



**NORTHAMPTON**  
BOROUGH COUNCIL

## **CABINET REPORT**

<b>Report Title</b>	<b>General Fund Revenue Budget and Capital Programme Budget 2014/15 and Medium Term Financial Plan 2014/15 – 2018/19</b>
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**AGENDA STATUS: PUBLIC**

<b>Cabinet Meeting Date:</b>	19 February 2014
<b>Key Decision:</b>	YES
<b>Within Policy:</b>	YES
<b>Policy Document:</b>	YES
<b>Directorate:</b>	Management Board
<b>Accountable Cabinet Member:</b>	Cllr A Bottwood
<b>Ward(s)</b>	N/A

### **1. Purpose**

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- 1.1 To report the outcome of the consultation process on the 2014/15 General Fund Revenue and Capital budget and the final formula funding settlement for 2014/15.
- 1.2 To agree the Cabinet's proposals for recommendation to Council on 24 February 2014 for the 2014/15 to 2018/19 General Fund budgets, Council Tax level for 2014/15 and indicative levels for 2015/16 to 2018/19.
- 1.3 To outline the General Fund capital programme funding proposals for 2014-15 and future years.
- 1.4 To ask the Cabinet to recommend to Council that they approve the recommendations in paragraph 2 below.

## 2. Recommendations

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- 2.1 That the feedback from consultation with the public, organisations and the Overview and Scrutiny and Audit Committees be considered and welcomed (detailed at **Appendices 1, 2, and 3**).
- 2.2 That the changes to the proposed budget (detailed at paragraph 3.5.2), in light of the consultation responses, equalities issues, technical adjustments and the final formula funding settlement, be agreed.
- 2.3 That a General Fund budget for 2014/15 of £29.364m (excluding parishes) be recommended to the Council (detailed in paragraph 3.6.11 and **Appendices 4, 5 and 6**) for its own purposes.
- 2.4 That the Council be recommended to confirm the outcomes of the reserves strategy review. Aiming for a minimum level of unallocated general fund balances of at least £4.9m for 2014/15 having regard to the outcome of the financial risk assessment and also note the position on earmarked reserves (**Appendix 7**).
- 2.5 That the Cabinet notes the key medium term financial issues as set out at **Appendix 8**.
- 2.6 That the draft Fees and Charges set out in **Appendix 9** be noted.
- 2.7 That authority be delegated to the Chief Finance Officer to make any technical changes necessary to the papers for the Council meeting of 24 February 2014, including changes relating to parish precepts and council tax levels associated with those changes.
- 2.8 That Council be recommended to delegate authority to the Chief Executive and Chief Finance Officer to implement all budget options and restructures.
- 2.9 That authority be delegated to the Chief Finance Officer in consultation with the Cabinet Member for Finance, and where appropriate the relevant Director and Cabinet Member to:
  - transfer monies to/from earmarked reserves should that become necessary during the financial year.
  - establish criteria linked to return on investment & payback for the use of the new Invest to Save Earmarked Reserve.
  - update prudential indicators in both the Prudential Indicators report and Treasury Strategy report, for Council for any budget changes that impact on these.
- 2.10 That the Council be recommended not to increase the Council Tax for its own purposes that is, excluding county, police, and parish precepts for 2014/15.
- 2.11 That the Cabinet recommend to Council that they approve the General Fund capital programme for 2014-15, including future year commitments, and proposed financing as set out in **Appendix 10**.

### **3. Issues and Choices**

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#### **3.1 Report Background**

##### **National Position**

- 3.1.1 The Government has based its economic policy on deficit reduction and has driven this through by the twin fiscal measures of increased taxation and reduced public expenditure. In contrast to the accustomed increases in public funding in line with growth in Gross Domestic Product (GDP) local government has seen in year reductions in 2010/11 and then a four year programme amounting to a 28%, front loaded, funding reduction announced in the Spending Review 2010 of October of that year.
- 3.1.2 During 2013 the economy has started to recover strongly. However, it should be noted the level of GDP activity is still below 2009 levels and without the requisite growth in revenue streams the UK national deficit is still some distance from being adequately addressed. The Government announced a single year Spending Round in June 2013 for 2015-16.
- 3.1.3 Although positive signs are emerging from various data and intelligence surrounding the UK economy, there remains some uncertainty over the outlook for the UK and this will continue to put pressure on Local Government finances over the medium term. This was emphasised in the Autumn Statement announced on 5<sup>th</sup> December 2013 with clear expectations that public sector funding would continue to be reduced in the next spending review period in line with that seen in the current spending review. This would indicate local government could see its funding reduce by around 10-15% per annum until at least 2018, possibly longer.

##### **Government Funding and Policy Changes**

- 3.1.4 In addition to funding reductions local government has seen significant changes to the way it receives its funding and new policy initiatives. The key changes are set out below.

##### **Business Rates Retention Scheme**

- 3.1.5 The previous grant regime was replaced with a Business Rate Retention scheme in April 2013. The key aim of this is to incentivise local business growth. For a growing area, like Northampton, this should have a positive impact on the funding received by the Council. The first year of operation has been one in which the new scheme has bedded in. During 2014/15 the Council will develop its intelligence of future business rates prospects to enable improved planning of future levels of funding and service provision.

##### **Local Council Tax Support Scheme**

- 3.1.6 The Council Tax Benefit system ceased at the end of March 2013 as a result of the Welfare Reform Act, and was replaced with the localised scheme administered by the Council. The Government included the funding for Council Tax Support in its funding for local government which is being reduced by around 10% per annum. The expectation is that this would be offset by changes to council tax discounts/exemptions and reductions in expenditure to those receiving Council Tax Support. Council approved the CTRS scheme for 2014/15 in January 2014.

## **Welfare Reform**

3.1.7 Over the medium term planning period more information and details will be released about universal credit and other welfare reform initiatives which will have an impact upon the current service provision of the Council. It is currently anticipated universal credit will be in operation in councils in 2016.

## **New Homes Bonus**

3.1.8 During the summer of 2013, the Government announced a consultation where a large proportion of NHB funding (around 40%) would be top sliced and allocated to Local Enterprise Partnerships (LEPs). Local Government viewed this as a disincentive for housing growth. Following consultation, and extensive feedback from councils, this proposal has now been reviewed and will not be implemented.

## **Local Position**

3.1.9 The National economic position has had and continues to have specific repercussions locally. In addition to significant reductions in government funding since 2010 the following impacts have been felt locally:

3.1.10 Investment interest levels remain low, and are expected to do so for at least the next few years before rising gradually.

3.1.11 Funding for capital expenditure is linked both to revenue funding in relation to borrowing costs and the Council's ability to generate capital receipts.

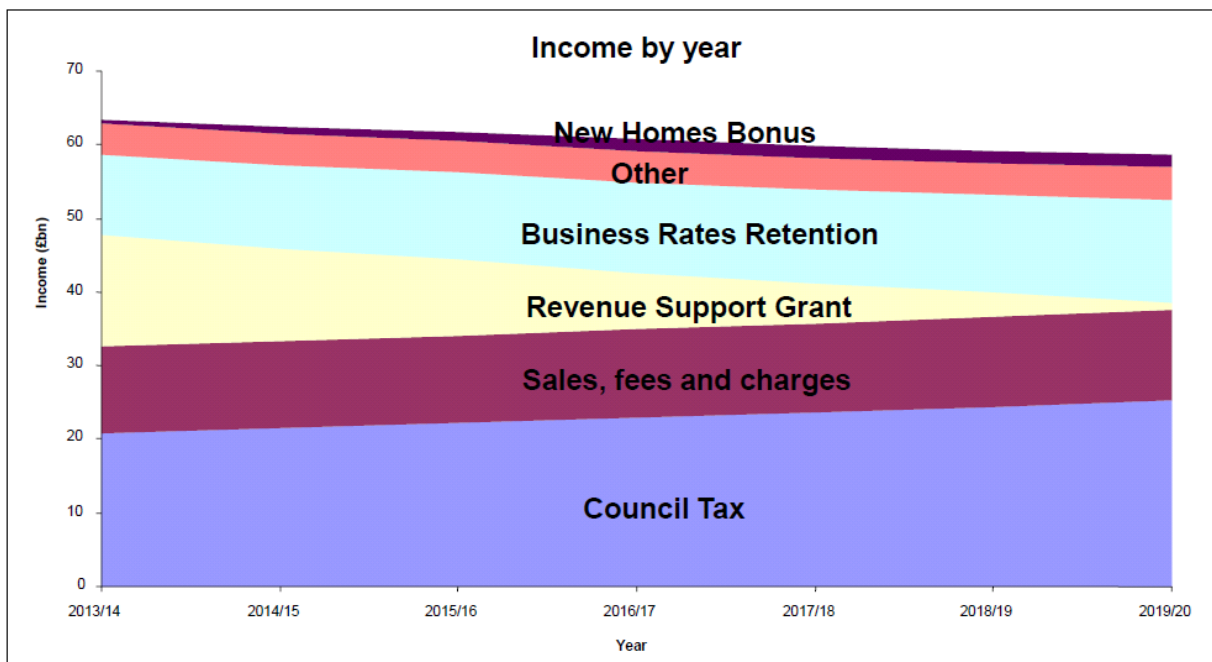
3.1.12 The impact on the property market has had the effect of reducing income levels.

3.1.13 The differential between investment and borrowing rates remains high. The cost of borrowing, having already been increased by Government in relation to the Public Works Loan Board as part of the Spending Review, is expected to remain high in comparison to investment rates.

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

3.1.15 There remains some short term uncertainty, but the biggest risks facing the Council are in assessing the financial implications of our continuing to provide services at current levels and the proposed changes to Local Government funding over the longer term.

3.1.16 These projected changes to local government funding are starkly presented in the graph produced by the Department for Communities & Local Government (DCLG) below. The graph clearly shows the total level of funding for local government is forecast to reduce over the next few years. However, within this the Revenue Support Grant element of the framework for funding local government effectively drops away to nil over the period. This represents a dramatic shift in the historical funding position of local authorities and the inevitable conclusion is one of greater dependence on local self-determination.



3.1.17 It should be noted that alongside this increased reliance on business rates together with the decline of the RSG, local authorities bear a higher degree of risk under the Business Rates Retention Scheme. This has a greater extent of risk sharing between local and central Government than the previous formula funding regime. While Northampton is positive about the new scheme, there are risks for example in relation to demolitions for redevelopment projects..

### Autumn Statement and Final Settlement

3.1.17 On the 5<sup>th</sup> December the Chancellor made his Autumn Statement essentially setting out a fiscally neutral judgement reflecting the Government's commitment to deficit reduction and returning public finances to a sustainable position. The key points coming out of the Statement for local authorities are:

- Withdrawal of proposal to top slice NHB funding to pass to LEPs.
- Welfare Reform – proposed introduction of controls on overall amount that is spent on welfare.
- Asset Sales – proposal to further incentivise the selling of local authority assets.
- Business Rate increases – proposal to cap rises to 2%.
- Housing Revenue Account – proposal to increase the debt cap via competition through application to Local Enterprise Partnerships (LEPs).

- 3.1.18 The Government announced the final Local Government Finance Settlement for 2014/15, which also included indicative allocations for 2015/16, on 5<sup>th</sup> February 2014. Government funding through Revenue Support Grant and Business Rates baseline has decreased by 13.5% in 2014/15 to £13.042m and then by a further 15.6% in 2015/16 to £11.009m.

### **Local Preparation**

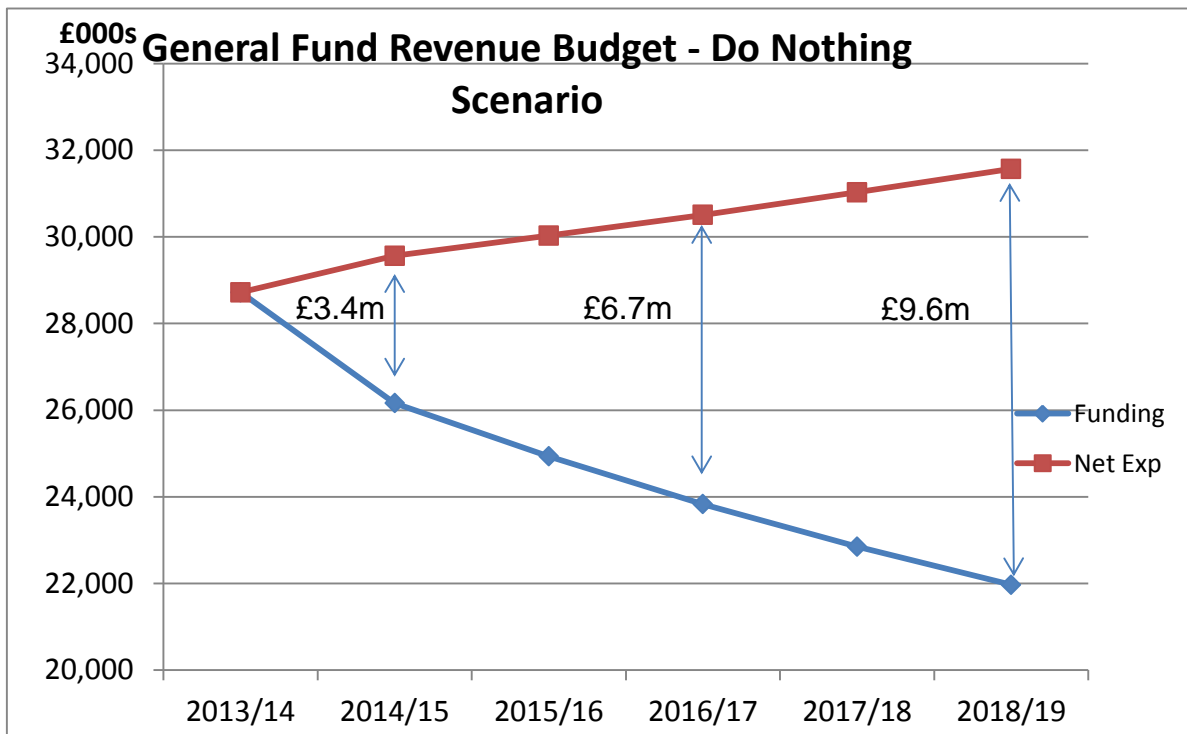
- 3.1.19 The Management Board approved the timetable and process for the Medium Term Financial Plan and budgets in the summer. The report set out the financial parameters for budget projections 2014/15 to 2018/19.
- 3.1.20 The budget process was closely linked to the Corporate Plan and the objectives set out in it, which are also reflected in the Medium Term Financial Plan.
- 3.1.21 The draft Budget proposals were considered by Cabinet at its meeting in December 2013 and have been subject to a period of consultation.

### **3.2 Medium Term Financial Plan (MTFP)**

- 3.2.1 The overall purpose of the MTFP is to enable the Council to manage its future finances and ensure that its plans are sustainable. This is becoming increasingly difficult because of the severity of government spending reductions, government policy changes, high levels of inflation and some significant uncertainties over future costs and income.
- 3.2.2 The budget is being set at a time when recent data suggests the economy is starting to grow. In the Autumn Statement the Chancellor announced increased annual Gross Domestic Product (GDP) growth forecasts for 2013/14 and 2014/15 to 1.8% and 2.4%, respectively, and stated “this reflects the upward momentum in the economy”. Alongside the Autumn Statement the Office for Budget Responsibility (OBR) published its Economic and Fiscal Outlook, containing its forecasts for the economy and the public finances, and an assessment of whether the Government is likely to achieve its fiscal mandate and supplementary target. The OBR now expects the ‘underlying deficit’ to be £73bn lower over the forecast period than projected at Budget 2013. However, although the structural deficit continues to fall year on year, the OBR believes that this reflects the improvement in the economic outlook since Budget 2013 rather than an improvement in growth potential.
- 3.2.3 The Cabinet remains clear in its determination to continue towards its ambition to be amongst the best Councils in terms of public service, providing value for money services to the community. The Council will not be deflected from this aim by external factors. However, it does recognise that they make it more challenging to accomplish, particularly in an environment where funding is reducing.
- 3.2.4 Each year the Council reviews, considers and refreshes its financial position. The assumptions, pressures and risks are assessed, and developed into a model for forecasting the most likely financial position over the medium term. Historically this forecasting has taken place over a 3 year time horizon, to cover next years budget and 2 subsequent years. This year the Medium term financial position is to be considered over 5 years to reflect the indications from Government that the current pressures on public sector funding are likely to continue until at least 2018. This is an important part of the framework for future budget-setting decisions. The process identifies the cost of providing

existing services as well as any additional services or enhancements the Council deems as priorities. From these forecasts, the affordability of these plans can be assessed with reference to the likely impact they will have on taxation levels and the level of reserves and balances.

- 3.2.5 The MTFP includes the Council's capital spending plans as these have a direct and sometimes significant impact on our revenue expenditure.
- 3.2.6 The Council has made fundamental changes over the last three years in the way it delivers value for money services. These changes are as a direct result of the reductions in funding and policy change in local government. This has stood the authority in a better position than it would otherwise have been in for the further austerity measures announced in addition to those announced in the Spending Review 2010. However, the Council has to implement further change over the period of the MTFP to ensure it remains financially sustainable and still delivers value for money services.
- 3.2.7 The Council aims to deliver as much of its savings requirements as possible through efficiencies before considering other options to balance its budget.
- 3.2.8 The Council over the last few years has significantly reduced its cost base, by establishing a more mixed economy of service delivery. This has included the externalisation of Environmental services, the creation of the Leisure Trust, reducing the number of senior managers and more recently the partnership with LGSS to deliver back office services. Despite the changes the funding pressures have increased and the Council still needs to drive forward change and deliver more savings whilst maintaining services.
- 3.2.9 The graph below demonstrates the potential funding gap over the medium term if the Council continues to deliver the same level of services as it currently provides, continues with its current risk appetite and does not take any mitigating action.

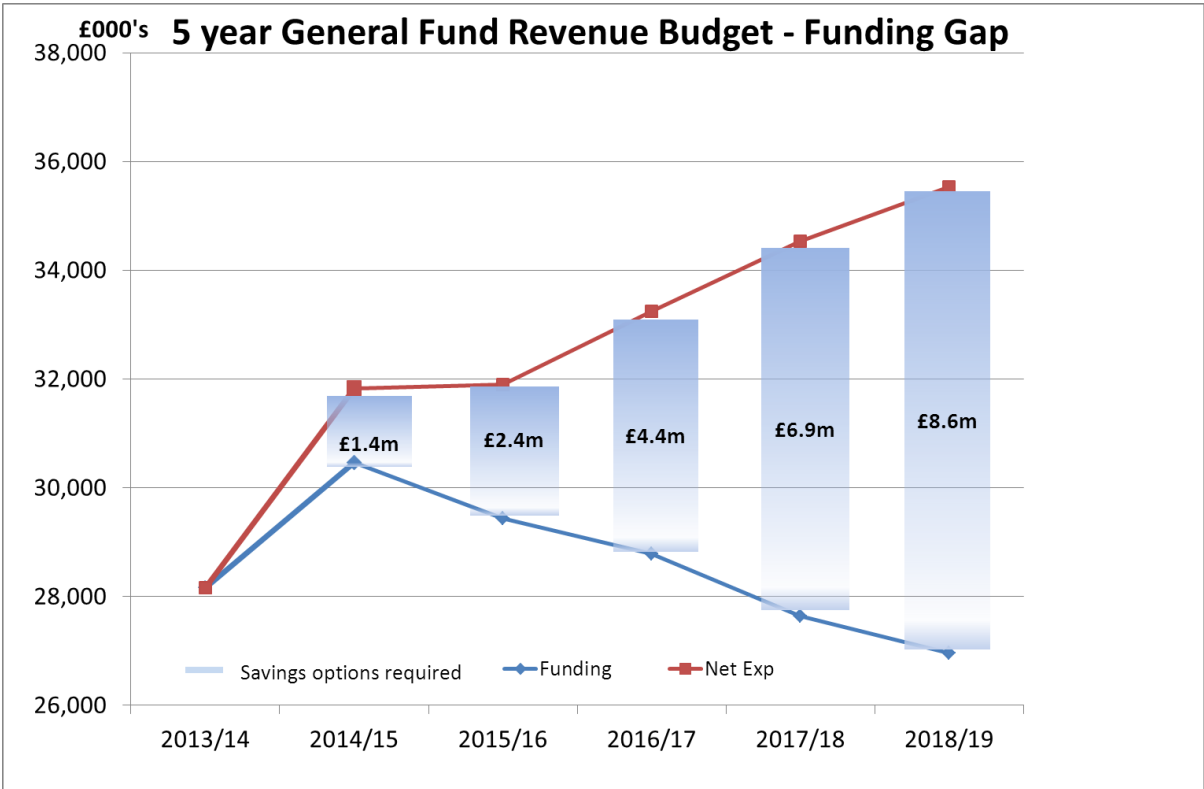


3.2.10 The financial gap reported to Council in February 2013 for 2014/15 was £1.9m. This gap moved out to £3.4m through increased pressures from Pension assumptions, lower interest rates on investments and mainstreaming of budgeted earmarked reserve usage.

3.2.11 The financial position set out in the graph above is not financially sustainable and if the Council did not take mitigating action to address this it would need to fund the gap by using its general fund balances. The level of general fund working balances, also referred to as the minimum level of reserves, was set at a risk assessed level of £3.1m for the 2013/14 budget. If these were used to fund the gap the Council would run out of general fund balances during next financial year.

3.2.12 As part of the review of the MTFP the Council has assessed its appetite for risk. A clear outcome from this review is with regards to the timing of the recognition of government funding streams in the budget and over the MTFP period. Following the recent fundamental changes to the way in which councils are funded from government and also the uncertainty arising from public sector funding reductions a conscious part of the Council’s financial strategy has been to only recognise funding sources in the budget when they are certain and sustainable.

3.2.13 If the Council were to continue with this extremely prudent approach it could make reductions to services in the short term which may not be needed over the longer term. It should also be noted that the major changes to the way in which local government is funded are now operational. New Homes Bonus has been running for 3 years and is now an integral part of the Council’s funding sources. The Business Rates Retention system has been operational since April 2013. As such the income streams from Government are now more certain and it is considered prudent to incorporate these into the proposed draft Budget 2014/15 and the MTFP. The impact of this reduces the forecast gap between spending and funding. This is shown in the graph below:





3.2.14 The MTFP and Budget 2014/15 set out in this report at Appendix 4 have been developed to address the financial challenges identified above. The MTFP that is presented in this report ensures that the financial position of the Council over the medium term is both stable and sustainable, with its resources focussed on priorities.

### 3.3 Draft General Fund Revenue Budget 2014/15 - Cabinet 18 December 2013

3.3.1 The Cabinet met on the 18 December 2013 and recommended proposals for consultation. The headlines were:

- a) No proposed council tax increase, for the Council's own purposes, for 2014/15, and no annual increases be adopted as planning parameters for the financial years 2015/16 to 2018/19;
- b) A general Fund budget of £30.1m (including parishes)

3.3.2 New efficiency savings and income options totalling £1.7m had been proposed for consultation to close the gap. Investment in priority areas totalling £1.2m was also proposed for 2014/15.

3.3.3 The Council's programme for delivering efficient cost effective services had effectively closed the 2014/15 budget/funding gap, by looking at efficiency improvements and considering the balance between using reductions in service levels in some areas and increasing income in others. The table following shows a summary of the draft budget 2014/15 position.

Description	Budget 2014/15 £000s
Service Base Budget	32,471
Savings	(1,747)
Growth	1,259
Gross Revenue Budget	31,983
Corporate Budgets	(1,840)
<b>Net Budget</b>	<b>30,143</b>
Revenue Support Grant	(6,757)
Business Rates	(6,847)
Council Tax	(13,860)
New Homes Bonus	(2,679)
<b>Total Funding</b>	<b>(30,143)</b>

#### Bridging the Funding Gap

3.3.4 Over the medium term the Council will need to increase income or deliver savings to meet the funding gap. The funding gap is now projected to be £8.6m by 2018/19. It is not possible to bridge the gap over the medium term

solely by continuing the approach that has previously been applied. It is almost inevitable that, before the end of the current MTFP period, more radical options for cost reduction will need to be considered.

The revised funding gap in 2014/15 was £1.4m and has been closed by the putting forward of a number of saving options that were subject to consultation over the consultation period.

## **Council Tax**

- 3.3.5 In line with previous years, the Secretary of State has proposed that a referendum trigger of 2% or above will apply for all principal local authorities in 2014/15. At present this is not proposed to apply to local precepting authorities (Town and Parish Councils) for 2014/15.
- 3.3.6 The draft Budget 2014/15 and MTFP assumed a 0% increase in Council Tax for each of the 5 years.
- 3.3.7 The Council on a 0% Council tax rise would be eligible for a Council Tax Freeze grant, which is anticipated to be the equivalent of 1% of Council Tax, to mitigate the cost. This equates to approximately £140k per year and is currently anticipated for two years. As indicated by Government this grant is expected to be incorporated within the baseline funding position for the council in the future.
- 3.3.8 Cabinet consulted with the public on taking up the government offer of assistance to enable it to propose a 0% increase for 2014/15.
- 3.3.9 The Borough Council's 2013/14 Average Band D Council Tax was £209.57 excluding amounts raised for parishes. On 22nd April 2013 Council received a report on special expenses, which resulted in a revised Average Band D Council Tax for 2013/14 of £208.19. Following a review of special expenses the proposed Average Band D Council Tax for 2014/15 is £207.91. While there is a small monetary decrease of £0.28 compared to the revised 2013/14 figure.
- 3.3.10 The 2012/13 Community Governance Review resulted in the creation of two new parish areas, in addition to changes to the boundaries of some of the existing parish areas. These changes resulted in some of the local parks now being in one of the new parishes; previously these were in an unparished area and in two local parks now being within the boundary of one of the previously existing parishes.
- 3.3.11 The two parishes affected were West Hunsbury and Hardingstone respectively. Initially the residents of those two parishes saw a disproportionate increase in their Council Tax bills. The purpose of the special expenses mechanism is to improve the equity of charging; this result was therefore not in line with the purposes of the Council's special expenses scheme. Temporary measures were put in place to address this inequity in April 2013 and the Council set up a review of special expenses that took place in 2013/14.
- 3.3.12 The outcome of the review confirmed the revised 2013/14 Average Band D council tax as £208.19, and resulted in a figure of £207.91 for 2014/15 after taking account of changes to the tax base.

3.3.13 The Band D level of council tax (excluding parishes) for the last 4 years is shown in the table below:

	2010/11	2011/12	2012/13	2013/14	2013/14 Revised	2014/15 Estimate
	£	£	£	£	£	£
NBC	209.65	209.62	209.57	209.57	208.19	207.91
NCC	1,028.11	1,028.11	1,028.11	1,028.11	1,028.11	TBC
NPCC	193.20	193.20	193.20	193.20	193.20	TBC
Total	1,430.96	1,430.93	1,430.88	1,430.88	1,429.50	TBC

### 3.4 **Budget Consultation Feedback**

3.4.1 The consultation process was carried out from 19 December 2013 until 31 January 2014. The aim of this consultation was to find out people's views on the draft budget proposals presented. The consultation period will formally close on the date the budget is approved in February 2014.

3.4.2 Residents, businesses, and other stakeholders were invited to provide feedback on the proposals for the draft budget during the consultation period and support was made available to maximise involvement and understanding of the proposals.

3.4.3 People were able to engage in a range of methods including:

- The consultation proposals and questionnaire were available to download and complete on-line via the Council's website. An e-mail address, freepost address and consultation phone line were set up to receive comments/views ;
- Invitation to comment sent to the business community via the Chamber of Commerce, their network and the Federation of Small Businesses;
- Invitation to Residents Panel to participate;
- Question Time Event – Open public meeting held at the Guildhall on 30 January 2014.
- Council's budget proposals debated at Community Forums (Diverse Community Forum, LGB People's Forum, Pensioners and Disabled People's Forums)

3.4.4 Public consultation showed the majority of respondents to be broadly in agreement with the Council's budget proposals (Appendix 1).

3.4.5 Overview and Scrutiny Committee reviewed the budget proposals at its meeting on 28 January 2014. The views of the Overview and Scrutiny Committees are reported in Appendix 2.

3.4.6 Audit Committee reviewed the budget proposals from a risk perspective on 13 January 2014. The key risks identified are reported at Appendix 3.

3.4.7 The Council must set a prudent, balanced budget, particularly in light of the current economic environment and the future expectation for local government funding.

3.4.8 The Cabinet has considered the budget proposals, taking into account the financial position, in the light of the results of the public consultation, Overview and Scrutiny and Audit Committee comments and other discussions and representations from key partners.

### **3.5 Draft General Fund Revenue Budget Position – Cabinet 19 February 2014**

3.5.1 Further work has been undertaken to refine the budget since 18<sup>th</sup> December 2013. This includes the final Local Government Finance Settlement adjustments, changes to proposed savings options, updated assumptions to the continuation budget and a number of technical adjustments.

3.5.2 Since the draft budget was proposed by Cabinet on 18 December 2013 the position has changed as follows:

#### **Summary of Changes since 18 December 2013 Cabinet**

	<b>2014/15 Budget Changes £</b>
Continuation Budget (net changes)	491,137
<b>Changes to Savings Options</b>	
Removal of Housing MTP GF11 Staff Restructure	114,000
Removal of MTP GF18 Volunteer Expansion	20,000
Reduction of MTP GF03 Facilities management Review	20,500
MTPs GF15 and GF20 moved to continuation budget	227,660
<b>New MTP Growth Proposals</b>	
MTP102 Contribution to Northampton Bike Hire Scheme	13,333
MTP103 Housing Call Care	150,000
MTP104 Private Sector Housing	100,000
<b>Technical Changes to Corporate Budgets</b>	
Adjustment between service budgets and recharge from General Fund to HRA	(67,588)
Recharges from General Fund to HRA	(651,379)
HPDG Adjustments	(174,835)
Parish Precepts	62,208
Earmarked Reserves Contributions	(8,185)
<b>Total Changes to Net Budget</b>	<b>296,851</b>
<b>Changes to Funding</b>	
Surplus on Collection fund	(137,324)
Council Tax – NBC	(100,827)
Council Tax – Parishes	(54,427)
Council Tax Freeze Grant (rolled into RSG in future)	133,369
Revenue Support Grant	(200,720)
Locally Retained Business Rates	63,078
<b>Total Changes to Funding</b>	<b>(296,851)</b>

### **3.6 Use of Balances**

- 3.6.1 A prudent level of reserves and working balance, along with appropriate application of reserves, should be part of the overall budget. The Chief Finance Officer reviews the level of balances required to support the general fund spend annually as part of a robust risk assessment. This risk assessment suggests that the minimum level of balances, taking all known risks into account along with the Council's gross expenditure requirement, should be in the order of £4.9m for 2014/15.
- 3.6.2 In determining the potential use of the reserves, the five year financial strategy takes into account previous years' spending trends, in particular the projected general fund 2013/14 outturn.
- 3.6.3 A major review of the General and Earmarked Reserves position has been undertaken by the Chief Finance Officer and Management Board. The aims of this review have been to ensure the council has financial risks effectively covered, rationalise the number of earmarked reserves, manage risks collectively rather than individually and create funds to enable the investment required to assist in the delivery of the MTFP funding gap.
- 3.6.4 This review has identified that £3m of Earmarked Reserves can be reallocated. These monies are proposed to be reallocated to General Fund balances (£1.8m) to manage a number of financial risks on a collective basis and to set up a new Invest to Save Earmarked Reserve (£1.2m) to assist in the delivery of the MTFP funding gap. The Invest to Save reserve is intended to be subject to strict criteria for its use, including demonstration of clear returns on investment and pay back through a clear business case.
- 3.6.5 The Chief Finance Officer recommends that a minimum prudent level of reserves be set at £4.9m for 2014/15 rising to £5.3m by 2015/16. This will be reviewed at least annually. This minimum level is designed to cope with unpredictable circumstances, which cannot be addressed by management or policy action within the year.
- 3.6.6 In the medium to longer term higher levels of General Fund balances may be required, depending on changes to the risk profile of the organisation. It should also be noted that the General Fund Balance can only accommodate the impact of significant events up to the level set, and would need to be replenished if one or more such events actually occur.
- 3.6.7 The 2014/15 budget assumes no use of general fund balances in 2013/14. The expected movement on the General Fund Reserve is summarised in the table below.

### Forecast of General Fund Reserves as at the end of January 2014

		£m
	<b>General Fund Balance as at 01.04.2013</b>	<b>3.1</b>
	<b>Total estimated General Fund balance at 31.03.2014</b>	<b>3.1</b>
<i>Plus</i>	Budgeted contribution to General Fund balances from Earmarked Reserves	1.8
	<b>Total estimated General Fund balance at 31.03.2015</b>	<b>4.9</b>
<i>Plus</i>	Budgeted contribution to General Fund balances from Earmarked Reserves	<b>0.4</b>
	<b>Total estimated General Fund balance at 31.03.2016</b>	<b>5.3</b>

3.6.8 It must be emphasised that the forecast level of General Fund balances by the 31st March each year is purely that, a forecast, and is not therefore guaranteed.

### Final Formula Funding Settlement

3.6.9 The provisional 2013/14 finance settlement was announced on 18<sup>th</sup> December 2013, and was finalised on 5<sup>th</sup> February 2014.

#### Formula Funding Settlements 2013/14 to 2015/16

	2013/14 Actual £m	2014/15 Actual £m	2015/16 Draft £m*
Retained Business Rates	5.968	6.084	6.252
Revenue Support Grant	8.971	6.957	4.757
<b>Total Formula Funding</b>	<b>14.939</b>	<b>13.042</b>	<b>11.009</b>
Specific Grants Adjustments*	0.146	0	0
	<b>15.085</b>	<b>13.042</b>	<b>11.009</b>

\* Council Tax Freeze compensation grant relating to 2013/14 has been built in to the formula funding settlement.

### Revised Proposals

3.6.10 Appendix 4 sets out a summary of the revised budgets covering 2014/15 to 2018/19 to be recommended to the Council. The main features are:

- No Council Tax increase, for the Council's own purposes (excluding precepts), for 2014/15;
- A General Fund budget for 2014/15 of £30.440m (including parishes).
- A planning parameter of 0% indicative annual Council Tax increases, for the Council's own purposes (excluding precepts), for 2014/15 – 2015/16.

3.6.11 The Council's budget for its own purposes (excluding parishes) is £29.364m.

### **The Council's Budget for its Own Purposes**

	<b>£m</b>
Revenue Budget Requirement including Parishes	30.440
Less Parish Precepts	(1.076)
<b>Amount to be Funded by Formula Funding and Council Tax Excluding Parishes</b>	<b>29.364</b>

3.6.12 The Government have set the level of council tax increase above which a referendum would be required at 2%. Northampton's budget proposes a 0% council tax increase, and therefore falls well within the limit.

### **Medium Term Implications**

3.6.13 In setting a budget for 2014/15, the Cabinet and the Council must take into account the implications for the following four years financial strategy, namely 2015/16 – 2018/19. There are significant planned efficiency savings in 2014/15 and the following years, which will require action to be taken now if they are to be secured within the planned timescales.

3.6.14 Appendix 4 also sets out the budget projections for 2014/15 to 2018/19 and the key features of the projections including assumptions of the level of Formula funding and Council Tax funding.

3.6.15 The medium term plan assumes that the Council will achieve year on year cashable efficiencies, 2014/15, and this has been built into the financial strategy from 2014/15 onwards. Plans will be developed to deliver the required savings as part of the 2014/15 medium term planning process.

3.6.16 The financial projections identify the need to:

- a) Continue the search for efficiencies in accordance with Government requirements; and
- b) Make sure the council's ambitions are set within the context of the available funding envelope.

3.6.17 The medium term budget projections also highlight the need to continue to develop the organisation's future strategy through the Corporate Plan. The key medium term financial issues identified are attached at Appendix 8.

### **Robustness of Estimates and Adequacy of Reserves**

3.6.18 The Local Government Act 2003 places a duty on the Chief Finance Officer to comment on 'the robustness of the estimates' included in the budget and the adequacy of the reserves for which the budget provides. This is subject to a separate report to this Cabinet meeting.

### **Fees and Charges**

3.6.19 The schedule of draft Fees and Charges for 2014/15 is attached at Appendix 9. The Cabinet is recommended to note the fees and charges that have been reflected in the budgeted income figures. These figures have been reviewed through the Medium Term Planning process and updated where feasible.

## **3.7 General Fund Capital Programme**

### **The Financial Position**

- 3.7.1 The Council continues to face an extremely challenging financial situation in the short to medium term. Reductions in overall revenue funding constrain the ability to undertake borrowing in support of capital expenditure due to its impact on interest and Minimum Revenue Provision (MRP) charges.
- 3.7.2 The national economic situation continues to make it difficult to realise capital receipts. In line with the Capital Strategy, receipts are only utilised to fund capital expenditure when actually received.
- 3.7.3 Grant funding has also been affected where grant-awarding bodies are being forced to tighten their belts. New sources of grant funding are continually being sought to finance schemes, the outcome of which often becomes known during the course of the year. In line with the delegation scheme, capital schemes that are fully funded from external grants and contributions and in accordance with the objectives and priorities of the Council can be added to the programme with the approval of the Chief Finance Officer. This enables such schemes to commence promptly and achieve their objectives in line with grant conditions.

### **Building the Capital Programme.**

- 3.7.4 Project appraisals have been completed for all 2014-15 capital programme bids.
- 3.7.5 Each project appraisal demonstrates how the scheme will contribute to:
- The Council's corporate priorities.
  - Statutory duties and legal commitments
  - Equalities
  - Efficiency and Value for Money
- 3.7.6 These factors are all taken into account in formulating a proposed capital programme that will best target the Council's corporate priorities within the resources available.
- 3.7.7 A file of all project appraisals is maintained and copies of individual appraisals are available on request.
- 3.7.8 Capital expenditure represents major investment in new and improved assets such as land, buildings, infrastructure, equipment and information technology. It therefore plays a key part in the development of the Council's services.



3.7.9 The proposed capital programme for 2014-15 to 2018-19 is attached at Appendix 10. The value of the total proposed capital programme for 2014-15 is £18.952m. A summary of the draft programme and final proposed programme is shown in the table below.

<b>Description</b>	<b>DRAFT Budget 2014/15</b>	<b>PROPOSED Budget 2014/15</b>
	<b>£000s</b>	<b>£000s</b>
<b>Capital programme 2014-15</b>		
Housing General Fund	2,707	2,707
IT Improvements	119	119
Town Centre Improvements	8,350	8,250
Heritage and Culture	1,297	1,297
Block Programmes	1,190	1,228
Enterprise Zone		5,350
<b>Total GF Capital Programme</b>	<b>13,663</b>	<b>18,952</b>
<b>Funding Source:</b>		
Borrowing	8,956	8,394
Capital Receipts	767	767
Grants & Third Party Contributions	2,170	2,671
Growing Places Fund		5,350
Revenue/Earmarked Reserves	1,770	1,770
<b>Total Funding</b>	<b>13,663</b>	<b>18,952</b>

3.7.10 The schemes have been prioritised within the resources available.

3.7.11 There is continuing significant demand for Disabled Facilities Grants. These are mandatory for the Council when the homeowner has made a full application. The proposed programme includes a budget of £2.075m for 2014/15.

3.7.12 The proposed draft programme for 2014/15 includes significant schemes supporting Council priorities in relation to heritage, regeneration and town centre improvements, as well as meeting the Council's statutory responsibilities.

3.7.13 In addition, there are block programme schemes. These will provide funding for individual schemes to improve and enhance the Council's assets and meet its responsibilities as a landlord. Individual schemes will be subject to appraisal and approval by the Capital Programme Board prior to commencement.

## **Capital Strategy**

3.7.14 The Capital Strategy for 2012/13 to 2014/15 approved by Council on 29<sup>th</sup> February 2012 remains current as updated at Council on 25 February 2013. 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 strategy will be reviewed and updated as part of the next update of medium term financial plans during 2014/15 for approval at Council in February 2015.

### **3.8 The Next Steps**

3.8.1 The timetable for the 2014/15 budget process requires a meeting of the Council on 24 February 2014, at which consideration will be given to the recommendations of this Cabinet in relation to the expenditure and tax proposals that relate to the Council's own spending.

3.8.2 In addition to the Council's own Council Tax, there are separate Council Taxes for the county, police, and the parishes. Not all of these precepting bodies have set their Council Taxes at the date of the Cabinet report being written, with the result that these will be reported to the Cabinet if known by that date and at Council on 24 February 2014 in any event.

### **3.9 Choices (Options)**

3.9.1 It is recommended that Cabinet make the recommendations to Council as detailed in section 2 of this report, taking into account the items detailed for noting.

3.9.2 The Cabinet may choose to make amendments to the proposed budgets or to the proposed council tax increase and adjust the budget proposals accordingly, in consultation with the Chief Executive and the Chief Finance Officer. It would then recommend the amended budget and council tax (if applicable) to Council.

## **4. Implications (including financial implications)**

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### **4.1 Policy**

4.1.1 In carrying out its business, the authority has a number of general and specific duties, which must be taken into account through the medium term planning process and on to the setting of the budget. Most duties to which the authority is subject are specific but some are generic to all of its functions, including the setting of the budget.

4.1.2 Current such duties include:

- a) the crime and disorder duty - to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area; and
- b) the race equality duty - in carrying out its functions, to have due regard to the need
  - to eliminate unlawful racial discrimination; and
  - to promote equality of opportunity and good relations between persons of different racial groups.

- c) the disability equality duty - in carrying out its functions to have 'due regard' in the exercise of all of the authority's functions to:
  - eliminate unlawful disability discrimination, and
  - promote disability equality
- d) the gender equality duty - in carrying out its functions to have 'due regard' in the exercise of all of the authority's functions to:
  - eliminate unlawful gender discrimination, and
  - promote equality of opportunity between men and women.

## **4.2 Resources and Risk**

- 4.2.1 The resource implications are detailed throughout the report and appendices.
- 4.2.2 The robustness of the estimates and adequacy of the Council's reserves are subject to a separate report.
- 4.2.3 A detailed report on risk and the 2014-19 budget was also considered by Audit Committee at its meeting on 13 January 2014, which is a background paper to this report.

## **4.3 Legal**

- 4.3.1 The Council must set a balanced budget for the next financial year by midnight on 11 March 2013 (Local Government Finance Act 1992 section 32 (10)). Failure to do this would leave the Council potentially vulnerable to court action by way of judicial review on the part of the Audit Commission. Delay in sending out Council Tax demands would result in losses being incurred by the Council.
- 4.3.2 The authority has specific legal duties in relation to equalities and financial decision making – see 4.4 below.
- 4.3.3 There are no further specific legal issues arising from this report

## **4.4 Equality**

- 4.4.1 Under the general equality duty (as set out in the Equality Act 2010), public authorities are required to have due regard to the need to eliminate unlawful discrimination, harassment and victimisation as well as advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.
- 4.4.2 The protected grounds covered by the equality duty are: age, disability, sex, gender reassignment, pregnancy and maternity, race, religion or belief, and sexual orientation. The equality duty also covers marriage and civil partnership, but only in respect of eliminating unlawful discrimination.
- 4.4.3 The law requires that this duty to have due regard be demonstrated in decision making processes. Assessing the potential impact on equality of proposed changes to policies, procedures and practices is one of the key ways in which public authorities can demonstrate that they have had due regard to the aims of the equality duty.
- 4.4.4 It is also important to note that public authorities subject to the equality duty are also likely to be subject to the obligations under the Human Rights Act. We

would therefore recommend that public authorities should consider the potential impact their decisions could have on human rights.

- 4.4.5 Equality and Diversity were considered as part of the budget build process, and an equalities assessment/screening was completed as part of each appropriate medium term planning option submitted. These were made public as part of the budget consultation.
- 4.4.6 Members are required to have specific regard to the equalities issues identified when making the decision to approve the budget options. The detailed Equalities Impact Assessments are available on the Internet as a background paper to this report.
- 4.4.7 Where issues have been identified and the option is approved, the detailed Equalities Impact Assessment will be used to inform the implementation of the budget option.

#### **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.
- 4.5.2 The budget has also been consulted on with relevant stakeholders including the public, business community, forums, key partners and NBC Overview and Scrutiny. This was undertaken through the public consultation process during December 2013 and January 2014.

#### **4.6 How the Proposals Deliver Priority Outcomes**

- 4.6.1 All of the discretionary investment proposals in the draft budget reflect the corporate priorities as set out in the Corporate Plan.

#### **4.7 Other Implications**

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

- 1 Consultation responses – Public Consultation
- 2 Consultation responses – Overview and Scrutiny committee
3. Consultation responses – Audit committee
4. Proposed Budget Summary 2014/15 to 2018/19
5. Schedule of Savings Options
6. Schedule of Growth Options
7. Schedule of Earmarked Reserves
8. The Key Medium Term Financial Issues 2014/15 to 2018/19
9. Draft Fees and Charges 2014/15
10. General Fund Capital Programme and Forecast Financing 2014/15 to 2018/19

## **5. Background Papers**

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- 5.1 Capital Strategy 2012 - 2015
- 5.2 Medium Term Planning Savings Options list GF
- 5.3 Medium Term Planning Growth Options list GF
- 5.4 Medium Term Planning Savings Options list HRA
- 5.5 Medium Term Planning Growth Options list HRA
- 5.6 Equality Screening and Analysis for MTP Options GF and HRA

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