



CABINET REPORT

Report Title	DRAFT GENERAL FUND MEDIUM TERM FINANCIAL PLAN 2018/19 – 2022/23 AND DRAFT BUDGET 2018/19
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	20 December 2017
Key Decision:	NO
Within Policy:	YES
Policy Document:	NO
Directorate:	Management Board
Accountable Cabinet Member:	Cllr B Eldred
Ward(s)	NA

1. Purpose

- 1.1 To present for consultation draft budget proposals for 2018/19 and forecast budgets for 2019/20 to 2022/23, covering both General Fund Revenue (as set out in Appendix 1) and Capital (Appendix 4).
- 1.2 The report also presents for approval the Council's draft Capital Strategy (Appendix 3) and Treasury Management Strategy (Appendix 5).

2. Recommendations

- 2.1 That the draft General Fund Revenue budget 2018/19, as summarised in Appendix 1, be approved for public consultation.
- 2.2 That the proposed growth and savings options set out in Appendix 2 be approved for public consultation.
- 2.3 That the proposed Council Tax increase for 2018/19 of £5 a year per Band D property be approved for public consultation.

- 2.4 That the draft General Fund Capital Programme and Financing 2018/19 to 2022/23, as detailed in Appendix 4, be approved for public consultation.
- 2.5 That Cabinet approve the proposed set aside of £10m of corporate earmarked reserves to fund Environmental Services vehicle provision.
- 2.6 That the draft Capital Strategy as set out in Appendix 3 be approved for consultation.
- 2.7 That the draft Treasury Management Strategy is approved for consultation.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Council is required to set a balanced budget and its Council Tax for 2018/19 by 1 March 2018. The proposals in this report have been developed by officers in consultation with Cabinet Members. Management Board has reviewed and endorsed the draft budget.
- 3.1.2 The draft budget proposals and options presented in this report will be subject to a period of public consultation prior to final recommendations being made to Council by Cabinet in February 2018.

3.2 Issues

Economic Context

- 3.2.1 The national and global economic outlook has shifted over the last 12 months, due to the outcome of the referendum in June 2016 leading to the UK's proposed withdrawal from the European Union. The position remains uncertain whilst negotiations on the terms of withdrawal and future trading relationships are negotiated. The impact on the Borough Council's budget and medium term financial plan are:
 - Reductions in GDP growth forecasts, which are likely to reduce the level of any growth in business rates income.
 - Demand for housing currently remains strong and this is of benefit to Northampton's growth strategy.
 - Inflation, as measured by the Consumer Price Index, has risen to 3% and is expected to stay at this sort of level for a while. This will potentially lead to inflationary pressures within the Council's budget.
 - Interest rates are forecast to rise slightly over the medium term. The Bank of England base rate was increased to 0.5% in November and is expected to rise gradually further over the next 12 to 18 months. This has a positive impact on the Council's income from interest on cash balances and forecasts have been updated accordingly. PWLB borrowing rates remain low by historical standards, making longer-term borrowing to fund investments more attractive.

Budget 2017

3.2.2 The Chancellor delivered his autumn budget report on 22nd November. The key headlines of relevance to Northampton Borough Council were:

- The Office of Budget Responsibility has downgraded its forecasts for economic growth over the next five years, largely driven by poor productivity improvements. This has potential impact on business rate growth within the Borough. The forecasts in the MTFP therefore remain prudent.
- Inflation, as measured by CPI, is expected to stay at around 2%, and this is reflected in MTFP forecasts.
- The budget was strongly focussed on delivering growth in housing supply, with a target nationally of 300,000 new homes per year. There are proposed changes to the planning regime to help facilitate this.
- Significant investment in infrastructure is proposed to support growth and productivity improvements and the Council will seek to ensure that Northampton sees its fair share of this investment.
- The Chancellor announced that the government will lift the HRA borrowing cap for local authorities who can demonstrate the need through a bidding process. This is covered in greater detail in the HRA budget report.

3.2.3 The draft Local Government Financial Settlement is expected in mid-December and will provide details of funding for 2018/19. The main area where we await confirmation of figures is the New Homes Bonus.

Efficiency and Medium Term Financial Strategy (EMTFS)

3.2.4 Cabinet in October 2017 approved the EMTFS, which provides the framework and context for the development of the detailed budget and Medium Term Financial Plan (MTFP).

3.2.5 The EMTFS included the following strategic principles:

- 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
- 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
- Income streams will be maximised through the delivery of high quality, cost effective services.
- Council Tax will be increased up to the maximum allowed without requiring a referendum.

- Investment decisions will take into account both revenue and capital implications.
- 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.
- Financial implications will be underpinned by a robust risk assessment.
- Decision making will be business case lead. There will be a focus on the short, medium and long-term financial implications of decisions.
- Reserves will be utilised to fund investments that will deliver a long-term sustainable financial position.
- Further efficiencies will be sought in back office functions. No options that would result in increased costs of these functions will be considered.

3.2.6 The EMTFS incorporates the key principles of the Capital Strategy, which is being fully updated in line with the new requirements of CIPFA's Prudential Code.

3.2.7 In order to ensure that the Council's financial position is sustainable, not just for the next year, but over the medium term, we have made ourselves more efficient and are also making tough choices and putting forward proposals for savings and additional income generation. These proposals are set out in more detail below.

Medium Term Financial Plan and Efficiency Savings

3.2.8 The Medium Term Financial Plan provides a forecast of the Council's expenditure and income over the next five years. The forecasts, detailed in Appendix 1, include efficiency and other savings as well as growth requirements.

3.2.9 Cabinet has listened to public feedback in relation to the existing Environmental Services contract and is proposing to invest and prioritise resources to make sure that our town is clean. The new Environmental Services contract, to commence in June 2018, will see a significant improvement in quality standards for street cleaning, grounds maintenance and the collection of refuse and recycling. The quality standards and service specification for the new contract have been informed by the consultation undertaken earlier this year. These improvements come at a cost, with a significant increase in budget required. The final figures will be known when contract negotiations are completed in December, but the draft budget includes a prudent allowance for the increased net cost of Environmental Services and related activities of £3.4m per annum, plus an additional one-off cost of £1m in 2018/19 to rectify current problems.

3.2.10 In order to mitigate the increased costs of Environmental Services, the Council proposes to purchase the vehicles and other equipment required for delivery of these services, and lease these to the successful contractor. This approach was approved in principle by Cabinet in November, and utilises the lower borrowing costs available to the Council. The cost of repaying this borrowing will be met

from an earmarked reserve set aside for the purpose, although the Council may utilise capital receipts for this purpose if they become available in the future. This utilisation of an earmarked reserve reduces the net cost of the new contract by an estimated £1m per annum.

- 3.2.11 Other budgetary growth requirements are set out in Appendix 2 and include provision for an enhanced client function to monitor the new contract and funding to extend opening hours at Abington Park museum. Most significantly, funding of £150k is earmarked to fund a reduction in working hours from 40 to 37 per week. This is a reversal of the increase implemented a few years ago which has had an adverse impact on staff morale and on recruitment and retention in part leading to the need to cover more vacancies with interim staff.
- 3.2.12 The MTFP has forecast significant increases in the cost of Environmental Services for several years, and this has meant that compensating savings and efficiencies have been delivered through the workstreams of the Efficiency Plan. Efficiency savings of around £3.5m have been delivered over the last 4 years, and further efficiencies of over £800k are built into the base budgets for 2018/19. Examples include reducing paper usage through the implementation of a digital strategy and investment in technology, and maximising income generated from the Council's property assets.
- 3.2.13 Further efficiencies, budget savings and income increases totalling £1.56m are set out in Appendix 2 for public consultation. These include significant savings in management and staffing costs through a process of redesigning the organisational structure to ensure that it meets the needs of the Borough and provides value for money. Additional income of over £1m will be generated, most notably through the introduction of a charge of £2 for all-day parking on Saturdays and Sundays in the Council's multi-storey car parks. Visitors to the town will benefit from improved town centre cleanliness delivered through the new Environmental Services contract.
- 3.2.14 By focussing on these areas of savings, the Council will protect services to the most vulnerable residents of the Borough, both those provided directly and those provided through partner organisations. Core grants to the voluntary sector have been protected.
- 3.2.15 Implementation of the proposed savings listed in Appendix 2 will enable the Council to set a balanced budget for 2018/19 and 2019/20.
- 3.2.16 The MTFP shows a forecast further savings requirement of £1.2m from 2020/21 onwards. The exact figure is subject to any changes to government funding and other forecast changes to budgets. These further savings can be achieved through the strands set out in the approved Efficiency and Medium Term Financial Strategy, i.e.
- Growth – realising the benefits of growth through the generation of additional business rate income, Council Tax and New Homes Bonus.
 - Partnerships – working with other local authorities, private sector and community partners to deliver high quality and cost effective front-line and support services.

- Use of IT/Digital channels – to reduce transaction costs and increase staff productivity through the use of technology.
- Maximise income generation – ensure that income is maximised by setting charges at an appropriate level, as well as increasing demand through effective marketing.
- Review service and staffing structures – to ensure that these are fit for purpose and are appropriate to the Council’s changing needs and priorities.
- Investment/commercial opportunities – realising opportunities to undertake appropriate investments that will generate a commercial return.
- 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.

Sources of Funding

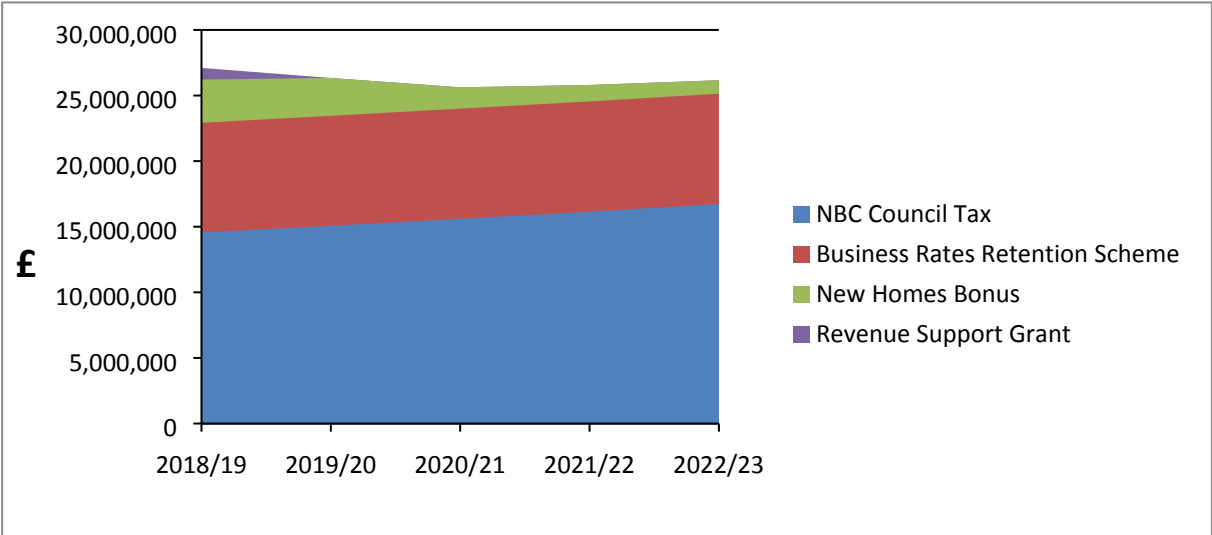
3.2.17 The main sources of funding for the Council’s net General Fund revenue budget are Council Tax, Business Rates, New Homes Bonus and Revenue Support Grant. The balance between these is expected to change significantly over the 5 year period of the Medium Term Plan, with Revenue Support Grant falling to zero by 2019/20. The current four-year funding settlement ends in 2019/20 and therefore funding forecasts beyond that period becoming increasingly uncertain. These will be impacted by changes to the overall level of government funding and the distribution between areas and tiers of local authorities in light of the fair funding review.

3.2.18 Council Tax – The Band D Council Tax for Northampton Borough Council was frozen or reduced for 4 years until 2016/17, supported initially by a Council Tax Freeze Grant. This grant no longer exists and the government funding settlement assumes that Council Tax is increased by the maximum allowable without triggering a referendum, which for the Council is £5 per year. This increase was agreed for 2017/18 and has been built into the Medium Term Financial Plan.

3.2.19 Business Rates – following the introduction of the Business Rate Retention Scheme in April 2013, the Council now benefits from growth in the rateable value in the Borough. On the flipside, the Council also bears the risk of volatility, including successful appeals by business against their rateable value. The five-year forecasts reflect an average inflationary increase in business rates income of 1.2% per year. The government’s policy is to move to 100% local business rates retention in the medium term, further details are required in order to model the impact. To gather intelligence on how the 100% retention scheme would work, DCLG announced a one year pilot scheme to operate in 2018/19 for two-tier authority areas. The Council has submitted a bid as part of the Northamptonshire Business Rates Pool to be part of this pilot, which if successful could generate significant additional funding for both the County as a whole and for NBC. The decision on which councils will be part of this pilot is expected in December (but has not been confirmed by DCLG) and if the Northamptonshire Pool is selected, revised forecasts to the General Fund budget will be reported in the final budget in February.

3.2.20 New Homes Bonus (NHB) – this has been a significant source of funding in recent years, peaking at £4.9m in 2016/17. The revamp of the scheme announced in the 2015 Spending Review and designed to divert resources towards Social Care will lead to a significant reduction in this source of income for the Borough Council over the next few years. The changes reduced the payment period from 6 to 4 years and introduced a baseline level of growth which has to be achieved before any NHB is paid. The amounts may also reduce if there is any economic downturn and a consequent slowdown in housebuilding. The MTFP is therefore prudent in forecasts for the last three years.

3.2.21 The graph below shows how the balance between these sources of funding is expected to change for the Borough Council over the next five years, based on the latest MTFP forecasts. The total falls initially before picking up in later years, and also shows a significant shift from central to local funding. Revenue Support Grant is set to fall to zero in 2019/20.



3.2.22 The current assumptions will be updated following the announcement of the Local Government funding settlement in mid to late December 2017.

Enterprise Zone

3.2.23 The Waterside Enterprise Zone is composed of more than 20 sites along the River Nene, stretching from Sixfields in the west, right across the town centre. It incorporates a range of brownfield development opportunities, growing industrial estates and expanding sports stadium sites. The Council is working closely with stakeholders and businesses to ensure that investment is targeted in the right location and at the right level to ensure growth happens.

3.2.24 The Council is contributing towards this investment by providing advance funding to enable the Enterprise Zone to grow. The up-front contributions will be returned to the Council in the future as business growth increases. The risks surrounding the advance funding of this investment are being closely monitored. This advance funding is forecast to fully be repaid to NBC between 2020 and 2030, depending on the pace of business rate growth. There are commitments to repay the bridging loan if growth does not materialise at the pace assumed. NBC is working with SEMLEP to mitigate and manage risks and ensure that the taxpayers of Northampton are not adversely affected.

3.2.25 The SEMLEP board in November 2016 approved the principle of a £10m local infrastructure funding facility (LIF). This will enable further upfront investment to bring EZ sites forward for development to generate business and job growth, and an increase in business rates. Any proposals to utilise the LIF facility will be subject to detailed business cases approved by the Council and EZ Board demonstrating that increased future business rates within the EZ funding period will cover the initial investment. It is likely that the Council may need to facilitate this through bridging finance in the form of short/medium term borrowing.

General Fund Revenue Budget 2018/19

3.2.26 The proposed net budget for 2018/19 is shown in Appendix 1 and summarised in the table below. A balanced budget has been achieved through the Council's prudent financial management and continued commitment to delivering efficiency savings.

Description	2018/19 £000s
Service Base Budget	27,475
Proposed Growth	3,207
Proposed Savings	(1,562)
Corporate Budgets	(33)
Contribution from Reserves	(554)
Net Budget	28,533
Revenue Support Grant	(886)
Business Rates	(8,346)
New Homes Bonus	(3,302)
Council Tax	(15,648)
Collection Fund Surplus	(351)
Total Funding	(28,533)
Savings to be identified	(0)

As part of setting its General Fund Revenue Budget the Council has undertaken a rigorous review of its Service Base Budget. This process has identified £0.8m of efficiency savings and realistic income targets which are included as part of the Service Base Budget.

Fees and Charges

3.2.27 Fees and Charges are being reviewed as part of the process of finalising the budget. In line with the Efficiency Plan, charges will increase by above the rate of inflation, where this is feasible and taking into account market factors.

Council Tax

3.2.28 The draft budget for 2018/19 assumes an increase in the annual Council Tax of £5 per average band D property. This is the maximum increase allowed without triggering a referendum and is consistent with Central Government assumptions in the funding settlement.

3.2.29 The Band D Council Tax (excluding parishes) for the last 5 years is shown in the table below:

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Northampton Borough Council	207.91	207.91	207.91	212.91	217.91
Northamptonshire County Council	1,048.57	1,069.02	1,111.25	1,166.59	TBC
Northamptonshire Police & Crime Commissioner	197.04	200.96	204.96	209.04	TBC
Total	1,453.52	1,477.89	1,524.12	1,588.54	TBC

Special Expenses

3.2.30 The Council charges special expenses to its residents as part of its Council Tax charge. Special expenses relate to expenditure deemed solely to apply to a part of the Borough where precepting authorities in other parts of the Borough have chosen to precept and supply the same service separately. These are known as concurrent services.

3.2.31 Northampton Borough Council charges special expenses for the maintenance of its smaller parks and open spaces as this service is also carried out by Parish Councils in some areas. Because these smaller parks and open spaces are not evenly distributed across the borough, the special expense charge (unlike the main council tax element) differs across the parishes of the Borough.

3.2.32 The basic mechanism is to deduct the relevant expenditure from the total Council Tax applying to the total tax base, and then re-apply that expenditure over the parishes affected. This means that residents in different parts of the Borough will pay different amounts according to the distribution of parks and open spaces across the Borough.

3.2.33 Special expenses do not affect the overall amount raised by Council Tax and do not affect the average council tax for the Borough as a whole. As a general rule, special expenses seek to reflect the cost of the services that relate to specific areas.

3.2.34 Some Parish Councils have expressed an interest in taking ownership of some of these areas of open space in order to manage and maintain them locally. The responsibility for maintaining these areas, and the funding of that maintenance, would be transferred to the Parish Councils. This may require increases in the Parish Precept unless that can be accommodated within their existing budgets. NBC would no longer have the responsibility for management and maintenance and would no longer charge special expenses for these areas.

3.2.35 See Appendix 6 for further details and explanation.

Capital Strategy

3.2.36 The draft Capital Strategy is attached as Appendix 3. It has been updated to take account of the proposed changes to CIPFAs Prudential Code and in the context of the approved Efficiency and Medium Term Financial Strategy. The proposed changes to the Prudential Code include a requirement for the CFO to report explicitly on the deliverability, affordability and risks associated with the Capital Strategy.

3.2.37 The aim of the Capital Strategy is to provide a clear framework for capital funding and expenditure decisions in the context of the Council's vision, values, objectives and priorities, financial resources and spending plans. 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

3.2.38 The strategy also details the governance arrangements that have been put in place to ensure that capital expenditure is closely monitored and controlled.

General Fund Capital Programme 2018/19 to 2022/23

3.2.39 The draft General Fund Capital Programme and Funding for the next 5 years is detailed in Appendix 3 and summarised in the table below. The value of the proposed programme for 2018/19 is just under £26m. Proposed new schemes include the procurement of vehicles for the delivery of the Environmental Services contract, the construction of new offices (Horizon House) to be let to Northampton Partnership Homes as their headquarters, improvements to leisure centres and additional town centre car parking capacity.

3.2.40 The proposed capital programme would require funding from a variety of sources. The revenue impact of borrowing is reflected in the debt financing budget and the Treasury Management Strategy and prudential indicators.

3.2.41 Further significant schemes supporting the achievement of the Efficiency Plan may be brought into the capital programme over the next 12 months, supported by robust capital appraisals and business cases.

Description	Budget 2018/19
	£000s
Disabled Facilities Grants	1,475
IT Improvements	150
Block Programmes	800
Development Pool	7,937
New Proposals	15,509
Total GF Capital Programme	25,871
Funding Source:	
Borrowing (incl. self-funded)	17,810
Growing Places Fund/ Local Infrastructure Fund	400
Capital Receipts	5,211
Grants & Developer Contributions	2,450
Total Funding	25,871

Earmarked Reserves

3.2.42 As part of the budget process the Council determines a prudent minimum level of General Fund balances to hold against general risks. This is informed by a risk assessment, which has been refreshed in the development of the draft budget and currently suggests that £5.5m remains a prudent level of general reserves. This may change as the budget is finalised and any change in the Council's exposure to risk is identified.

3.2.43 General Fund Reserves as at 1st April 2017 stood at a total of £28.5m. A breakdown is shown in the table below.

	Balance 1st April 2017	Purpose
Service Specific Earmarked Reserves	£2.7m	To cover specific known spending commitments
Corporate Earmarked Reserves	£17.1m	Held to mitigate against corporate risks and to fund future budget pressures

Technical Reserves	£3.2m	To deal with technical accounting differences across financial years
Minimum Level of General Reserves	£5.5m	To cover general unquantified risks
Total General Fund Reserves	£28.5m	

3.2.44 Earmarked Reserves are held to mitigate against specific risks as well as for regulatory reasons, such as grant conditions. They were thoroughly reviewed and realigned by Cabinet in September 2016 in order to ensure that they were focussed on the achievement of the Efficiency Plan.

3.2.45 The unallocated balance as at 31st March 2018 on the Delivering the Efficiency Plan/MTFP Cashflow/Strategic Investment Reserves is forecast to be around £15m. It is proposed as part of the proposals to balance the MTFP that £10m of this is set aside to fund the annual cost of Environmental Services vehicle provision over the next 10 years. The remaining balances of £3m for Delivering the Efficiency Plan and £2m for MTFP Cashflow are sufficient to cover future needs and known/anticipated risks.

Treasury Management Strategy

3.2.46 The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. It is a requirement under the Treasury Code of Practice to produce an annual strategy report on proposed treasury management activities for the year. The Council's Treasury Management Strategy (TMS) for 2018/19 is attached at Appendix 5.

3.2.47 The TMS takes into account the impact of the Council's Medium Term Financial Plan, its revenue budget and capital programme, the balance sheet position and the outlook for interest rates. It includes, inter alia:

- The Affordable Borrowing Limit for 2018-19
- The Council's policy on the Minimum Revenue Provision (MRP) for the repayment of debt
- The Investment Strategy for 2018-19
- The Prudential and Treasury Indicators for 2018-19 to 2022-23
- The Council's policy on borrowing in advance of need
- The Council's counterparty creditworthiness policy

Consultation

3.2.48 Formal consultation with the public and stakeholders including local businesses will be launched in December 2017 and will continue until the budget is formally

adopted in February 2018 in line with an agreed consultation programme. An online questionnaire will be available until 28 January 2018.

3.3 Choices (Options)

- 3.3.1 Cabinet can agree the revenue and capital budget proposals and proposed Council Tax increase detailed in this report or propose changes, subject to the advice of the Chief Finance 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 and within the context of the Efficiency and Medium Term Financial Strategy and Capital Strategy.

4.2 Resources and Risk

- 4.2.1 The provisional Local Government Finance Settlement is expected to be announced prior to the Christmas 2017 break, but is subject to change and will be updated when the final settlement is announced in January 2018.
- 4.2.2 In addition to the Borough Council's own Council Tax, there are separate Council Taxes for Northamptonshire County Council, the Police and Crime Commissioner and Parish Areas. Information on these will be included in the report to the Council meeting in February 2018.
- 4.2.3 The Audit Committee on 5th December 2016 agreed a Governance Action Plan part which is designed to deliver improvements directly affecting financial governance, risk management and project management. All of these improvements will reduce the risks associated with the Council's revenue and capital budgets.

4.3 Legal

- 4.3.1 The Council has a legal duty to set a balanced budget, bearing in mind its fiduciary duties to the taxpayer, and to set a Council Tax for the coming year.

4.4 Equality and Health

- 4.4.1 The Public Sector Equality Duty (PSED) requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out its activities. Failure to comply with this duty would be challengeable in the courts.
- 4.4.2 Equality and diversity is considered as part of budget construction and an Equality and Community Impact Assessment is published as part of the budget

consultation documents. Equality and diversity were considered as part of each of the medium term planning options submitted. Equality 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 2018.

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. As options developed relevant stakeholders were engaged as appropriate.

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 of effective financial governance, which contributes to the priority of making every pound go further.

4.7 Other Implications

4.7.1 None not already covered above.

5. Background Papers

5.1 None

5.2 Appendices

1. Proposed General Fund Revenue Summary
2. Proposed Growth and Savings
3. Capital Strategy
4. Proposed General Fund Capital Programme and Financing
5. Treasury Management Strategy
6. Special Expenses

Glenn Hammons, Chief Finance Officer, 01604 366521