------------------|-----------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|                                    | £'000                       | £'000                              | £'000                              | £'000                              | £'000                              |
| <b>Expenditure</b>                 |                             |                                    |                                    |                                    |                                    |
| 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                             |
|                                    | <b>29,290</b>               | <b>28,071</b>                      | <b>30,192</b>                      | <b>28,462</b>                      | <b>25,572</b>                      |
| <b>Financing</b>                   |                             |                                    |                                    |                                    |                                    |
| 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                                |
|                                    | <b>29,290</b>               | <b>28,071</b>                      | <b>30,192</b>                      | <b>28,462</b>                      | <b>25,572</b>                      |

7.2 The Prudential Code introduced a requirement for local authorities to produce an annual capital strategy this Strategy is also being considered at this meeting of the Executive (see report 12 on this agenda)

7.3 The financing estimate for borrowing for 2019/20 is £23.5m. 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 (see report 11 on this agenda).

#### **2018/19 Update**

7.4 The Council continues to make progress with its Commercial Investments programme and in January 2019 the Council acquired the freehold of Haydock House, (the RCI Building) on Kettering Parkway for £4.35m the estimated gross return is around 11%.

7.5 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.

## BOROUGH OF KETTERING

|                  |                  |         |         |
|------------------|------------------|---------|---------|
| <b>Committee</b> | <b>EXECUTIVE</b> | Item 10 | Page 13 |
|------------------|------------------|---------|---------|

7.6 Any further comments that have been made during the consultation period (to date) are provided at Appendix B. The Executive are required to note the comments made and consider whether they wish to take any action on any specific issues raised.

### **8. DRAFT HOUSING REVENUE ACCOUNT (2019/20)**

8.1 The draft HRA budget was reported to the previous meeting of this committee and is reproduced Table 8 below;

| <b>Table 8 - Housing Revenue Account</b> | <b>Draft Budget 2019/20</b> |
|--|-----------------------------|
|  | £'000                       |
| Gross Expenditure                        | 15,318                      |
| Gross Income                             | (15,318)                    |
| <b>Net Expenditure</b>                   | <b>0</b>                    |

8.2 In accordance with the Council's Constitution, although the Executive will be recommending the HRA budget for 2019/20 to full Council for approval, this meeting of the Executive will formally approve the level of Council housing rents for 2019/20.

8.3 The Government announced in summer 2013 that from 2016/17 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.

8.4 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.

8.5 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.

8.6 Following the Government's announcement in July 2015 that social housing rents would decrease by 1% per annum for the next four years – the housing revenue account business plan was remodelled to take account of this change.

8.7 Although the legislation and regulations around housing rents is complex, in simple terms the Council has little option but to implement the rent levels that

## BOROUGH OF KETTERING

|           |                  |         |            |
|-----------|------------------|---------|------------|
| Committee | <b>EXECUTIVE</b> | Item 10 | Page<br>14 |
|-----------|------------------|---------|------------|

are being imposed by central government – these being a 1% reduction each year, over the four year period (2016/17 – 2019/20).

- 8.8 The draft budget included an average rent **decrease** of 1.00% (equivalent to £0.65 per week). The average rent per week in 2019/20 being £78.78.
- 8.9 The rent levels for 2019/20 will be discussed at the Tenants Forum when it meets on the 7<sup>th</sup> February 2019. Any comments made by the Tenants Forum will be reported to members of the Executive before this meeting.

### **9 DEBT WRITE-OFFS**

- 9.1 In accordance with good practice and to ensure the Council's Balance Sheet accurately reflects monies due at the end of the financial year the Council reviews debts outstanding over £20,000. Where it is unlikely that these debts will be settled due to either the companies being in liquidation or the companies have been dissolved they are submitted to the Executive for write off in accordance with the Council's Financial Regulations (which requires the Executive to approve all write offs in excess of £20,000).
- 9.2 The following debt detailed below is submitted for approval to the Executive Committee these relate to Business Rates. The company is insolvent and have no assets meaning the debts are irrecoverable. The Council makes a provision for bad debts on an annual basis and these debts would be charged against this provision. This is an accounting adjustment and forms part of the Final Accounts process as the Council prepares the annual Statement of Accounts.

| Reference | Amount     |
|-----------|------------|
| 101177560 | £23,667.57 |

- 9.3 The Council collects around £30m in Business Rates on an annual basis and this debt represent around 0.08% of the total debt – the Council's collection rate for Business Rates is currently around 99%.

### **10. STATUTORY OFFICERS COMMENTS**

- 10.1 To comply with best practice, the Council's Statutory Officers have a responsibility to provide a commentary on the budget (and the underlying assumptions) in the report that is considered by full Council on 27<sup>th</sup> February 2019.
- 10.2 Members are reminded that the Council has identified and delivered efficiency measures of £12.8m over the nine year period 2010/11 – 2018/19, and further efficiency measures of £1.562m have been identified for 2019/20. The total over the past ten years amounts to £14.3m.

## BOROUGH OF KETTERING

|           |                  |         |            |
|-----------|------------------|---------|------------|
| Committee | <b>EXECUTIVE</b> | Item 10 | Page<br>15 |
|-----------|------------------|---------|------------|

- 10.3 Based on the assumptions applied to the Council's Medium Term Financial Strategy, in the years after 2019/20 the Council will on average need to deliver **additional annual on-going savings in the region of £1,250,000** – this adds up to around £5m over the medium term which is on top of the £14.3m ongoing savings achieved since 2010. This is a very significant challenge. The Council will need to ensure that progress is made on all elements of its budget framework if a balanced budget is to be achievable into the medium term.
- 10.4 If the Council is to deliver a balanced budget in the medium term, in addition to continuing to make progress on 'commercial investments' it will need to seriously consider its main sources of income (Council Tax, Fees and Charges) at the same time as starting to consider its priorities for services (and levels of services).
- 10.5 Members' attention is specifically drawn to the comments made in Section 6 in this report, in relation to Council Tax levels and considerations. Whilst decisions about the level of Council Tax are ultimately a political choice – such decisions need to be made in full appreciation of the medium term financial projections and associated risks. The Council Tax has been frozen for the past eight years – it is difficult to see how this can continue throughout the medium term without other elements of the budget having to give.
- 10.6 The Governments consultation on the Fair Funding Formula will look at what factors should initially drive the allocation of government core funding to each local authority – principally looking at factors which drive 'need'. This will be a very important review for all sectors of local government and will be the basis for determining the levels of Government Grant for authorities from 2020/21.
- 10.7 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.
- 10.8 A 75% Business Rates Retention Scheme is due to be implemented from April 2020 – whereby the local share for Business rate retention is to increase from 50% to 75%. The Government have indicated that they are minded to do a full reset when setting the Business Rates Baseline (the point from which growth is measured). This is likely to have a significant impact on authorities such as Kettering who have delivered significant Business Rates growth in their areas as they are unlikely to receive future benefits for the levels of growth already delivered through the Business Rates Retention Scheme.
- 10.9 Rather than see the benefits of growth they are likely to find they will have a higher Business Rate Baseline and in effect this will mean they are penalised financially for delivering growth. The extent nationally of having a full reset in 2020/21 could see growth of around £2.4bn being removed from the system

## BOROUGH OF KETTERING

|           |                  |         |            |
|-----------|------------------|---------|------------|
| Committee | <b>EXECUTIVE</b> | Item 10 | Page<br>16 |
|-----------|------------------|---------|------------|

and distributed based through the Fair Funding Review as outlined in 10.7 this may not benefit the Districts and Boroughs.

- 10.10 The potential ramifications of changes to the Fair Funding Review Business Rates scheme and the w should not be understated – there have been very few (if any) major changes in funding mechanisms over recent years that have actually resulted in local authorities particularly Districts and Boroughs being better off financially in the medium term. It would be prudent to assume the same in relation to Business Rates and the Fair Funding Review.
- 10.11 The stronger the Council Tax yield – the greater the flexibility to deal with the budget pressures in the medium term (and the associated risks).
- 10.12 Members should be aware that the indicative savings levels for the period 2020/21 onwards are subject to a number of high level assumptions – these include assumptions about the future level of Government Grant, Retention of Business Rates, income from the New Homes Bonus Scheme and Commercial Investments.
- 10.13 It is important to note that, although members have a statutory duty to consider the medium term when setting the 2019/20 budget and council tax, they will only be setting the budget and council tax for 2019/20 at this point. Levels of council tax for future years cannot be set in advance by the council. Each future year's decision can only be taken at the appropriate time, once all of the financial and business risks have been analysed, understood and discussed.
- 10.14 The period from 2020/21 is very uncertain and is likely this period will provide the greatest challenge, particularly when we consider that over £14m of efficiency savings have already been identified and further efficiencies in the region of £5m are required over the next four years to deliver a balanced budget.
- 10.15 This four year period for the reasons outlined earlier also bring the greatest levels of uncertainty, risk and difficulty. The risks are significant for the local government sector as a whole and in coming to a decision about council tax for 2019/20 members will need to consider the careful balance that needs to be struck between providing sufficient financial flexibility to deal with the challenges faced and also consider the change in strategy by the Government regarding no longer offering incentives for Council Tax Freezes.
- 10.16 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.



## BOROUGH OF KETTERING

|           |                  |         |            |
|-----------|------------------|---------|------------|
| Committee | <b>EXECUTIVE</b> | Item 10 | Page<br>17 |
|-----------|------------------|---------|------------|

### **11 CONSULTATION AND CUSTOMER IMPACT**

- 11.1 The formal budget consultation period is from 16<sup>th</sup> January 2019 (where the Executive received the draft budgets) to 27<sup>th</sup> February 2019 when the Council sets its Council Tax for 2019/20. Comments from this consultation process are attached at Appendix B.

### **12 POLICY IMPLICATIONS**

- 12.1 As outlined in the report.

### **13 USE OF RESOURCES**

- 13.1 As outlined in the report.

## BOROUGH OF KETTERING

|           |                  |         |            |
|-----------|------------------|---------|------------|
| Committee | <b>EXECUTIVE</b> | Item 10 | Page<br>18 |
|-----------|------------------|---------|------------|

### 14. RECOMMENDATIONS

14.1 That the Executive;

- a) Delegate authority to the Council's Section 151 Officer (in consultation with the Finance Portfolio Holder) to formalise KBC's response to the Fair Funding Review Consultation and the Business Rates Consultation.

14.2 That the Executive agrees to: -

- a) Receives the comments received from the consultation process (to date) as detailed at Appendix B;
- b) Approve that the average weekly council house rent be reduced by 1.00% to £78.78 (on a 53 week year) for 2019/20 (effective from 1<sup>st</sup> April 2019).

14.3 That the Executive recommends to Council: -

- a) The Revised General Fund Budget (2018/19) and Draft General Fund Budget for (2019/20) – as detailed at Appendix A – Section 1\*;
- b) A preferred level of Council Tax (Band D equivalent) for 2019/20 and associated Medium Term Financial Forecast;
- c) The Housing Revenue Account Estimates for 2019/20 – as detailed at Appendix A - Section 2\*.
- d) The Capital Programme (2018 - 2024) – as detailed at Appendix A - Section 3\*

*\* Please note that these references to Appendix A refer to the 'Draft Budget Booklet – 2019/20) that was circulated as Appendix A to the January Budget report to the Executive Committee on 16 January 2019. A copy of these papers can be found at [https://www.kettering.gov.uk/meetings/meeting/1697/executive\\_committee](https://www.kettering.gov.uk/meetings/meeting/1697/executive_committee)*

Contact Officers: M Dickenson

Budget Consultation (Jan 19)  
Geographic Forums (Jan 19)  
Monitoring and Audit (Feb 19)  
Research and Development (Feb 19)