

## BOROUGH OF KETTERING

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<b>Report Originator</b>	Strategic Management Team	<i>Fwd Plan Ref no.</i>	
<b>Wards Affected</b>	All	27 <sup>th</sup> February 2019	
<b>Title</b>	<b>BUDGET PROPOSALS 2019/20 – GENERAL FUND, CAPITAL PROGRAMME, AND HOUSING REVENUE ACCOUNT</b>		

Portfolio Holder – Cllr Lloyd Bunday

### 1. PURPOSE OF REPORT

To report to Full Council the recommendations from the Executive Committee to enable Full Council to make a formal decision in relation to each of the following;

- ◆ The Revised General Fund budget 2018/19 and the General Fund budget 2019/20;
- ◆ The Council Tax level for 2019/20;
- ◆ The Revised Housing Revenue Account budget 2018/19 and the Housing Revenue Account budget 2019/20;
- ◆ The Capital Programme 2018 – 2024;

As part of the formal budget setting process, the Council must approve a statutory 'Council Tax Resolution' – this combines the precepts for all the precepting authorities in Kettering Borough (i.e. the County Council, Kettering Borough Council, Northamptonshire Office of the Police, Fire & Crime Commissioner, Town and Parish Councils) and provides a legal basis upon which to issue Council Tax bills and collect the amounts due.

- 2.1. On the 16<sup>th</sup> January 2019, the Executive considered a report containing initial budget proposals for 2019/20. Since that meeting, the budget proposals have been the subject of consultation and have been discussed at a number of meetings including the formal Budget Consultation event on 24<sup>th</sup> January 2019.
- 2.2. At its meeting of 13<sup>th</sup> February 2019, the Executive gave further consideration to the budget proposals (including consideration of comments that had been made through the consultation process) and made specific budget recommendations to the Council including a recommended level of Council Tax for 2019/20.
- 2.3. This report is made up of a number of sections to provide members with a brief resume of the budget setting process and the key issues. The report comprises the following;

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Section 2:	Background / Local Government Reorganisation
Section 3:	Key Issues Summary & Guiding Principles
Section 4:	General Fund Budget & the Medium Term
Section 5:	Council Tax Setting
Section 6:	Housing Revenue Account
Section 7:	Capital Programme
Section 8:	Statutory Officers Comments
Section 9:	Recommendations

Appendix A:	Draft Budget Booklet
Appendix B:	Budget Consultation Comments
Appendix C:	Statutory Officer Report
Appendix D:	Formal Council Tax Resolution 2019/20 <b><i>(this will be distributed at the Council meeting itself – all other precepting bodies must have formally approved their respective precepts first).</i></b>

- 2.4 It is worth emphasising the financial background against which this budget is being considered. Local Government has and continues to experience significant reductions in central government grant. By the end of 2018/19, the Council will have delivered efficiency savings (i.e. a combination of savings, service efficiencies, additional income and the positive impact from lobbying on national government policies) of £12.8m since 2010, efficiencies of £1.562m have been identified for 2019/20. Further efficiencies of around £5m are required over the next four years (2020/21 – 2023/24) delivering savings of this scale going forward continues to be a 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 – even with this it is likely that the Council will have to take some potentially difficult decisions about service levels and associated priorities in the later years of the medium term financial forecast.
- 2.5 Members are encouraged to read this report in conjunction with the budget report that was considered by the Executive at its January meeting. Whilst the key issues are covered in this report, the January report provides additional background.
- 2.6 Members will be mindful of the current situation about the potential local government reorganisation in the County.
- 2.7 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.
- 2.8 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

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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.

- 2.9 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 ended on the 25<sup>th</sup> 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.
- 2.10 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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### **3. KEY ISSUES SUMMARY / GUIDING PRINCIPLES**

- 3.1. For ease of reference, this section of the report is an updated version of the 'key issues summary' and the 'guiding principles' that have previously been reported to the Executive Committee in both the January and February budget reports.

#### **2018/19**

- 3.1.1 The Council has continued to use its own specific 'budget delivery framework' for the delivery of efficiencies. The challenge was to turn the 'paper based savings exercise' into reality so that the £1,473,000 of efficiencies were actually delivered – this is being successfully delivered.
- 3.1.2 Since 2010, the Council will have delivered a total of £12.8m of savings by the end of March 2019.

#### **2019/20**

- 3.1.3 Taken in isolation, most of the main issues are 'known' for 2019/20 at this stage.
- 3.1.4 The Council had budgeted for a grant reduction of £365,000 for 2019/20 the provisional figure from the Government was a reduction of £115,000 (4.5%). This was £250,000 better than previously modelled in the Council's MTFS owing to negative RSG being removed.
- 3.1.5 Prior to the consideration of any council tax increase, it is estimated that £1,562,000 of 'efficiency savings' 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.
- 3.1.6 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.
- 3.1.7 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.
- 3.1.8 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

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advice is to consider a council tax increase of the threshold level (3%) for 2019/20.

3.1.9 A capital programme of around £29.3m is a significant commitment and clearly demonstrates the Council's strategy regarding commercial investments.

3.1.10 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

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

3.1.12 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.

3.1.13 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

3.1.14 The projections in all years rest on the Executive's adherence to the "*Financial Golden Rules and Financial Guiding Principles*".

3.1.15 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.

3.2 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.

3.3 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
- ◆ Better Jobs

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- ◆ 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.

3.4 The Council has developed strategies necessary to deal with the changing financial circumstances, the strategies the Council has adopted over the past few years have resulted in the authority being in a much better shape than many others. In Kettering, our approach ensured that the Council was able to pro-actively deal with the challenges faced through: -

- ◆ Anticipating and influencing major ‘Big Ticket’ items;
- ◆ Having a well-motivated and flexible workforce that is pro-actively delivering change.

3.5 These have allowed us to develop and deliver the strategies necessary to deal with changing financial circumstances including such things as

- ◆ establishing (and sticking to) budget guiding principles;
- ◆ developing a budget delivery solution that suited KBC;
- ◆ finding innovative methods of service delivery.

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**4. GENERAL FUND BUDGET AND THE MEDIUM TERM**

4.1. This section provides a summary of the key issues (and resultant budget figures) for the following;

- ◆ Revised Budget 2018/19
- ◆ Draft Budget 2019/20
- ◆ Medium Term Forecast (and associated key issues)

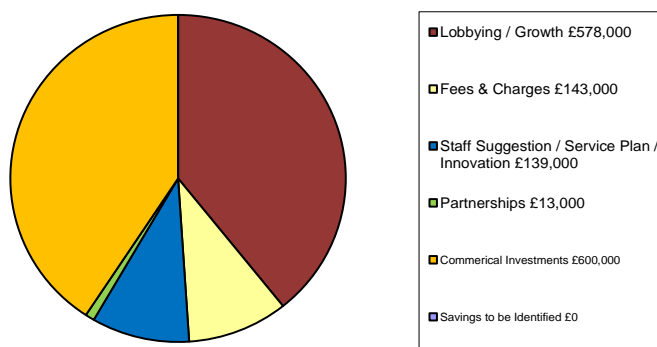
**Revised Budget 2018/19**

4.2. The detail of the revised estimate figures for 2018/19 can be seen by reference to the draft budget booklet Appendix A (Section 1).

4.3. 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.

4.4. Those ‘efficiencies’ were identified before the budget was formally set and are summarised in Chart 1:

**Chart 1  
Framework Efficiency Savings for the next Year  
(2018/19)**



4.5. 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. Overall, the General Fund remains broadly on target to be delivered, within budget for 2018/19. Table 1 illustrates how the efficiencies in 2018/19 are being delivered.



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<b>Table 1 – 2018/19 Budget Changes</b>			
<b>Framework</b>	<b>Additional Income £'000</b>	<b>Reduced Expenditure £'000</b>	<b>Total £'000</b>
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
<b>Total</b>	<b>1,441</b>	<b>32</b>	<b>1,473</b>

### **Draft Budget 2019/20**

- 4.6. The draft budget figures for 2019/20 can be seen by reference to the Draft Budget Booklet at Appendix A (Section 1).
- 4.7. The Executive Committee considered the draft budget figures and comments that had been made during the budget consultation period when it met on 13 February 2019. The comments are reproduced at Appendix B for information.
- 4.8. 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.
- 4.9. 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.

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- 4.10. 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.
- 4.11. 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.
- 4.12. 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
- 4.13. The draft budget that the Executive Committee has recommended for approval by Council forms part of the medium term financial forecast that is shown in Table 2. The budget figures have continued to be resilience tested during the budget period and have remained unchanged to those presented in the January report. Notes to the MTFS are provided at Appendix A.

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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	<b>Net Council Budget</b>	10,893	11,118	10,385	10,107	10,482	10,364
2	<b>Forecast Resources:</b>						
	<b>Government Grant</b>						
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)
	<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>
3	<b>Budget (Surplus) / Deficit</b>	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	<b>Budget (Surplus) / Deficit</b>	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	<b>Estimated Opening Balance</b>	1,415	1,375	1,335	1,295	1,295	1,295
8	Town Centre Initiatives	40	40	40	0	0	0
9	<b>Estimated Closing Balance</b>	1,375	1,335	1,295	1,295	1,295	1,295

The forecast comprises the following 'Zones'

- **Zone of Predictability** – covers the 2018/19 and 2019/20 financial years - for which the level of government funding is known.
- **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.

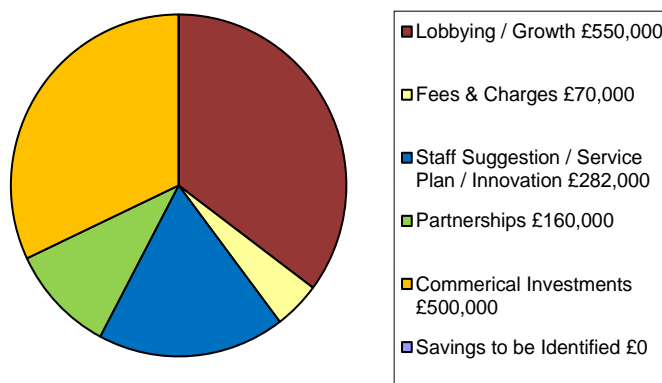
4.14. By reference to Table 2, it can be seen from line 4 that the Council will need to deliver ongoing budget savings of £1,562,000 in order to deliver a balanced budget for the year. The budget delivery framework has continued to be used and savings of £1,562,000 have been identified and formed part of the 2019/20 draft budget proposals.

4.15. The identified savings of £1,562,000 are summarised in Chart 2 and Table 3:

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**Chart 2**  
**Framework Efficiencies for the next Year**  
**(2019/20)**



**Table 3 – 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
<b>Total</b>	<b>1,510</b>	<b>52</b>	<b>1,562</b>

4.16. The Council's record in identifying and delivering efficiency savings over the past ten years, including the year under consideration (2019/20), are around **£14.3m** - as illustrated in Table 4. The scale and delivery of this level of efficiency savings is particularly impressive given that there has been no detrimental impact on the delivery of front line services.

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<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>

### Medium term Forecast

- 4.17. Members should be aware that the indicative savings levels for the period 2019/20 onwards are subject to a number of high-level assumptions. With 2019/20, being the last year of the ‘four year settlement’ there is much uncertainty over future levels of grant from 2020/21. The Government issued two major consultation papers that will have significant implications on how local authority funding operates from 2020 onwards.

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.

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### ▪ 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.

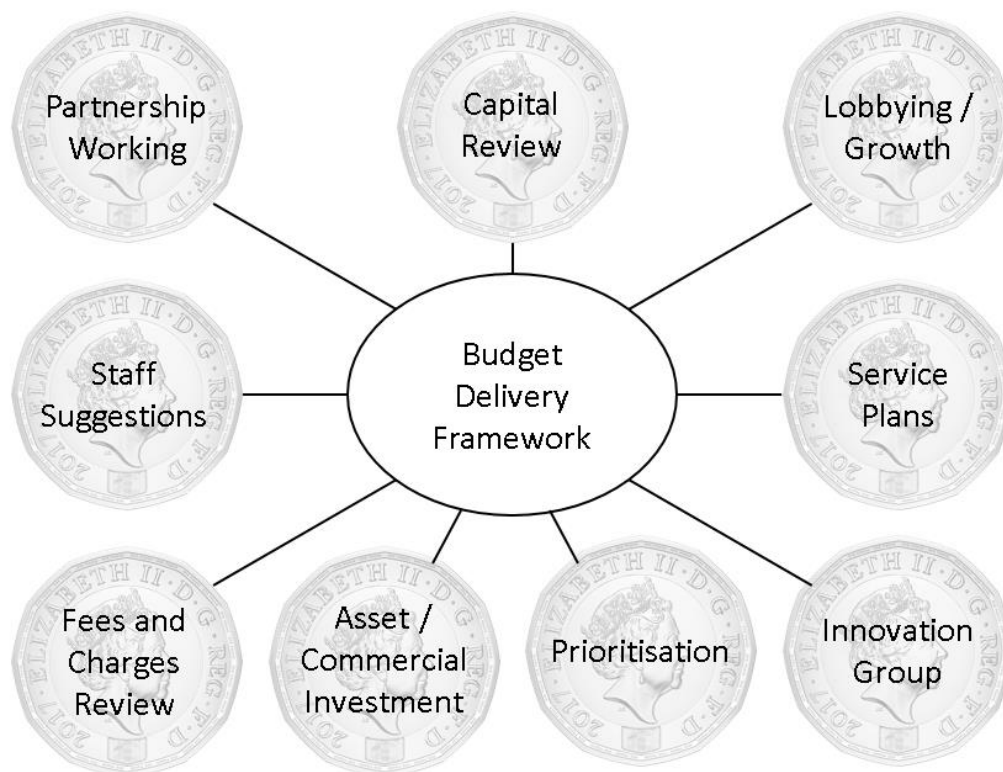
As a local authority, we have benefitted well under the present system due to the above average increase in our business base in the borough. This has benefitted the Council (and our revenue budget) by £m's over the past few years.

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 under-estimated.

- 4.18. The Council will be responding to these key consultations, which were announced alongside the provisional settlement and close on 21 February 2019.
- 4.19. There remains significant uncertainty from the period 2020/21 onwards. It is fair to say that the potential changes to local government funding are unprecedented and whilst the ramifications of them cannot be quantified, what is clear is that they are likely to be significant. The potential ramifications of changes to the Business Rates scheme and the fair funding review should not be understated – there have been very few (if any) major changes in funding mechanisms over recent years that have actually resulted in local authorities being better off financially in the medium term – housing finance being one very good example. It would be prudent to assume the same in relation to Business Rates and the fair funding review.
- 4.20. 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 recent 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 under-estimated.
- 4.21. 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 ensure that it 'delivers' on all aspects of its budget framework. The Council's budget framework is reproduced below:

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- 4.22. The Council has already done an impressive job of delivering around £12.8m 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 – specifically Income from Commercial Investment Schemes, Council Tax and fees and charges. One of these sources alone will not provide the mechanism to set a balanced budget in the medium term, all of them must contribute.
- 4.23. KBC's Council Tax has been frozen since 2010/11. It currently costs the average household £3.07 per week. Given the assumptions that the Government has made about levels of Council Tax moving forward, and the budget and associated risks: Without some increase in Council Tax (over the medium term) – the challenge of continuing to set a balanced budget will no doubt become even greater, with more reliance having to be placed on the other budget frameworks (with the risks associated with that).
- 4.24. Based upon the figures in the Council's Medium Term Financial Strategy (Table 2) it can be seen that the following levels of savings maybe required over the new few years (prior to the consideration of any increase in council tax);

<b>2020/21</b>	<b>£1,462,000</b>
<b>2021/22</b>	<b>£1,081,000</b>
<b>2022/23</b>	<b>£1,352,000</b>
<b>2023/24</b>	<b>£1,129,000</b>

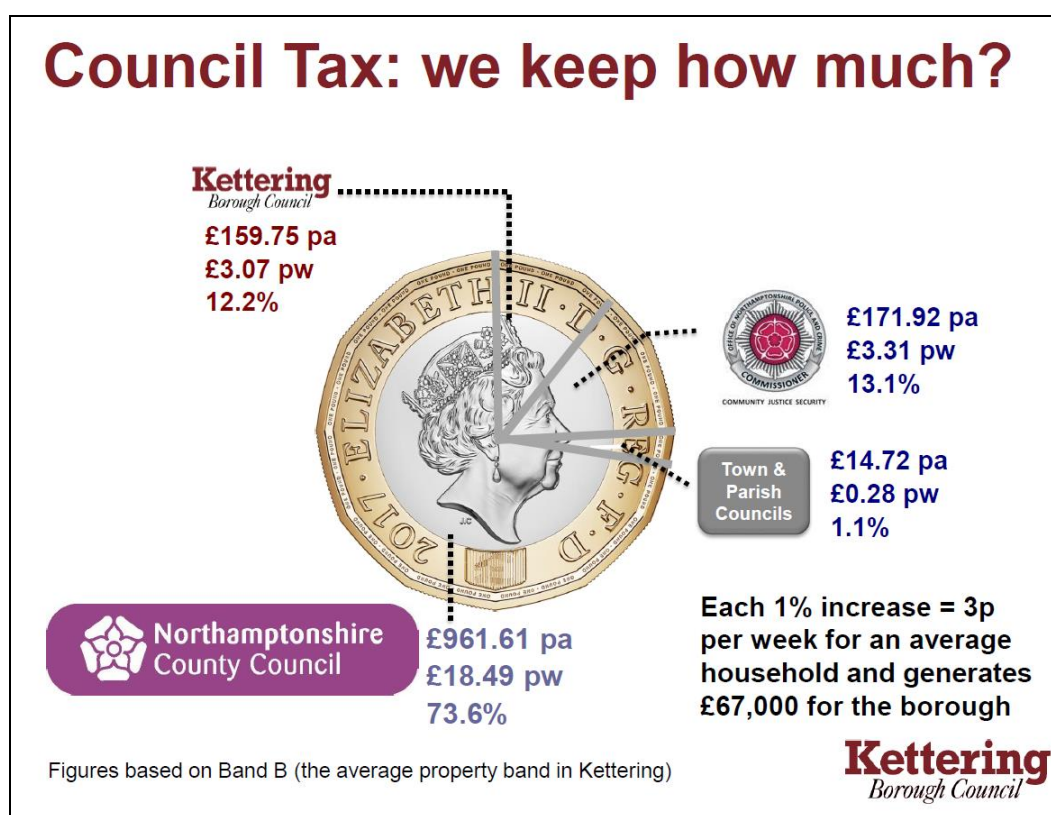
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4.25. When setting a balanced budget (and council tax) for 2019/20 members need to give due consideration to all material issues and risks - including those clearly outlined in this report and the reports that were submitted to the January and February Executive Meetings.

### 5. COUNCIL TAX SETTING (2019/20)

5.1. The following illustration was used at the recent budget consultation meeting and serves to remind members of the relative size of the Council tax figures that are under consideration (for the major precepting bodies).



5.2 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 5 illustrates the impact of these changes based on 2018/19 Council Tax Levels.

Authority	Current	Transfer	Revised
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



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- 5.3 When deciding upon a preferred level of Council Tax for 2019/20, the Executive Committee were advised to have regard to the following;
- 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.
- 5.4 Having taken these into account the Executive Committee have recommended that a 0% increase in Council Tax for 2019/20 be considered by Council at this meeting.
- 5.5 Members are reminded that each 1% increase in Council tax equates to about £67,000 of ongoing income to the Council's Council tax yield. The referendum limit for Districts and Boroughs for 2019/20 remains unchanged to 2018/19 and is the higher of a 3% increase or £5 for a Band D property. 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 11p per week. The average Band in Kettering Borough is a Band B and this would represent an annual increase of £4.79 equivalent to an increase of 8p per week – such an increase would generate additional council tax income of around £200,000 during 2019/20.
- 5.6 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 medium term financial projections, the resultant savings that are required each year and the overall level of uncertainty and risks when considering Council Tax levels for 2019/20 (and subsequent years). The stronger the Council Tax yield – the greater the flexibility to deal with the future.
- 5.7 Table 5 summarises the real terms impact of Council Tax freezes. 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 17% for the 8-year period.

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<b>Table 5</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%	15.00%
2018/19	2.10%	0.00%	17.10%

- 5.8 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 and this is clearly evidenced by reference to Table 3 which shows that around 97% of the efficiency savings for 2019/20 are being delivered through additional income.
- 5.9 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 carefully consider its main sources of income (Council Tax, Fees and Charges) at the same time as continuing to deliver its commercial investment strategy 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.
- 5.10 When considering the medium term, the scale of risks have clearly been outlined in previous budget reports and the scale of the savings targets from 2019/20 should be fully considered and should also consider the context of what has been delivered (£12.8m) what is being delivered (£1.562m) and what still needs to be delivered (£5m)
- 5.11 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.
- 5.12 To comply with best practice, the Council's Statutory Officers have a responsibility to provide a commentary on the budget (and the underlying assumptions). This is produced at Section 8 and is supplemented by the required Statutory Statement by the Council's Responsible Financial Officer (Appendix C).

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5.13 At the meeting of 13<sup>th</sup> February 2019, the Executive recommended a 0% increase in Council Tax for 2019/20. Table 6 illustrates the proposed levels of council tax for each council tax band for Kettering Borough Council's budget based upon this recommendation from the Executive;

<b>Table 6</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>
Increase per week (rounded to nearest pence)	0.00p	<b>0.00p</b>	0.00p	0.00p	0.00p	0.00p	0.00p	0.00p
Proposed Weekly Council Tax for 2019/20	£2.63	<b>£3.07</b>	£3.51	£3.95	£4.83	£5.70	£6.58	£7.90
Proposed Annual Council Tax for 2019/20	£136.93	<b>£159.75</b>	£182.57	£205.39	£251.03	£296.67	£342.32	£410.78
<b>Increase</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
* Represents the average level of the household bill within the District relating purely to Kettering Borough Council's budget.								

### **Council Tax Resolution**

5.14 The figures included in the above table are in relation to the proposed levels of Council Tax for Kettering Borough Council only.

5.15 The Council Tax for the County Council will be set at its meeting on 22<sup>nd</sup> February. The recommendation being considered by the County Council is for an increase of 4.99% in Council Tax. The Council Tax referendum principles for 2019/20 were announced alongside the Final Local Government Finance Settlement and an additional 2% flexibility has been provided to the County Council meaning they could increase their Council Tax by up to 5%.

5.16 The Police and Crime Commissioner have already approved an increase in their Council Tax of £24 for a Band D Property equivalent to 10.9%. The Police and Crime Commissioners can set increases of £24 for a Band D property without the need to hold a referendum for 2019/20.

5.17 The February report to the Executive and section 5.2 of this report reminds Members that on the 1<sup>st</sup> January 2019 the Fire Authority transferred from Northamptonshire County Council to the Police and Crime Commissioner. The Fire Authority have already approved an increase in their Council Tax of 2.99% for 2019/20. The maximum increase without the need to hold a referendum for the Fire Authority is a 3% increase.

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5.18 These precept figures from all the precepting bodies will be combined into a formal Council Tax Resolution that requires approval by the Council (as the Collection Authority). ***The resolution will constitute Appendix D of this report and will be distributed at the Council meeting itself.***

5.19 Table 7 below illustrates what the average Council Tax Bill would be in 2019/20 if the County Council and Borough Council approve its recommendations.

Table 7	Increase	New Weekly		New Yearly	
		Amount	Increase	Amount	Increase
		Northants County Council	4.99%	£18.49	£0.88
Kettering Borough Council	0.00%	£3.07	£0.00	£159.75	£0.00
NPFCC - Fire	2.99%	£0.91	£0.03	£47.26	£1.37
NPFCC - Police	10.86%	£3.67	£0.36	£190.59	£18.67

*NB – The above figures are based on Band B Council Tax (which is the average Council Tax in Kettering Borough).*

5.20 Based upon the above, the combined Council Tax bill that Kettering Borough Council will issue to residents of the borough (as the 'Billing Authority') on behalf of the three major precepting bodies will show an overall increase of 5.1% for 2019/20. Residents who are in Town or Parish areas will also see the impact of any changes in the respective Town and Parish Council precepts and Table 8 summarises the Town / Parish Council's precepts for 2019/20, these amounts will be included in the formal Council Tax Resolution.

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<b>Table 8</b>			
<b>Parish</b>	<b>Precept 2018/19</b>	<b>Precept 2019/20</b>	<b>Percentage Change</b>
	<b>£</b>	<b>£</b>	<b>%</b>
Ashley	4,650	6,730	44.7
Barton Seagrave	70,000	70,000	0.0
Brampton Ash	1,000	1,000	0.0
Braybrooke	4,500	6,200	37.8
Broughton	14,000	14,000	0.0
Burton Latimer	31,750	63,120	98.8
Cranford	9,000	9,000	0.0
Cransley	5,100	6,800	33.3
Desborough	280,000	76,016	(72.9)
Dingley	4,824	4,946	2.5
Geddington, Newton, Little Oakley	20,000	20,000	0.0
Grafton Underwood	2,000	2,100	5.0
Harrington	3,000	3,100	3.3
Loddington	6,000	6,000	0.0
Mawsley	60,000	80,000	33.3
Pytchley	9,582	12,000	25.2
Rothwell	48,000	66,000	37.5
Rushton	5,800	6,000	3.4
Stoke Albany	3,150	3,450	9.5
Sutton Bassett	1,200	1,300	8.3
Thorpe Malsor	2,000	2,000	0.0
Warkton	1,000	1,000	0.0
Weekly	1,500	1,500	0.0
Weston by Welland	2,000	2,040	2.0
Wilbarston	10,940	12,000	9.7
<b>Total</b>	<b>600,996</b>	<b>476,302</b>	<b>(20.7)</b>

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### 6. HOUSING REVENUE ACCOUNT (2019/20)

- 6.1. The Housing Revenue Account (HRA) budget for 2019/20 is contained at Appendix A (Section 2).
- 6.2. In accordance with the Council's Constitution, although the Executive will be recommending the HRA budget for 2019/20 to full Council for approval, the Executive meeting on 13<sup>th</sup> February 2019 formally approved a **decrease** of 1.00% in the average level of Council housing rents for 2019/20 (in line with Central Government Guidance). The decrease is effective from 1<sup>st</sup> April 2019 and will result in the average weekly rent decreasing to £78.78. The draft HRA budget included an average rent decrease of 1.00%.

### 7. CAPITAL PROGRAMME (2019/20)

- 7.1. The detailed capital budgets for the period 2018 – 2024 are contained at Appendix A (Section 3).
- 7.2. 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.
- 7.3. The Research and Development Committee made a recommendation to the Executive that the 2019/20 Capital Programme be increased by £100,000 for refurbishment works at the swimming pool, the Executive at their February meeting approved this and the updated programme which is being recommended to Council is summarised in Table 9.

<b>Table 9 - 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	25,568	23,912	25,762	23,962	21,312
	<b>29,390</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	23,560	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>29,390</b>	<b>28,071</b>	<b>30,192</b>	<b>28,462</b>	<b>25,572</b>

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- 7.4. 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 Full Council (see report 11 on this agenda).
- 7.5. The financing estimate for borrowing for 2019/20 is £23.6m. 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 10 on this agenda).

### **8 STATUTORY OFFICERS COMMENTS**

- 8.1 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.
- 8.2 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.
- 8.3 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.
- 8.4 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).
- 8.5 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.
- 8.6 The Governments consultation on the Fair Funding Review 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.

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- 8.7 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.
- 8.8 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 (being 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.
- 8.9 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 and redistributed based on the Fair Funding Review this may not benefit the Districts and Boroughs.
- 8.10 The potential ramifications of changes to the Fair Funding Review and Business Rates Retention scheme should not be understated – there have been very few (if any) major changes in funding mechanisms over recent years that have actually resulted in local authorities 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.
- 8.11 The stronger the Council Tax yield – the greater the flexibility to deal with the budget pressures in the medium term (and the associated risks).
- 8.12 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.
- 8.13 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.
- 8.14 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.



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- 8.15 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 carefully consider the balance that needs to be struck between providing sufficient financial flexibility to deal with the challenges faced in local government funding.
- 8.16 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.

### **9. RECOMMENDATIONS**

#### **That Council approve:**

1. The General Fund Revised Budget (2018/19) and the General Fund Budget (2019/20) (as detailed at Appendix A Section 1);
2. The HRA budget for 2019/20 (as detailed at Appendix A Section 2);
3. The Capital Programme for 2018 – 2024 (as detailed at Appendix A Section 3);
4. The Council Tax Resolution for 2019/20 (as detailed at Appendix D);

#### **That Council receive:**

5. The Medium Term Financial Forecast (as detailed in Table 2)
6. The report of the Statutory Officer (as detailed at Appendix C).

#### Background Papers:

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

#### Previous Reports/Minutes:

Ref: Exec Report 16/01/19,13/02/19