



## CABINET REPORT

Report Title

MEDIUM TERM FINANCIAL STRATEGY 2011-14

**AGENDA STATUS:**

**PUBLIC**

<b>Cabinet Meeting Date:</b>	4 January 2011
<b>Key Decision:</b>	YES
<b>Listed on Forward Plan:</b>	YES
<b>Within Policy:</b>	YES
<b>Policy Document:</b>	YES
<b>Directorate:</b>	Finance and Support
<b>Accountable Cabinet Member:</b>	Cllr D Perkins
<b>Ward(s)</b>	N/A

### 1. Purpose

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- 1.1 This report presents the Northampton Borough Council Medium Term Financial Strategy 2011-14 for approval. It sets out the key internal and external environmental factors, such as Government policy and new initiatives, economic climate, statutory changes, etc, that are likely to put pressure on the Council's finances and that need to be considered by the Council in its short and medium term financial and service planning.

### 2. Recommendations

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- 2.1 Cabinet to approve the Medium Term Financial Strategy 2011-14 as set out in appendix A.
- 2.2 Cabinet agree that the Medium Term Financial Strategy is used as a guide to financial planning for the 2011/12 and medium term budgets.

### **3. Issues and Choices**

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#### **3.1 Report Background**

- 3.1.1 The Council faces significant challenges in reaching its ambition. The tight financial settlements over the medium term following the Government Spending Review 2010 is exacerbated by the impact of wider economic influences that are affecting key income streams and cost inflation. In aiming to be one of the best local authorities, the demands on the Council to invest in improved service delivery are ever greater.
- 3.1.2 The Council has already made significant progress on its improvement journey. The Council is increasingly being assessed as in a better position than historically has been the case and it is expected that the Council will continue on its improvement journey.
- 3.1.3 The Council has made clear that its ambition is to provide the people of Northampton with the best. It is therefore the Council's stated ambition to be amongst the best Councils in terms of public service by 2013.
- 3.1.4 Whilst the Government abolished the CAA regime in the summer of 2010 certain aspects of the regime remain in terms of finance, for example Value for Money (VfM) remains a key part of the audit judgement.
- 3.1.5 The Council is working to deliver high levels of community engagement, ambitious shared vision, productive relations with key partners, self-awareness and effective performance management, innovation and well-managed risk-taking, and aims for sustainable improvements in outcomes for the public and in citizen satisfaction.
- 3.1.6 Continuing such a major leap forward over the next few years requires strong leadership and management backed by committed people. Strengthened management arrangements have been in place since early 2009. It was also recognised in the Direction of Travel assessment 2008 that members are providing strong leadership and guidance to officers.
- 3.1.7 The Council's performance is interdependent with the performance and commitment of many others. Strong motivation and supportive development of the people who deliver Council services and improve Northampton is essential. This applies not only to those people employed by the Council but also members, contractors, partners, local business, the police, community groups, developers and others.
- 3.1.1 Key activities will need to continue to develop including performance management, project and programme management, partnership activity, and community engagement and reputation management.

#### **3.2 Issues**

- 3.1.8 The 3-year financial forecast statement (page 16 of the MTFS) shows that the budget can be balanced for each year of the medium term. The pressures of the difficult economic environment and challenging financial settlement have been addressed using the following strategy:

- a. An effective Medium Term Financial Strategy in place to drive forward the financial planning process and resource allocation. This is determined by policies and priorities contained within the Corporate Plan and other key internal Strategies, feeding through to and up from Service plans.
- b. The Council recognises the pressures on its budget, and while seeking to protect and enhance front-line services as far as possible, will aim to contain these pressures within existing resources. Cabinet Members will examine all budget pressures and seek reductions where possible.
- c. We will seek new funding and new ways of working. Cabinet Members will continue to look at new methods of service delivery over the three-year budget period to improve services to the public and the value for money that they provide.
- d. That Council recognises the need to improve efficiency and deliver value for money. Cabinet Members will seek to identify efficiencies that will not impact on service delivery, and to identify options that will improve the value for money services through improving performance, and/or reducing service costs.
- e. The Council is launching a budget change and performance programme which will contribute significantly to setting a balanced budget each year during these challenging times
- f. The Council will carry out an annual risk assessment of reserves and will use reserves to manage the budget and limit service reductions and Council tax increases where there are excess balances above the risk assessed level.
- g. That the Council has determined, that given the financial pressures faced by the Authority, growth can only be supported in priority areas, or where the Council is required to fund new items e.g. by new legislation.
- h. That the Council will continue to undertake strategic business reviews to deliver ever better service outcomes for the public and efficiency and effectiveness in the organisation.
- i. That the Council will include strategic property acquisitions in its investment strategy in order to create a balanced investment portfolio of treasury and property assets.

3.1.9 The 2011-14 Medium Term Financial Strategy (MTFS), as attached at Appendix A, sets out initial guidance for officers and members for the setting of the 2011/12 to 2013/14 budgets.

3.1.10 The budget process for 2011/12 to 2013/14 is now at a stage to proceed to consultation on the draft budget. The budget proposals have all been reviewed and challenged by Management Board and Cabinet.

3.1.11 Whilst financial management has greatly improved, significant financial risks still remain. These are a mix of clear cost pressures, which are quantified in year as part of the normal budget monitoring process and other factors, which are much more challenging to quantify. The latter includes economic factors such as demand and interest rates that are outside the authority's control or influence.

3.1.12 A balance must be struck between areas where budget pressures need to be recognised within the medium term plan where they are quantifiable, and areas of risk where it is deemed that the level of balances held, derived through a robust risk assessment process will cover any potential realisation of the financial impact of that risk.

### **General Fund**

3.1.13 The MTFS highlights the significant budget pressures facing the forthcoming budget round, taking the 2010/11 budget from last years budget cycle and taking into account known key changes. In February 2010 when the 2010/11 General Fund budget was set, it was identified that savings of £5.232m were needed for the 2011/12 budget cycle.

3.1.14 Significant pressures have been identified that need to be managed within this budget process. The pressures fall broadly into three areas:

- Government Funding: At a time where inflation is above the Government target, the formula grant from Government to local authorities is set to decrease by approximately 28% nationally (Spending Review 2010), 'front loaded' to 2011/12. The effect of this for NBC is a reduction in Government grant of 14.5% on comparable figures for 2011/12.
- Pressures directly relating to the current economic environment and credit crunch.
- Pressures relating to service areas and changes to legislation and regulations, which the Council must recognise.

3.1.15 These pressures, along with the known budget gap identified in the budget report to Council in February 2010 of £5.232m have to be offset by efficiencies and other savings to enable the Council to balance the 2011/12 budget.

3.1.16 This means that the Council, in line with the public and business, must make economies. Over this difficult period of time we must make services more efficient, deliver better value for money, reign in expenditure and reduce service levels, where necessary, to ensure that the authority remains financially viable and is able to improve its service offering when the economic climate improves. Examples of these pressures can be found on pages 13-15 of the MTFS.

3.1.17 These will also need to be managed carefully in this financial year to ensure that there is minimal impact on reserves.

### **Housing Revenue Account**

3.1.18 Pages 19-20 of the Medium Term Financial Strategy address the HRA. The financial pressure on the HRA is increasing over time. This arises from a number of factors, the main ones being: -

- Rents pressure through the government's rent restructuring process;
- The sale of Council houses through Right to Buy whereby, broadly speaking, the better quality housing stock will be sold; and
- Repairs costs through the pressure to meet and maintain the decent homes standard.

- 3.1.19 An overview of the findings of the HRA financial model was used to forecast the impact of major initiatives on the long-term viability of the HRA. The indications provided by this model are considered alongside the Housing Asset Management Strategy, which went to Cabinet 28 July 2010.
- 3.1.20 The main pressure on the Council Housing service is in the capital area where there is a shortfall in the capital resources required to reach and then to maintain the decent homes standard. Without additional action being taken, the provision of additional capital resources through revenue financing or borrowing will have an impact on the revenue position.
- 3.1.21 In order to maintain the HRA position, the revenue impacts of the additional capital financing must be matched by efficiencies or savings from within the HRA.
- 3.1.22 The proposed PFI has been withdrawn by the Government following the Spending Review, and the impacts of this are currently being assessed.
- 3.1.23 Alternative options, around the delivery of the decent homes programme to the whole of the stock, will be reflected in the new 30-year financial model as and when appropriate.

### **Capital**

- 3.1.24 Capital expenditure represents major investment in new and improved assets such as land, buildings, infrastructure, equipment and information technology. It therefore plays a key part in the management of health and safety and the development of the Council's services.
- 3.1.25 The Capital Strategy 2010-13 was approved by Council on 25 February 2010 as part of the budget setting process. The three-year capital strategy is updated on an annual rolling basis and forms an integral part of the Medium Term Financial Strategy and is addressed at page 21.
- 3.1.26 The Council Decisions on capital investment are made against the background of constrained resources, and the Council is heavily dependent upon capital receipts and grants from central government to support its capital programme. Other available funding sources include prudential borrowing, capital receipts, third party contributions, and revenue contributions. These are all actively pursued to support capital investment with the exception of prudential borrowing. The use of prudential borrowing is minimised and focussed on long life assets due to the revenue cost of this funding stream.
- 3.1.27 The Council may undertake prudential borrowing provided that it is affordable, as there is little government support to fund the interest and principal payments on the borrowing. Due to pressures on the revenue budget it is advisable to assume that prudential borrowing will only be undertaken where savings on a 'spend to save' scheme will cover the borrowing costs. However, in practice there may be priority schemes that members consider have to go ahead or items that have to be funded this way for affordability reasons (e.g. some capitalisation directives).

### **Strategic Business Reviews and Budget Change and Performance Plan**

- 3.1.28 In recent years the Council has developed a greater ability to respond in a more innovative and flexible manner.

- 3.1.29 The Council's corporate plan and service plan process is now enabling better decision-making about priorities and is developing further this year. This is underpinned by the corporate priorities and management aims set out in the Corporate Plan (see page 4 of the MTFs).
- 3.1.30 The Council now takes a planned step-by-step approach to development of the Council and its services rather than the previous practice of trying to make major leaps forward without the foundations to build upon.
- 3.1.31 The Council is launching a Budget Change and Performance Programme to complement its existing Strategic Business Review process and help to manage the budget going forward while keeping performance in focus.
- 3.1.32 It should be absolutely clear that neither the Strategic Business Reviews nor the Budget Change and Performance Programme preclude the need for all services to continually look for ways in which each service can become more efficient through both operational value for money and by beginning to change the way the service is delivered. There are several other major change processes that can alter approaches to service delivery, for example IT changes.

### **3.3 Choices (Options)**

- 3.3.1 Cabinet is invited to agree the Medium Term Financial Strategy 2011-14.
- 3.3.2 Cabinet may amend the Medium Term Financial Strategy 2011-14.
- 3.3.3 Cabinet is asked to agree that the Medium Term Financial Strategy is used as a guide to financial planning for the 2011/12 and medium term budgets.

## **4. Implications (including financial implications)**

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### **4.1 Policy**

- 4.1.1 The annex to this report sets out the Council's Medium Term Financial Strategy 2011-14 for approval.

### **4.2 Resources and Risk**

- 4.2.1 Pressures are highlighted above are currently being quantified. Savings and efficiencies need to be identified, not just for 2011/12 but also for the medium term to enable robust, balanced medium term budget to be set.

### **4.3 Legal**

- 4.3.1 The Council must set a balanced budget each financial year. The medium term financial strategy gives direction and guidance which helps underpin the budget process.
- 4.3.2 There are no specific legal implications arising from this report

## **4.4 Equality**

- 4.4.1 Equality Impact Assessments will be undertaken as part of the budgeting process. The capital appraisal forms and revenue budget options detail equalities as one of the criteria to review.
- 4.4.2 There are no specific equalities implications arising from this report.

## **4.5 Consultees (Internal and External)**

- 4.5.1 Colleagues in Performance and Improvement, Democratic and Chief Executive Services, Planning, Regeneration, Finance, LSP, and Procurement have been consulted.
- 4.5.2 The Head of Finance and Director of Finance and Support have been consulted.
- 4.5.3 Management Board will be consulted as part of the call over process.

## **4.6 How the Proposals deliver Priority Outcomes**

- 4.6.1 Having a good Medium Term Financial Strategy is a key ingredient in effective financial governance, which contributes to the priority of being a well-managed organisation that puts the customer at the heart of what we do.

## **4.7 Other Implications**

- 4.7.1 Not applicable

## **5. Background Papers**

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- 5.1 2010/11 Capital and Revenue Budget and Strategy Reports covering General Fund and HRA – Council 25 February 2010
- 5.2 Medium Term Financial Strategy 2010-13 – Cabinet 25 November 2009
- 5.3 Asset Management Strategy – Cabinet 28 July 2010
- 5.4 Service transformation: A better service for citizens and businesses, a better deal for the taxpayer – Sir David Varney, December 2006 (Source HM Treasury – Pre Budget Report 2006)
- 5.5 External Documents
- HM Treasury - 2010 Budget Report – June 2010.
  - HM Treasury - 2010 Spending Review
  - CLG – Provisional Local Government Finance settlement 2011/12-2012/13
  - Local Growth White Paper

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