DRAFT

Northampton Borough Council

Efficiency and Medium Term Financial Strategy 2019/20 to 2022/23

INTRODUCTION AND PURPOSE

This document sets out the Councils approach to closing the forecast medium term gap between General Fund net expenditure and funding. This strategy relates specifically to General Fund budgets and incorporates key elements of the Capital Strategy. The Housing Revenue Account faces similar financial challenges and the Council is working closely with Northamptonshire Partnership Homes to address these through the review of the HRA 30-year Business Plan.

The Efficiency and Medium Term Financial Strategy (EMTFS) is set in the context of the proposed local government reorganisation and creation of a new unitary authority. Whilst this means that NBC will cease to exist in its current form beyond 2019/20, the budget set for that year must be sustainable. The new unitary authority will face considerable cost pressures from inception and each of the existing authorities must therefore ensure that existing budgets are robust and sustainable. Forecasts are being prepared for three financial years beyond 2019/20 on a no-change basis.

The purpose of this strategy is to agree a set of principles and projections that underpin the annual budget process and ensure that the Council can achieve its ambitions for service delivery and performance within the resources available.

LINK TO CORPORATE PLAN

This strategy is set in the context of the Corporate Plan, which includes the vision of a Northampton which is Ambitious, Prosperous and Proud.

“Ambitious: We have strong ambitions for Northampton’s economy, with a focus on the town centre and the Enterprise Zone.

Prosperous: We want to encourage strong community bonds and ensure that everyone has the opportunity to achieve their ambitions.

Proud: We and a great many residents are extremely proud of our town and we want to help provide even more reasons for those feelings of belonging and ownership.”

OVERALL STRATEGIC PRINCIPLES

1. The Council will, within available resources, seek to maximise delivery of services and levels of performance and ensure that resources are targeted to meeting its objectives and priorities

2. The Council will set a balanced budget, which is stable and sustainable and fully represents the cost of providing the levels of service and performance set out in the Corporate Plan and Service Plans

3. Income streams will be maximised through the delivery of high quality, cost effective services.

4. Council Tax will be increased up to the maximum allowed without requiring a referendum.

5. Investment decisions will take into account both revenue and capital implications.

6. Where requirements to undertake borrowing are identified, the costs and benefits of doing so will be assessed as required in line with CIPFA's Prudential Code.

7. Financial implications will be underpinned by a robust risk assessment.

8. Decision making will be business case lead. There will be a focus on the short, medium and long-term financial implications of decisions.

9. Reserves will be utilised to fund investments that will deliver a long-term sustainable financial position.

GENERAL FUND REVENUE

Overall Projections and Balances

The current economic climate presents challenges for the Council in continuing to meet Corporate Plan priorities with tightening finances. This will require a robust focus on these priorities and the identification of both efficiency savings and of non-priorities where service reductions can be made.

Latest projections show a requirement to make savings over the next five years of £3.4m by 2022/23, with £1.9m required in 2019/20 (6.5% of net service budgets).

Government Funding

The total funding from government and income from retained business rates has declined substantially over the last five years, from a total of over £16m in 2014/15 to around £11m projected for 2019/20. Over that period Revenue Support Grant will have reduced from £6.9m to nil. Under the four-year funding deal, funding is fixed until 2019/20. The position beyond this is unknown and will be determined by both the current review of funding formulae and the nature of a new unitary authority. The current forecasts are based on prudent assumptions of the funding that would be available to NBC in its current form.

New Homes Bonus has provided an additional source of funding during this period, but the total available through this funding source has also been reduced by central government through the reduction of the reward period from 6 to 4 years and the introduction of a baseline level of growth. Income from this source has declined from a peak of £4.9m in 2016/17 to a projected £1.8m in 2022/23.

Council Tax

The NBC Council Tax was frozen from 2011/12 until 2016/17. In 2018/19 it was increased by 2.99% per annum per band D property, and this is the annual increase incorporated into this strategy, being the maximum allowed without triggering a referendum.

Commercial Rental Income

The Council holds a significant investment portfolio and generates around £2m income per annum. This portfolio will be kept under continuous review to ensure that it provides good returns and all rent reviews will be brought up to, and kept up to date.

Fees and Charges

Fees and charges provide a significant source of direct funding for some services. Where these are not statutorily determined, the level of charges will be increased by at least inflation, and by more where it is practicable and reasonable to do so.

Continuation Budget Changes

The continuation budget represents the expenditure and income from continuing to provide the same level and quality of services as the previous year. This will not necessarily be the same level of budget. Continuation budgets will be adjusted in light of the actual income and expenditure experienced in previous years and the current year.

Service Development

Service developments and budget increases will only be allowed where they support the achievement of corporate objectives and the needs cannot be met from existing resources. Any budget increases will be kept to a minimum and must be supported by a robust justification.

EFFICIENCY STRATEGY

The identification of efficiency savings, as detailed in this Efficiency Strategy, will be the priority in identifying the savings required. However, it is inevitable that the scale of the required savings will necessitate some reductions in lower priority services. These will be determined by Members following a corporate process of identifying options

Efficiency and other savings will be realised through the following strands:

1. Growth – realising the benefits of growth through the generation of additional business rate income, Council Tax and New Homes Bonus.

2. Partnerships – working with other local authorities, private sector and community partners to deliver high quality and cost effective front-line and support services.

3. Use of IT/Digital channels – to reduce transaction costs and increase staff productivity through the use of technology.

4. Maximise income generation – ensure that income is maximised by setting charges at an appropriate level, as well as increasing demand through effective marketing.

5. Review service and staffing structures – to ensure that these are fit for purpose and are appropriate to the Council’s changing needs and priorities.

6. Investment/commercial opportunities – realising opportunities to undertake appropriate investments that will generate a commercial return. This will include appropriate treasury management investments in line with the approved TM Strategy.

7. Realise opportunities from new Environmental Services contract – the new contract will provide significantly improved quality and provide opportunities to reduce the costs involved in rectifying shortfalls in current service provision.

CAPITAL STRATEGY

The high level strategic objectives of the capital strategy are included here in order to reinforce the links and overlaps between capital and revenue, and the need to have a mind to both in decision making.

Overarching Strategy

The Council's capital strategy is to deliver a capital programme that:

- Contributes to the Corporate Plan, and the Council's vision, values, strategic objectives and priorities
- Is closely aligned with the Council's Asset Management Plan
- Supports service-specific and other NBC plans and strategies
- Is affordable, financially prudent and sustainable, and contributes to achieving value for money

In prioritising the Capital Programme, particular emphasis will be given to schemes that:

- Achieve the Council's priorities
- Improve the town and its environment and facilities
- Improve performance against national and local targets
- Improve efficiency and effectiveness in service delivery, including through partnership working
- Generate or increase income streams
- Promote effective Asset Management, including DDA and Health & Safety issues

Capital Funding Strategy

Under the Council's capital funding strategy, funding streams are allocated in the following order. Cabinet may make changes to the funding strategy where necessary to deliver capital schemes that are key to delivering the Council's agreed priorities:

<u>Hypothecated funding</u>

Funding linked directly to a specific scheme, such as grants, third party contributions (including Section 106 contributions) and revenue contributions, is allocated 100% to the relevant scheme. Schemes funded by external grants and contributions will not commence until such funding is definitely secured. The conditions attached to grants and contributions vary according to the particular grant. Some will fund the full cost of the scheme, others just a percentage, with the local authority having to fund the balance. Most, but not all, grants are time-limited. Government grants tend to be focussed towards central government priorities.

<u>Self-funded borrowing</u>

Where the capital investment itself will produce revenue savings or additional income, which is sufficient to cover the cost of borrowing to fund the investment.

<u>Business Rates Uplift</u>

Capital improvements within the Enterprise Zone may be funded by borrowing which will eventually be repaid through the increase in business rate income flowing from new or expanded businesses. The borrowing is undertaken via the South East Midlands Local Enterprise Partnership (SEMLEP) through the Growing Places Fund or Local Infrastructure Fund. This is to manage the timing difference between the investment in the Enterprise Zone and the consequent increase in business rates.

Where necessary the gap will be managed by NBC undertaking borrowing from the Public Works Loan Board (PWLB).

Revenue and Capital Reserves

The Council does not have specific reserves set aside for capital funding. Any proposal to utilise General Fund reserves for this purpose must be supported by a robust business case.

Revenue Contributions

In the past revenue contributions have been a fairly minor source of capital financing for the Council due to pressures on the revenue budget. They are, however, sometimes used to top up small shortfalls in the funding required for a particular scheme.

Capital Receipts

Capital receipts are derived from asset sales. These could include income to the Council as lessor from finance leases.

GF asset sales come from a variety of sources. Generally speaking, 100% of GF asset sales (after any 'clawback', for example from the HCA) can be used to support capital expenditure. Sometimes the asset sale is linked directly to a capital project, for example in a relocation scheme. More often, GF asset sales relate to surplus assets that are held corporately and are not specific to a scheme.

The Council generated a substantial capital receipt in 2014/15 from the sale of the Sekhemka statue. This will be used exclusively to fund the redevelopment of the Central Museum.

General Fund capital receipts are not allocated or committed prior to receipt or certainty that they will be received, unless inextricably linked to a specific project. General fund capital receipts received during the year will be taken into account as a potential funding source for new schemes or variations in the relevant financial year or the following financial year, subject to revenue budget considerations e.g. debt financing budget implications.

Prudential Borrowing

Prudential Borrowing will be used to fund capital investment if the cost of the borrowing is affordable within the overall General Fund revenue projections. This will be the funding source of last resort as it does result in ongoing revenue costs, i.e. MRP and interest.

Under the Local Government Act 2003 councils operate within the rules contained in the 'Prudential Code'. These allow local authorities to set their own limits with regard to borrowing undertaken to support capital expenditure. Borrowing may be undertaken, provided that it is, and can be shown to be, prudent, affordable and sustainable. This method of financing capital expenditure is called "prudential borrowing".

In order for borrowing to be prudent, affordable and sustainable, there must be an identifiable, long-term source of revenue funding for the associated revenue (debt financing) costs. Ideally this will come from revenue savings or additional income arising directly from the capital scheme. For example, refurbishment of a building may generate maintenance and/or energy savings, or the building of a car park could generate income through charges. The cost of this “self-funded” borrowing should be borne by the service that uses the asset.

Where there is no additional income or cost saving, i.e. the capital scheme is to meet corporate priorities and support the growth and improvement of the Borough, then the cost of borrowing will be recognised as a cost to the General Fund.

In some circumstances the Council will provide loans to other organisations, such as to the University of Northampton to part-fund the new campus development. This is treated as capital expenditure and funded through borrowing.

<u>Minimum Revenue Provision (MRP)</u>

The Council is required to make provision for the principal repayment of borrowing. Prior to 2007-08 the Council was required by statute to provide for the repayment of a minimum amount of 4% of General Fund debt principal each year. This debt repayment is known as the Minimum Revenue Provision (MRP).

The Local Authorities (Capital Finance & Accounting) (England) (Amendment) Regulations 2008, which came into force in February 2008, require the Council to make instead ‘prudent provision’ for the repayment of debt. A number of options for prudent provision are set out in the regulations. The underlying principle is that the repayment of debt should be aligned to the useful life of the asset or assets to which it relates.

The authority is required, under the new regulations, to prepare an annual statement of their policy on making MRP for submission to Council. The Council’s policy statement on MRP is set out in the annual Treasury Strategy, which is agreed by Council during Feb/March each year.

<u>In Year Changes</u>

Underspends on GF schemes may not be automatically diverted to other schemes. This will be considered against the demands of the programme as a whole. The only call on capital receipts during the year would be for unforeseen high priority emergency capital works that cannot be financed from alternative sources. Agreement will be through the normal channels – that is the submission of a project appraisal or variation to Capital Programme Board and, if required, Cabinet.

The funding strategy is used to determine the allocation of funding to the programme at the start of the year and throughout the year. Depending on the timing and restrictions of the funding streams, the most appropriate funding will be used at the year end. The Finance Team, under the direction of the Chief Finance Officer, will apply the available funding to the outturn expenditure in line with the best interests of the Council.

<u>Revenue Implications of Capital Projects</u>

The revenue implications of capital projects are identified through medium term planning and the capital appraisal process, and fed into the Council’s medium term revenue budget to ensure that all revenue implications are taken into account.

Through the Asset Management Plan an appropriate balance of funding is determined between capital investment and repairs and maintenance. This is kept under regular review.

Programme Build

The Council agrees its capital programme on an annual basis in February immediately preceding the start of each financial year. The agreed programme consists of:

- A firm and fully funded programme for the following year. This includes continuations from previous years as well as new starts in year
- Continuation schemes and forecasts for the subsequent 4 years
- Development Pool – includes schemes for which costs require refinement and/or a business case is required. These schemes will be moved into the approved programme once this additional work is satisfactorily completed.

Within the available funding envelope, projects are prioritised for inclusion in the capital programme based on the extent to which they contribute to the achievement of corporate priorities. Bids for inclusion are supported by capital appraisals – these must demonstrate that the project provides an effective and value for money solution, and that all possible sources of external funding have been sought.

In addition to specific capital schemes the programme includes a number of “Block Programmes”. Specific projects within these blocks are agreed during the year by Capital Programme Board following the receipt of capital appraisals.

A draft capital programme is prepared for Cabinet in December and is then subject to public consultation alongside revenue budgets. Final decisions are made by Full Council in February.

SENSITIVITY, RISK ASSESSMENT AND LEVELS OF RESERVES

The financial targets within this EMTFS generate a high level of financial risk, due to their scale and diversity. The key risks and mitigations are set out in the table below:

Risk	Mitigation
The Council’s financial position over the medium term is not sustainable	NBC are in a good financial position as at September 2018 with a balanced budget and reasonable levels of reserves
Conflict between Corporate Plan priorities and EMTFS financial targets	The workstreams of the Corporate Plan and EMTFS are aligned. Cabinet approval of EMTFS, regular meetings with Leader/Cabinet Member Finance
Non delivery of financial targets set out in the detailed budget	Appropriate governance arrangements are a key part of the EMTFS to monitor progress and take action if targets are not being delivered.
High level of capital investment required to deliver EMTFS	Effective treasury management to minimise interest and MRP
High level of earmarked reserves required to deliver EMTFS	Consolidation of reserves and enhanced controls over future allocations

The Council holds General Fund balances in order to provide cover for these risks. The level of balances is reviewed and adjusted as part of the annual budget process and again as part of the final accounts process.

The Council also holds significant levels of earmarked reserves. These are set aside for specific purposes, but have been re-focussed to ensure that they are targeted on two key areas;

Delivering the Efficiency Plan - funding to facilitate the delivery of financial targets, through investment in assets, income generation opportunities and efficiency projects.

MTFP Cashflow - to ensure that there is sufficient funding to maintain ongoing service delivery during the transition period.