



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	COUNCIL WIDE BUDGET 2013/14 – 2015/16
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	19 December 2012
Key Decision:	NO
Within Policy:	YES
Policy Document:	NO
Directorate:	Management Board
Accountable Cabinet Member:	Cllr A Bottwood
Ward(s)	N/A

1. Purpose

- 1.1 The purpose of this report is to present for consultation the Cabinet's draft budget proposals for 2013/14 and the forecast budgets for 2014/15 and 2015/16 for:
 - The General Fund (Revenue), as attached in Appendices A and B and recommended Council Tax levels for public consultation.
 - The Housing Revenue Account (HRA)
 - The draft Capital Programme and financing proposals
- 1.2 To provide details of the current financial climate and progress in compiling the 2013/14 to 2015/16 General Fund revenue budget, setting out the issues considered as part of the revenue budget setting process.

2. Recommendations

- 2.1 That Cabinet's General Fund draft budget proposals for 2013/14, and indicative budgets for 2014/15 and 2015/16, as summarised in Appendices A and B be approved for public consultation.
- 2.2 That the proposed Council Tax freeze for 2013/14 be approved for public consultation.
- 2.3 That Cabinet's draft Capital Programme and financing, as detailed in Appendices D1, D2, and E, be approved for public consultation
- 2.4 That Cabinet approve the draft Housing Revenue Account (HRA) budget including charges and rents for public consultation.
- 2.5 That Cabinet delegate to the Director of Resources in consultation with the Cabinet Member for Finance the authority to make any technical changes arising from the draft Local Government Finance Settlement.
- 2.6 That Cabinet note the decision to enter into a pooling arrangement with other authorities across Northamptonshire with regard to the localisation of business rates.
- 2.7 That the approval of the consultation leaflet be delegated to the Director of Customers and Communities in consultation with the Leader and Accountable Cabinet Member for Finance for approval.
- 2.8 That the Chief Executive and Management Board, in consultation with the relevant Cabinet members, undertake the preparatory work in relation to the savings and efficiencies built into the draft budget proposals, subject to any actions being rescinded should any budget options not be approved at Council on 25 February 2013.
- 2.9 That Cabinet note that Council's response to any Formula Grant settlement consultation will be prepared by the Director of Resources in consultation with the Chief Executive, the Accountable Cabinet Member for Finance and the Leader of the Council.

3. Issues and Choices

3.1 Report Background

Local Preparation

- 3.1.1 Board approved the timetable and process for the Medium Term Financial Strategy and budgets in the summer. The report set out the financial parameters for budget projections 2013/14 to 2015/16.
- 3.1.2 The budget process was closely linked to the Corporate Plan and the objectives set out in it, which are also reflected in the Medium Term Financial Strategy.

Timetable

- 3.1.3 The provisional Local Government Finance Settlement for 2013/14 is to be announced on 19 December 2012 and the timetable following this and the draft budget report is as follows:

January – main public consultation on budget and proposed level of Council Tax.

End January/February – final Local Government Finance Settlement announcement is received from Government.

February – Cabinet recommends budget to Council. Council agrees budget and Council Tax.

3.2 Overview

- 3.2.1 The budget is being set at a time of continuing economic and financial turmoil, and against a backdrop of an extremely challenging Spending Review 2010 and significant funding changes arising from the Local Government Finance Reform. The Cabinet remains clear in its determination to continue towards its ambition to be amongst the best Councils in terms of public service, value for money services to the community. The Council will not be deflected from this aim by external factors. However, it does recognise that they make it more challenging to accomplish.
- 3.2.2 The fundamental changes that have been made over the last three years, and continue to be made, in the way the organisation delivers value for money services, has anticipated the reduction in central government funding of local services. This has stood the authority in good stead for the austerity measures announced in the Spending Review 2010 and the changes arising from the Local Government Finance Reform for the medium term.

3.3 Issues

- 3.3.1 This report sets out the issues facing decision makers, with the aim of allowing as much information as possible to be in the public domain, as early as possible.
- 3.3.2 The Council is facing an extremely challenging financial situation and a high degree of uncertainty in the short to medium term, particularly due to the economic environment, government policy in relation to funding, and proposals which will fundamentally reform the local government funding regime during the Spending Review (SR2010) period, in particular from April 2013.

Economic Environment

- 3.3.3 The national economy remains in a period of downturn and instability and is likely to be so for the foreseeable future. This has had specific repercussions locally.
- 3.3.4 Investment interest levels remain low, and are expected to do so for at least the next 12 months before rising very gradually.
- 3.3.5 Funding for capital expenditure is linked both to revenue funding in relation to borrowing costs and the Council's ability to generate capital receipts.
- 3.3.6 The impact on the property market has had the effect of reducing income levels; e.g. Right to Buy receipts have dropped away significantly in recent years.
- 3.3.7 The differential between investment and borrowing rates remains high. The cost of borrowing, having already been increased by Government in relation to the Public Works Loan Board as part of the Spending Review, is expected to remain high in comparison to investment rates, which are expected to remain at just under 1%.

- 3.3.8 Overall the effects of the economic downturn on local citizens and businesses are such that there is likely to be a continued high call on certain services, such as Housing Needs, Homelessness and Benefits, which in turn draw on the Council's resources.

Government Policy

- 3.3.9 There are several areas of government policy that have influenced the Council in considering the costs of growth and limits placed on government grant.
- 3.3.10 Local Government Funding Reform was announced as part of the Spending Review 2010. At the heart of this is a move from the Formula Grant Four-Block model to the Local Retention of Business Rates scheme, which comes into effect for the 2013/14 financial year.
- 3.3.11 The technical consultation on the proposals in the summer of 2012 also indicated that there would be a further reduction in the control totals for local authority funding compared to the Spending Review 2010, while at the end of October CPI was running at 2.7% and RPIX was 3.1% (RPI 3.2%) indicating rising costs. This highlights the importance of careful financial planning.
- 3.3.12 Broadly, the new funding scheme allows local authorities to keep 50 per cent of any additional business rate funds they generate. However, without adjustment the funding would be weighted towards richer authorities so there will be some redistribution using levies and safety nets to protect authorities that see their income drop to a particular level, e.g. as a result of a significant rate payer leaving the local area. This will be added to an allocation of Revenue Support Grant (RSG) to give a total funding assessment. The scheme transfers some of the financial risks of collectable business rates to local authorities, but also offers incentives to deliver business growth.
- 3.3.13 In addition to changes to formula funding, the government has stated that every local authority will receive reduced funding of 10% for Council Tax Benefit as a part of welfare reform. Its policy is for people of working age to become less reliant on the state for financial support, but to protect pensioners for the first year (as they are unable to increase their income). In order to bridge the funding gap that this creates local authorities have to develop a new Council Tax Support Scheme, which will operate from 1 April 2013. These reforms and others making changes to exemptions and discounts mean that there will be changes to how the taxbase is calculated.

3.4 Revenue Budget

- 3.4.1 The overall summary budget can be found at **Appendix A** to this report with further detail in **Appendix B**. From the summary it can be seen that a key feature of the budget process for previous years has been a focus on obtaining further efficiency in the delivery of Council services.
- 3.4.2 The Council aims to deliver as much of its savings requirements as possible through efficiencies before turning to other options to balance its budget.
- 3.4.3 The changes that are being proposed are part of the reorganisation of the Council that are necessary to achieve excellent status and are a key part of the requirement to deliver more with less and to raise our productivity and customer focus.

- 3.4.4 The authority is pro-actively working on delivering major changes through its work on investigating opportunities for partnership working and alternative forms of service delivery.
- 3.4.5 The Council recognises that it may be necessary to share services with other authorities in order to deliver change. We are very open with regard to working with partners and recognise that we need a change of delivery model in some areas to enable local authority services to be delivered efficiently and effectively in this difficult financial environment. Examples of this work to establish a more mixed economy include the work to transfer the majority of back office services to LGSS.
- 3.4.6 The Council's programme for delivering efficient cost effective services has effectively closed the 2013/14 budget/funding gap, by looking at efficiency improvements and considering the balance between using reductions in service levels in some areas and increasing income in others.

Earmarked Reserves

- 3.4.7 Earmarked reserves are held against specific risks (contractual or with a high degree of certainty), and also for regulatory reasons in terms of grants. These are reviewed three times annually, twice for budget setting, in November and January, and once at the closure of accounts in June.
- 3.4.8 It is proposed that £0.68m of earmarked reserves are applied to contribute to funding the budget for 2013/14 at this stage. In the main this relates to use of New Homes Bonus Grant £723k, which is proposed to be applied to costs that will contribute to the improvement of Northampton, such as setting up the Enterprise Zone.
- 3.4.9 Housing Planning Delivery Grant of £247k is proposed to be used to contribute to planning costs in line with previous budget assumptions.
- 3.4.10 Whilst it is assumed that the balance of the application of reserves will come from general reserves at this point, officers will continue to work on options and challenge of the continuation budget during January. Therefore it is anticipated that the use of reserves will be reduced.

General Fund Balances

- 3.4.11 A prudent level of General Fund balances, along with appropriate application of reserves, should be part of the overall budget. An annual risk assessment is undertaken to ascertain the minimum level of General Fund balances the authority should hold. This suggests that £3.0m should be the minimum for 2013/14.
- 3.4.12 This is in line with what the authority currently holds and is a similar level to that recommended for 2012/13 and covers key areas such as:
- Tighter requirements to plan to mitigate Treasury risks such as counterparty risk in investment.
 - Partnership and outsourcing risks.
 - Emergency Planning and Business Continuity
 - General increased risk levels due to the unstable political and economic climate nationally.

Planning Levels of Resources

- 3.4.13 There are two main funding streams for local authorities' net General Fund revenue budgets. The first is local taxation, and the second is from Formula Funding, consisting of Revenue Support Grant (RSG) and the Retention of Business Rates scheme (NNDR).

2013/14 Provisional Settlement

- 3.4.14 The Government is due to announce the provisional Local Government Finance Settlement on 19 December.
- 3.4.15 At this stage it must be stressed that the Formula Funding projections from 2013/14 onwards are estimates due to the late settlement and changes to the funding regime.
- 3.4.16 Council will consider responding to any formula grant consultation. The final response would be prepared by the Director of Resources in consultation with the Chief Executive, the Accountable Cabinet Member for Finance and the Leader of the Council.

Council Tax

- 3.4.17 Various options for Council Tax levels were considered by Cabinet in autumn 2012. Cabinet has chosen to consult with the public on taking up the government offer of assistance to enable it to propose a 0% increase for 2013/14.
- 3.4.18 Council would then apply to the government for the New Burdens funding to mitigate the cost of this equivalent to 1% on Council Tax (approximately £140k). Funding for the 2013/14 Council Tax freeze has been confirmed for two years. If funding does not continue beyond that, the loss of funding would have to be compensated for through additional savings.
- 3.4.19 The Borough Council's 2012/13 Band D Council Tax is £209.57, excluding amounts raised for parish precepts. In 2013/14, the Band D at the resource illustration is the same, representing a 0% increase in Council Tax.
- 3.4.20 The Band Ds (excluding parishes) for each of these years is shown in the table below:

	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 Estimate
NBC	196.92	204.60	209.65	209.62	209.57	209.57
NCC	956.05	993.34	1,028.11	1,028.11	1,028.11	?
NPCC	178.62	186.66	193.20	193.20	193.20	?
Total	1,331.59	1,384.60	1,430.96	1,430.93	1,430.88	?

- 3.4.21 The Medium Term Financial Strategy requires the Council to look ahead. Whilst the budgets for years 2 and 3 have been comprehensively prepared, there may be opportunities to reduce expenditure, and there will be changes to government funding arrangements in the future.

Local Government Finance Reform

- 3.4.22 Under the new scheme for local retention of business rates there is an option to join with other local authorities in a pooling arrangement, which would benefit the pool through a reduced levy. This would enable the pool (in a net growth situation) to retain a greater proportion of its business rates under the scheme. Following a period of negotiation during the summer and autumn of 2012, NBC has participated in a bid to be part of a pool with NCC and the other districts in Northamptonshire, excluding South Northamptonshire District Council.
- 3.4.23 The government has removed the current Council Tax Benefit Scheme from April 2013 with the aim of reducing the overall expenditure attributed to Council Tax Benefit by 10% and localising support for Council Tax. The expectation is that local authorities will create a scheme that is suitable for their local communities and promotes the government's position on Welfare Reform, by protecting the vulnerable and encouraging work for those of working age. The exact amount of the funding reduction at the local level will be published as part of the Local Government Finance Settlement in January 2013, with an indication of the likely level of funding expected as part of the provisional settlement on about the 19th December 2012. (Further information can be found in the Local Council Tax Support Scheme report elsewhere on this agenda).
- 3.4.24 The government has suggested that local authorities could meet the deficit from the reduction in funding by implementing other changes to ensure that they maximise their opportunities to be financially efficient with the current budgetary pressures. NBC has done so by considering:
- Reconfiguring funding for other services through, for example, efficiency savings or realising savings through shared services, in particular its proposed transfer of services to Local Government Shared Services (LGSS).
 - Using the new flexibility over Council Tax to remove the reliefs in respect of second homes and some empty properties; and other reforms of the Council Tax system, including the use of an electronic leaflet and removal of expensive printing costs traditionally associated with the annual billing process. (Further details of NBC's proposals can be found in the Review of Council Tax Discounts and Exemptions 2013-14 report elsewhere on this agenda).

3.5 Housing Revenue Account

- 3.5.1 The Housing Revenue Account (HRA) is a ring-fenced account that represents the costs of holding the Council's housing stock. There are strict rules surrounding the costs and income that can be charged to this account.
- 3.5.2 Much of the income and expenditure is dictated by legislation and regulation leaving the Council with direct control over a limited number of these budgets. Rental income, by far the largest single budget within the HRA, is calculated by applying the rent restructuring formula as defined by the government.
- 3.5.3 The HRA is now subject to self-financing which has substantially affected the operation of the HRA. Subsidy is no longer paid to the Government but debt has to be serviced from within overall HRA finances. The budget requirements relating to this are reflected in the HRA budget proposals.

- 3.5.4 Rents within the HRA are currently being restructured in line with the government's Rent Restructuring formula. The intention of this restructuring is to have a consistent approach to rental charges across the whole of the public sector housing stock. The government's national rent policy determines the calculation of rents and this is expected to be in line with the restrictions placed on rent rebate subsidy by the Department for Work and Pensions. The proposed level of rent increase for 2013/14 is 4.41% for Northampton. Following rent restructuring this equates to an average rent increase of approximately £3.33 per week.

Summary HRA Position

- 3.5.5 A summary of the draft HRA budget figures is contained in **Appendix C1**, which includes medium term planning investment and savings options, detailed in **Appendix C2**.

3.6 Capital Programme

- 3.6.1 The proposed Capital Programme for 2013/14 to 2015/16 is attached at **Appendices D1 and D2**. The programme is split between General Fund (GF) and HRA schemes. Capital appraisals have been prepared for all proposed schemes.
- 3.6.2 The value of the total proposed Capital Programme for 2013-14 is £29.5m.
- 3.6.3 The table below outlines proposed funding of the programme in 2013/14.

Proposed Capital Programme Funding 2013-14

	GF	HRA	Total
	£m	£m	£m
Capital Programme 2013-14	5.115	24.375	29.490
Funding Source			
Borrowing	4.050	0	4.050
Capital Receipts	0.540	0.600	1.140
Major Repairs Reserve	0	6.775	6.775
Grants & Third Party Contributions	0.475	17.000	17.475
Revenue/Earmarked Reserves	0.050	0	0.050
Total Funding	5.115	24.375	29.490

- 3.6.4 A more detailed breakdown of the funding assumptions for the next three years is set out at **Appendix E**.

General Fund Capital Programme

- 3.6.5 General Fund schemes have been prioritised within the resources available; i.e. capital receipts that will be received during 2012/13, grants and Section 106 contributions and borrowing funded within existing revenue budgets. Contributions from earmarked reserves and costs of borrowing are recognised in the GF revenue budget, as well as any revenue costs arising from capital schemes.
- 3.6.6 The proposed programme for 2014/15 includes a significant scheme to restore Delapre Abbey. This is subject to securing the necessary Heritage Lottery Fund grant during 2013. The scheme will also require a contribution of £0.5m from capital receipts.

HRA Capital Programme

- 3.6.7 The HRA capital programme has a direct impact on the revenue position of the HRA. Expenditure for capital purposes and the effect on revenue expenditure continue to be considered together within the context of the 30-year Business Plan.
- 3.6.8 Central government grant for Decent Homes has been re-phased. This results in a reduced requirement for funding from the Major Repairs Reserve in 2013/14, but increased in 2014/15. Revenue contributions will also be used later.
- 3.6.9 Under new pooling arrangements introduced in April 2012, the Council can retain additional receipts generated from Right to Buy sales in excess of the number assumed in the self-financing buy-out, provided that these are spent on increasing the supply of social housing. A budget has already been added in the current year to fund buy-back of former council houses, and a further £1m is included for this purpose in the proposed 2013/14 programme.

Capital Strategy

- 3.6.10 The Capital Strategy for 2012/13 to 2014/15 was approved by Council on 29 February 2012 and remains current. The aim of the Capital Strategy is to provide a clear framework for capital funding and expenditure decisions. This is in the context of the Council's vision, values, objectives and priorities, financial resources, and spending plans.
- 3.6.11 The strategy includes the Council's capital funding strategy and proposals for the capital programme have been developed in line with this.

3.7 Consultation

- 3.7.1 . Formal consultation with the public and local businesses will be launched in December 2012 and will continue until the budget is formally adopted in February 2013.
- 3.7.2 Budget reports and equality impact assessments for budget proposals are published on the internet.

3.8 Choices (Options)

- 3.8.1 Cabinet can agree that the budget proposals for 2013/14, for General Fund Revenue, Housing Revenue Account and Capital, and indicative budgets for 2014/15, and 2015/16, as summarised in the appendices to this report are approved for public consultation

- 3.8.2 Cabinet can agree that the proposed Council Tax increase of 0% for 2013/14, and the indicative 0% for 2014/15 and 2015/16 are approved for public consultation.
- 3.8.3 Cabinet can choose to make changes to the budget proposals and the proposed Council Tax levels prior to agreeing the budget to consult on, subject to the advice of the Chief Financial Officer.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The revenue and capital budgets are set in support of the Council's priorities.
- 4.1.2 The General Fund Revenue Budget is set in the context of the Medium Term Financial Strategy, elsewhere on this agenda.
- 4.1.3 The Capital Programme is set in the context of the Council's Capital Strategy.

4.2 Resources and Risk

- 4.2.1 In addition to the Borough Council's own Council Tax, there are separate Council Taxes for Northamptonshire County Council, the Parish Areas and the Police Authority.
- 4.2.2 There will be two new parish areas from 1 April 2013 in Hunsbury Meadows and West Hunsbury. No estimates are included for these precepts at this stage.
- 4.2.3 The provisional Local Government Finance Settlement is expected to be announced on 19 December 2012, but is subject to change and will be updated when the final settlement is announced, at the end of January/early February 2013.
- 4.2.4 Housing Revenue Account budgets may need to be updated when Government release the final national rent rise percentages.
- 4.2.5 Information will be included in the report to the Council meeting in February 2013 on the level of spend for the County Council, parishes, and the Police and Crime Commissioner, and the final Formula Funding settlement.

4.3 Legal

- 4.3.1 There are no specific legal issues arising from this report.

4.4 Equality

- 4.4.1 Equality and diversity were considered as a part of the budget build process, and an Equalities Impact Assessment is completed as part of each medium term planning option submitted.
- 4.4.2 Equalities assessments for the draft revenue budget are published on the internet at www.northampton.gov.uk/budget2013 and will be updated to take account of feedback from the public consultation and re-published with the final budget proposals in February 2013.
- 4.4.3 The impact assessments are 'living' documents and will be updated to take into account relevant feedback from the consultation process. Where these documents identify mitigating action, this will be undertaken in implementing

the relevant option should it be taken forward and approved in February 2013.

- 4.4.4 Each completed capital project appraisal includes responses to the following questions:
- State specifically the equalities issues that have been identified that this project will address?
 - How will this project address the equalities issues that have been identified?
- 4.4.5 The project manager for each scheme in the agreed capital programme will complete the Equalities Impact Assessment process as a condition of approval.
- 4.4.6 The Capital Strategy underwent an Equalities Impact Assessment screening. There are no direct impacts on individuals or groups arising from the Capital Strategy itself.

4.5 Consultees (Internal and External)

- 4.5.1 Internally heads of service and budget managers have been consulted, and Management Board has carried out a detailed challenge of the budget with Members.
- 4.5.2 This paper is to agree to put out a draft capital and revenue budget and Council Tax to public consultation, which will be undertaken with the general public, partners of the Council and businesses. This is in line with best practice and the statutory requirements of the Local Government Finance Act 1992.

4.6 How the Proposals Deliver Priority Outcomes

- 4.6.1 Consulting on the draft budget is a key ingredient in effective financial governance, which contributes to the priority of making every pound go further.

4.7 Other Implications

The **Appendices** are set out as follows:

- A General Fund Summary
- B General Fund Medium Term Planning Options
- C1 HRA Revenue Budget Summary
- C2 HRA Medium Term Planning Options
- D1 Proposed General Fund Capital Programme 2013/14
- D2 Proposed HRA Capital Programme 2013/14
- E Proposed Capital Programme Financing 2013/14

5. Background Papers

- 5.1 Capital Strategy 2012 - 2015
- 5.2 Medium Term Planning Options consolidated list GF
- 5.3 Medium Term Planning Options consolidated list HRA

5.4 Equality Screening and Analysis for MTP Options GF and HRA

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