Appendices
None

NORTHAMPTON
BOROUGH COUNCIL

COUNCIL

24th FEBRUARY 2016

Agenda Status: Public **Directorate: Management Board**

Report Title	Report by Chief Finance Officer on Robustness of Budget Estimates and Adequacy of Reserves

1. Purpose

1.1 To advise the Council on the robustness of the estimates in the budget and the adequacy of the proposed financial reserves for the General Fund and Housing Revenue Account before recommending the Council's Medium Term Financial Plan 2016/21, the Revenue Budget for 2016/17, Capital Programme 2016/21, Reserves levels and Treasury Management Strategy 2016/17.

2. Recommendations

2.1 That Council carefully considers the content of this report with regards to the General Fund and Housing Revenue Account prior to recommending the approval of the Council's Medium Term Financial Plan 2016/21, the Revenue Budget for 2016/16, Capital Programme 2016/21 and Treasury Management Strategy 2016/17.

3. Issues and Choices

3.1 Report Background

3.1.1 Section 25(1) of the Local Government Act 2003 requires that the Chief Financial Officer (Section 151 Officer under the Local Government Act 1972) reports to the Council when setting its Council Tax on:

- the robustness of the estimates in the budget.
- the adequacy of the proposed financial reserves.

3.1.2 Section 25(2) of the 2003 Act requires the Council to have regard to this report in approving the budget and Council Tax.

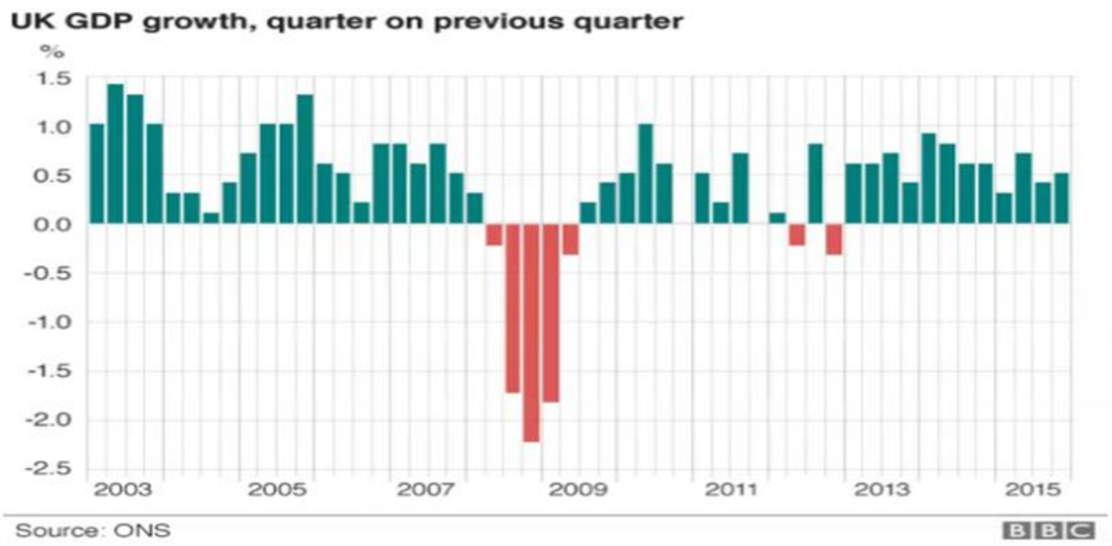
3.2 Context

3.2.1 The Council is setting its budget at a time when it continues to face significant challenges. In broad terms these can be split into 3 categories; economic, local government and local challenges. Each of these challenges is explored below.

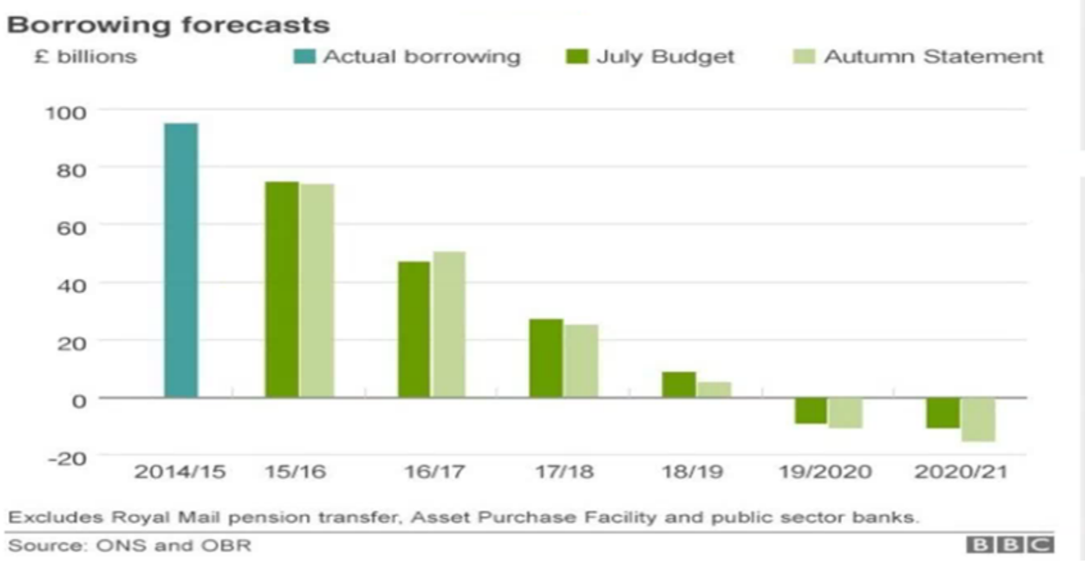
Economic Challenges

3.2.2 In 2015 the annual growth in the UKs Gross Domestic Product (GDP) was 2.2%. The growth in 2015 was the lowest rate recorded in the last three years, but it still means the UK economy is growing at one of the fastest rates in the developed world. Based on forecasts by the International Monetary Fund (IMF) this growth is expected to continue for 2016 and 2017.

3.2.3 The graph below shows the quarterly growth increase (left hand axis) and total GDP (right hand axis) over the past 12 years. The impact of the financial crisis and recession in 2008/09 is clearly evident. However, since 2013 the economy has grown consistently each quarter. This is extremely positive news for the UK economy.



3.2.4 The UK economy is still operating with an annual deficit and the Government has stated its commitment to a balanced budget by 2020. Due to the depth of the downturn this is longer than previously envisaged. The graph below shows how the annual borrowing forecasts have changed between July and November 2015.



Local Government Challenges

3.2.5 Since 2010 Government funding for local government has reduced by approximately 40% in real terms. A new Government was elected in May 2015 and have subsequently made a number of announcements, including Summer Budget (July 2015), Spending Review (November 2015) and provisional Local Government Finance Settlement (December 2015). The key headlines from these announcements were:

- Local Government funding will reduce from £21.9bn to £17.8bn by 2019/20
- Switch of funding toward councils with social care responsibilities
- Switch of funding from rural to urban areas
- Proposals to review New Homes Bonus, including an £800m reduction in funding
- The introduction of the "Core Spending Power" which includes assumptions from Government about increases in council tax levels and rises in the taxbase
- An offer of a four year deal from Government to provide more certainty for council to assist in planning service provision over the medium term
- Social housing changes, including a 1% per annum reduction in rents and changes to Right to Buy
- A proposal to move to a 100% business rates retention scheme by 2020

3.2.6 In addition to the continuing austerity measures it is anticipated there will be further changes to Government policy which councils will be expected to implement by 2020.

3.2.7 From these changes it appears that the Government is moving slowly away from the previous needs-based funding of the old formula grant towards a system where councils are rewarded for growth in house and business numbers. For example, Revenue Support Grant (RSG) is forecast to reduce at significant rates over the medium term and is therefore unlikely to be a primary source of funding for the Council in the future. It is being replaced by Business Rates Retention and New Homes Bonus (albeit at lower levels than previously experienced), both of which reward those areas which can promote and deliver growth. RSG for the Council is forecast to be negative by 2020/21, when it will have to pay a tariff to Government from its business rates baseline.

3.2.8 It should be noted that there is more information upon which to base financial forecasts than 12 months ago, particularly for the 2016/17 financial year. However, there are a number of key pieces of information that councils do not have clarity on over the medium term. For example how the 100% Business Rates Retention scheme will work in practice, which services will be transferring to local government and which proposals from the New Homes Bonus review will be implemented. Even the areas where there is perceived to be more clarity, such as the 1% reduction in social rents per annum, the Government is issuing exceptions as the impact of proposals on specific demographics becomes clearer. Another challenge facing local government is the continued impact of an increasing elderly population and the associated pressures on social care and health services. This has led to a redistribution, albeit over time, of local government funding. There will be a further opportunity for Government to redirect resources when 100% Business Rates Retention is implemented. To this end the Government has announced a review of the underlying formula supporting the Council's funding baseline. All of these changes present significant risks, to the Council over the period of its Medium Term Financial Plan.

Northampton Challenges

3.2.9 As noted above the Council faces significant external challenges that it will need to manage over the medium term. Over the past four budget planning rounds the Council has implemented a financial strategy which addressed a number of specific financial challenges faced by the Council.

3.2.10 Over this period the Council has made good progress in delivering its Medium Term Financial Plan. The primary areas being:

- Delivery of revenue budget savings and operating within its revenue budget for 2015/16; and
- Changes in terms and conditions and a senior management restructure.
- The transfer of support services to LGSS which is expected to deliver substantial savings over its five year term.
- The creation of Northampton Partnership Homes to manage the Council's housing stock.
- Investment in the town centre to encourage economic growth, for example improvements to Abington Street, Guildhall Road and the Greyfriars area.
- Regeneration and economic growth in the Waterside Enterprise Zone, for example St Peters Way roundabout, Cosworth and the railway station.

3.2.11 There are still a number of actions that need to be delivered in the future given the increasing revenue funding pressures that, as noted above, are set to continue over the medium term.

3.2.12 In addition to the existing externally driven funding pressures, there are additional calls on Council funding to implement schemes and provide loans in order to promote and enhance the local economy and allow a sound base for future economic growth. The success of this strategy could lead to additional revenue funding becoming available to the Council in the future form of retained growth through Business Rates Retention Scheme and funding arising from the building of new dwellings through the New Homes Bonus grant and additional council tax receipts. However this does give rise to additional pressures and risk in the short to medium term. Particularly as the Government are planning significant change to NHB and Business Rates Retention over the next few years.

3.3 Medium Term Financial Plan 2016/17 to 2020/21

3.3.1 The Medium Term Financial Plan is a key part of ensuring the Council's future. The approach during the 2016/17 budget planning round has been to update the previous year's plans for any changes to assumptions, local policy changes, national policy changes and known risks. This has then been used as a basis to identify savings requirements for the years 2016/17 to 2020/21.

Risks and Mitigations

3.3.2 Section 5 of the Budget Report presented to the Policy and Resources Committee on 15 February 2016 sets out all of the assumptions which underpin the MTFS. These assumptions are robust and are based on the most up to date intelligence available. However, as with any assumption, there is an element of risk that the reality will be different. The following assumptions in the MTFS contain the most risk:

3.3.3 General Fund Revenue

a) **Government Funding**. The current assumption is as announced in the Local Government Funding Settlement when the Council was notified by Government its allocation for 2016/17 and indicative allocations for the 3 subsequent financial years. Over this period Revenue Support Grant (RSG) is forecast to reduce from £3.3m in 2016/17 to nil by 2019/20. This is an aggressive reduction in RSG and would indicate the Council would have a negative RSG in the 2020/21 financial year. It should be noted the forecast funding position is only indicative for 2017/18 and beyond. The reductions in funding for districts councils are faster and deeper than previously envisaged as Government have changed their methodology for allocating grant on two fronts; namely moving monies away from rural areas to urban areas and towards councils with social care responsibilities. It should be noted there is further potential for Government to amend the methodology for allocating resources when Business rates retention is introduced, see below for more details.

The risk is mitigated by using the figures provided by Government in our forecasts. To mitigate the risks further the Council should consider entering into the four year funding deal announced by Government. However, such a deal will need to be backed up by an Efficiency Plan. At the time of writing the full details of the 4 year offer and Efficiency Plan are still to be assessed as to whether it is worthwhile for the Council. The

Council has until 14 October to sign up to the Government offer and submit an Efficiency Plan.

b) **New Homes Bonus (NHB)**. The Government has announced proposals to review the current NHB system. All of the proposals being consulted on will see reductions in the amount of resources available for the Council. The current scheme will continue in 2016/17 with any new scheme due to be in place by from April 2017. In 2016/17 the Council has been allocated £4.9m, this could reduce by up to 50% in the subsequent years depending upon which proposals are implemented. The Council currently uses around 30-40% of its NHB allocation to fund its on-going revenue budget with the remainder used to finance one off expenditure and front funding the Waterside Enterprise Zone. The MTFS assumes all NHB will be used to finance on-going expenditure in the General Fund Revenue Budget each year. By March 2017 the Council has built up £2.7m in unspent NHB monies and will receive further monies by 2021/22 through the reimbursement, via business rates uplift, from SEMLEP of monies used to front fund costs of the Waterside Enterprise Zone.

A reduction in funding of up to 50%, or £2.5m, presents a significant risk to the Council. However, the Council's historic decision not to use all of its NHB to finance on-going expenditure means there is flexibility to absorb the reduction without there being a major impact on services. The unused monies from NHB and those due back from SEMLEP over the next few years have been included in the reserves forecasts for the Council.

c) **Business Rates Retention**. The current assumption is for the level of business rates in 2016/17 to be £7.4m. This consists of the baseline of £6.2m, Section 31 grant due on mandatory reliefs currently funded by Government of £1m and a further £0.2m generated by maximising business rates with other councils in Northamptonshire. The actual level of business rates for 2016/17 will not be known until after the end of the financial year. It should be noted there is a high level of uncertainty over the level and timing of business rates income. In particular the Council has made assumptions around business rate appeals. Currently there are 833 appeals outstanding with a total rateable value of £92m and total rates payable under appeal of £237m. A further risk to be aware of is the business rates revaluation due to be implemented in April 2017. Although this is expected to be fiscally neutral nationally it may not be at a local level and there are likely to be an increase in the volume of appeals following the revaluation.

The Government has announced that they are seeking to move to a scheme where councils retain 100% of their growth in business rates by 2020. The Government will start to consult on their proposals during 2016. As the total amount of business rates raised nationally are around £5bn more than the current level of Government grant to councils there will be additional services transferred to local government. At this stage it is not known what these services are or who will manage them in two tier areas.

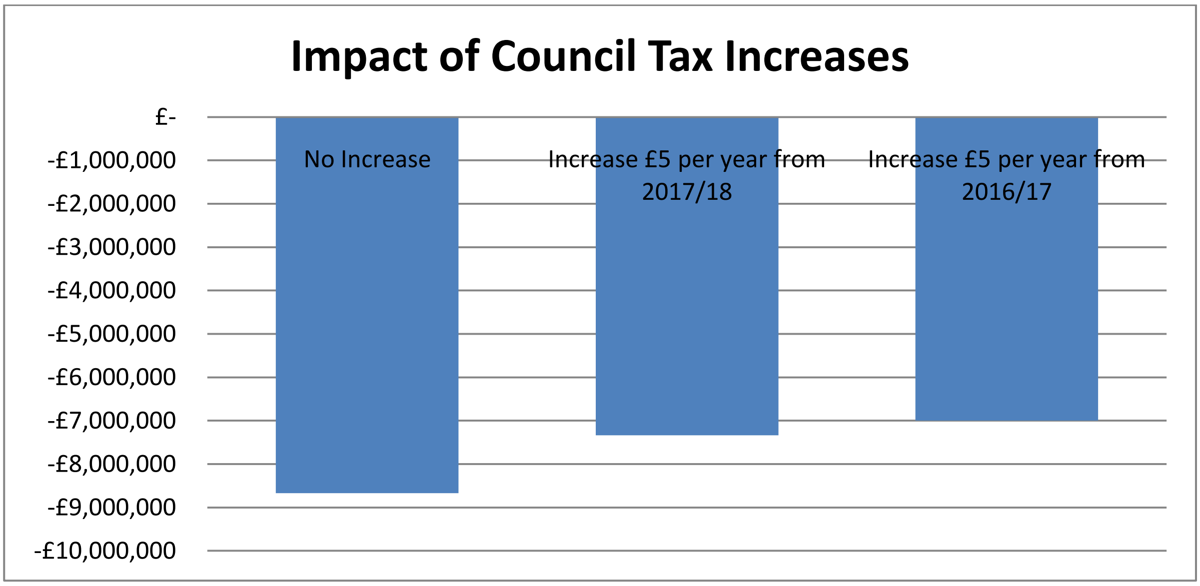
This presents the Council with a number of risks to manage, specifically:

- Delivery of the timing and level of business rate growth. The Council has incorporated no growth into its budget. The Council is developing an innovative approach to forecasting its level of Business Rates over the medium term with the establishment of the Business Rates Forecasting Group consisting of officers from planning, revenues and finance. The Council also has a good relationship with the Valuation Office Agency
- Business rate appeals. The Council has made a provision for historic and future appeals in its business rates forecasts. However, it should not be underestimated the amount of uncertainty around business rates appeals on the Council's financial position.
- Other changes. In addition to appeals a number of organisations including NHS Trusts and Virgin Media have challenged how they are treated with regards to mandatory reliefs and their classification on the list. If these challenges are successful there is the potential for a significant impact on business rates income.
- The intention to move towards a 100% business rates retention scheme on the face of it, appears to be good news as councils can keep all of their business rate growth. However, its also increases the existing risks around timing/level of growth and appeals/volatility as councils will carry 100% of the risk, rather than the current 50%. A new risk is around the additional services being transferred to the Council. As the proposals are consulted upon and firmed up the Council will need to flex its financial position accordingly.

d) **Council Tax**. The Council's strategy with regards to the level of council tax for 2016/17 is for no increase in 2016/17 and an increase of £5 per year thereafter in line with the maximum permitted amount by Government without triggering a referendum.

The Governments position with regards to council tax has changed significantly since May 2015. In recent years the Government has incentivised councils not to increase council tax by offering a Council Tax Freeze Grant. This grant is no longer payable and the Government, through its Core Spending Power, are assuming councils will increase their council tax to maintain services. For Northampton Borough Council, the Government is assuming the council will increase its council tax by £5 per year until 2019/20. In addition the Government are assuming an increase in our taxbase of around 3% per annum. This is significantly ahead of growth experienced in recent years.

A clear strategy on the Council's policy for council tax levels over the MTFP period is an essential part of a councils financial planning. The MTFP includes an assumption that the Council will increase council tax by £5 per annum each year from 2017/18. This reduces the annual funding gap in 2020/21 by £1.3m. The graph below sets out how the current approach on council tax would impact upon the forecast annual deficit in 2020/21. As can be seen increasing council tax reduces the deficit, however, further measures are required to deliver a balanced budget:



e) **Delivery of proposed savings**. There are £0.7m of savings to be achieved in 2016/17 onwards; those currently identified are itemised in the budget report at appendix 5. Specific ones of notes are:

- Service reviews £0.3m.
- House in Multiple Occupation Fee Income £0.1m

The risk of delivery of these will be mitigated through the use of a budget tracker to monitor progress; outputs from this will be regularly reported to Management Board and Cabinet.

f) **Waste Contract Re-procurement**. The current Environment Services contract is due for renewal in 2018. The market intelligence the Council has received is that a new contract would be more costly than the existing one. An estimate has been incorporated into the MTFS in 2018/19 of an additional £3.8m (a 50%+ increase in the contract price). This is a significant cost pressure facing the Council and one that is contributing to approximately half of the funding deficit from 2018/19 in the MTFS.

The Council has planned for this increase in its Budget since April 2015 by including an escalating pressure into its MTFP. The Council needs to find ways to reduce this estimated cost pressure. If it does not the council will need to find efficiencies/savings/generate income in other areas of the budget to offset this pressure. To manage the additional work and costs of the procurement process the Council will utilise monies from payment deductions from the existing contract.

g) **Northampton Partnership Homes**. The Council has created Northampton Partnership Homes to deliver the Council's landlord function. This is being financed through a management fee paid by the Council to NPH. There are a number of general fund activities provided directly (eg certain housing responsibilities such as Housing Choice) and indirectly through recharges (eg grounds maintenance) by NPH. There is a risk of financial implications to the Council arising from planned work streams to review areas recently transferred to NPH, including grounds maintenance.

The risk of this is mitigated through the governance structures and the involvement of the Chief Finance Officer and his representatives in those governance structures. This will include regular meetings between the Chief Finance officer and NPH Finance Director.

h)**Employee Costs**. There is currently no pay agreement in place from April 2016. Pay inflation has been assumed to be 1% for 2016/17 and across the MTFS period. This is in line with government announcements on public sector pay. The impact of announcements regarding the National Living Wage are also reflected in budget forecasts over the medium term. In addition pressures arising from increasing national insurance contributions and employer pension contribution rates have been factored into budget plans over the medium term.

i) **Impact of budget proposals from other local authorities and partner organisations**. Budget pressures are being faced by the County Council and their savings options include changes that are likely to impact on our financial position. An example of this is a proposal in the County Council budget to reduce the cost of waste by £7m. There maybe knock on impacts of options to deliver this proposal on this Council's waste budget.

This risk is being mitigated through close working and joint meetings, at a member and officer level, with the County Council. An earmarked reserve has been incorporated into the budget to manage any possible financial risk.

j) There are some services which historically have had higher levels of financial risk associated with them, including car parking and waste contract.

There is now reduced risk relating to car parking income due to using improved data for producing improved financial forecasting; the costs of the waste contract are being continually monitored and contract risks dealt with through the contract management team.

3.3.4 General Fund Capital

k) **Large Capital Schemes**. There are a large number of high profile capital schemes to deliver over next two years, including Delapre Abbey Restoration, St Giles Street Improvements, Vulcan Works and Northampton Museum Extension.

Each of these schemes will have its own unique set of risks. At an overall level the Capital Programme Board, set up in 2014, has introduced a more systematic approach to governance, capital planning and managing schemes through their lifecycle. At a scheme level it is expected Directors will have in place robust project management arrangements to identify and mitigated or manage risks that arise throughout the project lifecycle.

l) **Waterside Enterprise Zone**. There is significant capital investment relating to investment in improved infrastructure in the Enterprise Zone.

Initial funding of this is from various sources including the Growing Places Fund; repayment of the funding is reliant on business rates uplift.

This risk is managed as per t) below.

3.3.5 Housing Revenue Account

m) **Reduction in rents by 1% per annum**. The Government policy to reduce rents by 1% per annum has an impact on the HRA by reducing the funding available by £2m in 2016/17 compared to the HRA Business Plan presented to Council in February 2015. Over the period of the next four years it is anticipated this would lead to £20m less rental income being received by the HRA. This represents a major change, and therefore risk, to the HRA business plan. The risk of investing less in the Council's housing stock is that it will deteriorate over time, which will impact on the quality of life for tenants.

The strategy for managing this change has been to work closely with NPH to identify areas for reducing expenditure across the Management Fee, Repairs & Maintenance budgets and Capital Programme. NPH expect to manage the position in 2016/17 by being more efficient and effective in their use of resources. However, this will be more difficult to achieve over the medium term.

n) **Further Planned Government Policy Change**. The Government has also announced proposals with regards to Right to Buy and high value stock, and Pay to Stay. The full implications of these are not known at present. However, they are expected to have an adverse impact on the HRA.

The Council is monitoring the information being announced by Government and is working with its intelligence networks to assess the potential impact on the HRA 30 year business plan, and the overall finances will managed within that context.

o) **Northampton Partnership Homes (NPH)**. NPH, a wholly owned arms length organisation of the Council, provides the Council's landlord function, plus other housing functions. NPH is funded by a Management Fee from the Council. In addition NPH receive monies to deliver repairs & maintenance services and capital improvements to the Council's housing stock. The Total Fee paid to NPH is the financial representation of the Management Agreement between the two parties and has been sub divided into six component parts. As with any new organisation there are risks, one risk worthy of note from a financial perspective is that the budgets are not allocated correctly between the components elements of the Total Fee.

To mitigate the risk of any change the Management Agreement includes a clear approach to managing the virement of budgets between the various elements of the Total Fee. The financial performance of NPH will be closely monitored by the Chief Finance Officer through regular meetings with the NPH Finance Director.

3.3.6 Housing Revenue Account - Capital

p) **Large Capital Schemes**. There are a large number of high profile capital schemes to deliver over next two years, including the improvement of council housing up to the Northampton Standard and the building of 100 new homes at Dallington.

The Capital Programme Board set up in 2014 has introduced a more systematic approach to governance, capital planning and managing schemes through their lifecycle. The 100 homes at Dallington are mainly financed by an increase in the HRA borrowing cap from Government, There are strict criteria in place that the Council needs to adhere to in order to receive this increase in its borrowing cap. It is essential that managers deliver against these or there is a risk that ability to fund from Borrowing could be reduced by Government.

q) **Right to Buy Receipts**. There are specific rules the Council must adhere to with regard to monies generated from Right to Buy receipts. One of these is the need to spend these receipts within a set timeframe. The Council currently has around £3m of these at present. There is a risk the Council will have to repay these to Government if it does not spend them within the required timeframe.

To mitigate this risk the Director of Regeneration, Planning and Environment is working with closely with the housing teams (NPH and Strategic Housing) to determine a plan for optimising the use of these receipts.

3.3.7 Treasury Management

r) The Council has and is entering into a number of loan agreements with local partners.

Risks are fully assessed and loan agreements put into place to mitigate the risks including proposed repayment schedules; interest rates are charged on the loans to mitigate state aid implications.

s) There is a risk relating to interest rate increases.

The interest budgets have been built using latest forecasts of interest rates provided by the Council's risk management advisors, Capita Treasury Services.

3.3.8 Other Risks

t) **Business Rates in Waterside Enterprise Zone.** Through the Business Rates Retention Scheme, the Council retains all the growth from the Waterside Enterprise Zone which is earmarked (through a memorandum, of understanding) for use on South East Midlands Local Enterprise Partnership (SEMLEP) priorities. There is a risk that the forecasts of this business rates growth may not be achieved resulting in lower revenue streams than anticipated; this risk affects Northampton Borough Council via some of the loans to improve Enterprise Zone Infrastructure whereby the funding of principal and interest repayments are expected to come from business rates uplift; if this uplift does not occur, the responsibility for repayment remains with the Council.

This risk is mitigated through modelling of business rates uplift on a site by site basis. The Council has in place intelligence gathering and information sharing between planning, revenues & finance combined with more detailed modelling of future projections including risk and sensitivity analysis. However, it should be noted this risk is unlikely to materialise until after the end of our MTFP period.

u) **Loans to Third Parties**. The Council has made a number of loans to third parties including University of Northampton, Northampton Saints Rugby Club and Cosworth. All of these loans have been subject to due diligence before being made.

To ensure the financial position of the Council is protected regular monitoring of the financial standing of organisations the Council has loaned money to is required. This includes regular meetings with 3rd party organisations, review of progress against their business plans and review of financial statements.

v) **Sixfields and Recovery of NTFC Loan Monies**. The Council is in the process of taking action to recover the loan monies lent to NTFC. It is also taking steps to deliver value from the development of land around Sixfields Stadium. It is anticipated the monies arising from these actions will be sufficient to meet the repayment of the loan and costs associated with recovery of monies.

The Council should closely monitor progress on each of these activities to maximise its returns. In particular the costs associated with the recovery of monies will need to be monitored to ensure value for money is being achieved.

w) **Localisation of council tax support (CTS)**. The current assumption is that the shortfall arising from the Government funding for CTS in 2016/17 will be met from council tax discounts/exemptions and a 29% council tax liability for those entitled to CTS. This is an increase from 2015/16 and is expected to be cost neutral with regards to the impact on the wider council tax payer given on-going reductions in government grant to finance the gap.

The risk is that the actual position is different from the budget at the start of the year as the final position won't be known until the end of the financial year. Extensive modelling has been undertaken to provide the Council with assurance of the financial impact. The primary reason for increasing the liability to 29% is to ensure a cost neutral scheme for all taxpayers. Beyond 2016/17 it is assumed any additional costs arising from reduced government funding are mitigated by reductions to the CTS scheme.

3.4 Delivering the Medium Term Financial Plan

3.4.1 The medium term financial position for the Council continues to show costs increasing at a faster rate than funding. By 2020/21 there is projected to be a £7.3m gap between expenditure and income and this could get wider over the longer term using current projections.

3.4.2 The primary reasons for the gap are increasing employee costs (pay awards, national insurance changes and pension contributions), pressures arising on maintaining the current levels of the performance on external contracts, including Environment Services, and reducing funding from government.

3.4.3 The Council will need to be mindful of this position when making strategic and policy decisions in the future. Mitigating factors for this could be around increasing revenues through the Business Rates Retention scheme by growth in the number of businesses in the borough, although there are risks around this as noted above, and will be by reducing costs by operating more efficiently, effectively and innovatively.

3.4.4 The Medium Term Financial Plan requires a number of key deliverables to be achieved and implemented in order to achieve a stable and sustainable financial position for the Council. Key deliverables include implementing savings plans, identifying further savings, selling assets and increasing revenues by encouraging more businesses into the borough. This will need to be managed against a backdrop of anticipated further significant change within the Local Government sector. To ensure delivery the Council is advised to ensure that:

- project teams and boards are established to deliver the savings and investment programmes, and that these teams/boards are resourced to the right level, including an appropriate level of finance resource.
- money used to support these programmes must be on an invest to save basis, with clear criteria and expectations of return.
- progress against savings plans are regularly monitored, with variances and any mitigating actions reported.
- members take future decisions that support the aim of maintaining a financially stable and sustainable Council.

3.5 Revenue Budget 2016/17

The Financial Position

3.5.1 The revenue budget 2016/17 is the first year of the Council's five year Medium Term Financial Plan. The budget has been developed using a robust process with officer and member involvement.

Budget Process

3.5.2 An important feature of the budget process is that Directors and Heads of Service are responsible, with the support of finance staff, for the preparation and determination of their income and expenditure estimates. The active involvement of Directors and Heads of Service in determining their spending plans and income generation estimates ensures ownership of the budget and that the officers responsible for delivery of the services are happy that financial targets are achievable. During the 2016/17 budget setting cycle, all items within the base budget have been scrutinised and any changes to the figures submitted have only been incorporated with the acceptance of the Directors and Heads of Service. The Council’s Management Board have discussed and reviewed the budget on a regular basis throughout the process. In addition there have been regular meetings between the Leader, Cabinet Member for

Finance, Chief Executive and Chief Finance Officer to steer the budget process.

3.5.3 Councillors have been involved in the budget process through the Overview and Scrutiny Committee, who have investigated and challenged the proposals and Audit Committee who conducted a risk review of the budget proposals.

<u>Budget Proposals</u>

3.5.4 The budget includes £0.7m of savings, delivery of which will need to be managed.

3.6 Draft Capital Programme 2016/17 to 2020/21

3.6.1 Historically the Council's General Fund Capital Programme has been funded from capital receipts, capital grants, NHB income, prudential borrowing financed from service revenue savings and prudential borrowing that is affordable within the overall revenue position. This remains largely the case, although New Homes Bonus income, which has been used to finance regeneration and economic growth related projects in recent years, is the subject of proposals by Government to significantly reduce it. This would mean there would be no new NHB income to finance the capital programme. However, there is historic NHB income which has been placed into reserves for use to manage the Council's financial position over the medium term.

3.6.2 Over the period of the Medium Term Financial Plan, the General Fund Capital Programme is projected to be financed from £8.8m capital receipts. There are risks around the delivery of this level of capital receipt. Progress on the achievement of this level of receipt will therefore be closely monitored through the Corporate Asset Board, with any amendments to capital programmes and financing through the Capital Programme Board.

3.6.3 There is £1.6m of funding provided through the, Growing Places Fund and Local Infrastructure Fund, which part of a total investment of £7.5m form these funding sources, is to be repaid from the Enterprise Zone business rate uplift; risks around the repayment of this are being managed as per 3.3.7 t) above.

3.7 Housing Revenue Account (HRA)

3.7.1 The HRA budget has been subject to a number of policy changes announced by Government, including a reduction in rents by 1% per annum and proposals around Right to Buy and high value stock, and Pay to Stay. The Council has worked closely with NPH in setting its HRA budget for 2016/17, the medium term plan 2016/21 and 30 year HRA Business Plan.

3.7.2 The HRA Capital Programme is funded within the context of overall Housing Revenue Account resources and in line with the Asset Management Plan, although this is subject to a significant refresh during 2016, and the HRA 30 year business plan. Where there are changes in the overall resources available to the HRA, the capital plans are amended accordingly. In this context there is not a high financial risk relating to HRA capital expenditure, however significant reductions in capital investment would impact heavily on service delivery and put delivery of landlord obligations at risk.

3.8 Treasury Management Strategy 2016/17

3.8.1 The Council's Treasury Management Strategy has been updated to reflect the latest borrowing requirements of the capital programme, latest interest rate forecasts and updated for the credit criteria to reflect the changing banking environment whilst ensuring the security of the Council's investments continues to be maintained.

3.8.2 Forecasting the Council's future short term borrowing and lending costs is always a challenge, but even more so in the current climate of economic volatility and uncertainty. Nevertheless the Treasury Management budget does reflect the capital financing costs to support the approved capital programme and rates of return on investments at this time. The base rate is forecast to remain at its historical low further into the medium term and the budgets will be regularly monitored.

3.9 Forecast Reserves and Balances

3.9.1 There has been a review of earmarked reserves and the minimum working balance.

Minimum Levels of Working Balance

3.9.2 The risk assessed minimum level of General Fund balances for 2016/17 is £5.3m, this is an increase of £0.4m since 2015/16 to reflect the additional risks being faced by the Council. The working balance for the HRA continues at £5m. The risk assessed minimum level of balances are expected to remain at this level in the medium term.

3.9.3 The underlying minimum level of working balances necessary to mitigate against short to medium term risks will be reviewed, along with the levels of earmarked reserve, on an annual basis.

Use of Earmarked Reserves

3.9.4 There is a net contribution to earmarked reserves within the 2016/17 revenue budget of £2.872m.

3.9.5 To assist in managing risks in the budget the Future Budget pressures earmarked reserve has been increased to £6.5m to reflect uncertainties in delivering savings proposals, potential impact of budget proposals from other councils/partners, proposed changes to government funding and uncertainty around business rates receipts.

3.9.6 In recognition of the future General Fund revenue pressures, rising to a budget gap of £7.2m in 2020/21, an earmarked reserve of £2.1m for Strategic Investment is continuing. The use of this reserve will be based on strict criteria linked to a business case and will require sign off by the Chief Finance Officer and the Cabinet Member for Finance. The reserve will only be used for projects which contribute overall to closing the projected budget gap in the short to long term. It is expected such projects will have either a clear return on investment and/or provide the Council with an asset that would have a strategic benefit for the Council in the future.

3.10 Conclusion

3.10.1 Based on the assumptions made in its Budget 2016/17 and MTFS 2016/20 for income and expenditure the Council can set a balanced financial position for 2016/17.

3.10.2 However, due to the continued reduction in government funding and forecast pressures on the re-procurement of its waste contract the Council is facing significant annual deficit budgets of over £7m by 2020/21.

3.10.3 In addition there are a number of risks, or “known unknowns”, outlined in paragraphs 3.3.3 to 3.3.8.These risks may have a positive or negative impact on the Council’s financial position.

3.10.4 Whilst in the next financial year the Council’s financial position is sustainable; beyond this the financial position is, at best, uncertain. The Council will need to ensure it makes the right decision over the short term (next two years) to ensure it is financially stable and sustainable over the medium to long term. Such a strategy should include maximising all income streams, continuing to generate efficiencies and influencing the risks faced to optimise the Council’s future financial viability

3.10.5 The Council should give proper consideration to accepting the Government four year offer and development of an Efficiency Plan. Whilst at this stage the contents of an Efficiency Plan are not known the Council should develop a clear plan demonstrating how it will manage its financial position over the medium term based on different risk scenarios

3.10.6 Provided the Council carefully considers and acts upon the above analysis, and officers robustly manage the implementation of the Revenue and Capital Budgets, a positive opinion can be given under Section 25 of the Local Government Act 2003 on the robustness of budget estimates and the level of reserves.

3.9 Choices (Options)

3.9.1 Section 25(2) of the Local Government Act 2003 requires the Council to have regard to this report in approving the budget for both the General Fund and the Housing Revenue Account.

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 and in order to do this effectively, the calculations used within the budgets must be robust; this report demonstrates that, in the opinion of the Chief Financial Officer, the budgets for 2016/17 are robust within the parameters outlines in this report.

4.1.2 Protecting the Council’s medium to long term financial position and ensuring adequate provision for reserves allows the Council to continue to deliver services in line with its priorities.

4.2 Resources and Risk

4.2.1 The report is of a financial nature and the implications are set out within the report. This report by its nature considers risk management from a financial perspective.

4.3 Legal

4.3.1 The Council has a legal duty to set a balanced budget each year, bearing in mind its fiduciary duties to the taxpayer, and the HRA is not allowed to go into deficit by law. Section 25(1) of the Local Government Act 2003 requires that the Chief Financial Officer (Section 151 Officer under the Local Government Act 1972) reports to the Council when setting its Council Tax on the robustness of the estimates in the budget and the adequacy of the proposed financial reserves.

4.3.2 Section 25(2) of the 2003 Act requires the Council to have regard to this report in approving the budget.

4.4 Equality

4.4.1 There are no equality and diversity implications arising from this report. Separate assessments will be produced as savings plans are developed over the period of the MTFP to deliver the savings yet to be identified.

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 The draft capital and revenue budgets were subject to public consultation and the HRA budget was presented to tenants on 4th February 2014.

4.6 How the Proposals Deliver Priority Outcomes

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

4.7 Appendices

None

5. Background Papers

5.1 General Fund Budget Report

5.2 HRA Budget Report

5.3 Treasury Management Strategy Report

Glenn Hammons, Chief Finance Officer, 01604 366521