Northampton Borough Council

Draft Medium Term Financial Strategy 2020/21 to 2023/24

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 (HRA) faces similar financial challenges and the Council is working closely with Northamptonshire Partnership Homes (NPH) to address these through the review of the HRA business plan.

The Medium Term Financial Strategy (MTFS) is set in the context of the proposed local government reorganisation and creation of a new unitary authority. Whilst this means that NBC is likely to cease to exist in its current form beyond 2020/21, 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 2020/21 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 OF MTFS

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.

The starting point for the budget setting process is the Medium Term Financial Plan that was produced for the 2019/20 budget. This included an expected budget gap in 2020/21 of £0.831m rising to a budget gap of £2.095m in 2022/23.

Government funding

The total funding from government and income from retained business rates has declined substantially over the last five years. Over that period the revenue support grant will have reduced to nil. Under the four-year funding deal, funding was fixed until 2019/20. The position for 2020/21 is currently unknown, but a spending review is expected in September 2019.

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. This portfolio will be kept under continuous review to ensure that it provides good returns and all rent reviews will be brought up to date, 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.

SAVINGS STRATEGY

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 treasury management 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 Council 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:

- Hypothecated funding – 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.
- Self-funded borrowing – 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.
- Business Rates Uplift – 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.
- 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.
- 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.

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.