Appendices
None

NORTHAMPTON
BOROUGH COUNCIL

COUNCIL

23 FEBRUARY 2015

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

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

1. Purpose

1.1 To advise the Council on the robustness of the estimates in the budget and the adequacy of the proposed financial reserves for the General Fund and Housing Revenue Account before Council approve the Medium Term Financial Plan 2015/20, the Revenue Budget for 2015/16, Capital Programme 2015/20, Housing Revenue Account (HRA) 2015/16, HRA Capital Programme 2015/20, Reserves levels and Treasury Management Strategy 2015/16.

2. Recommendations

2.1 That Council carefully consider the content of this report with regards to the General Fund and Housing Revenue Account prior to approval of the Council approving the Medium Term Financial Plan 2015/20, the Revenue Budget for 2015/16, Capital Programme 2015/20, Housing Revenue Account (HRA) 2015/16, HRA Capital Programme 2015/20, Reserves levels and Treasury Management Strategy 2015/16.

3. Issues and Choices

3.1 Report Background

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

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

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

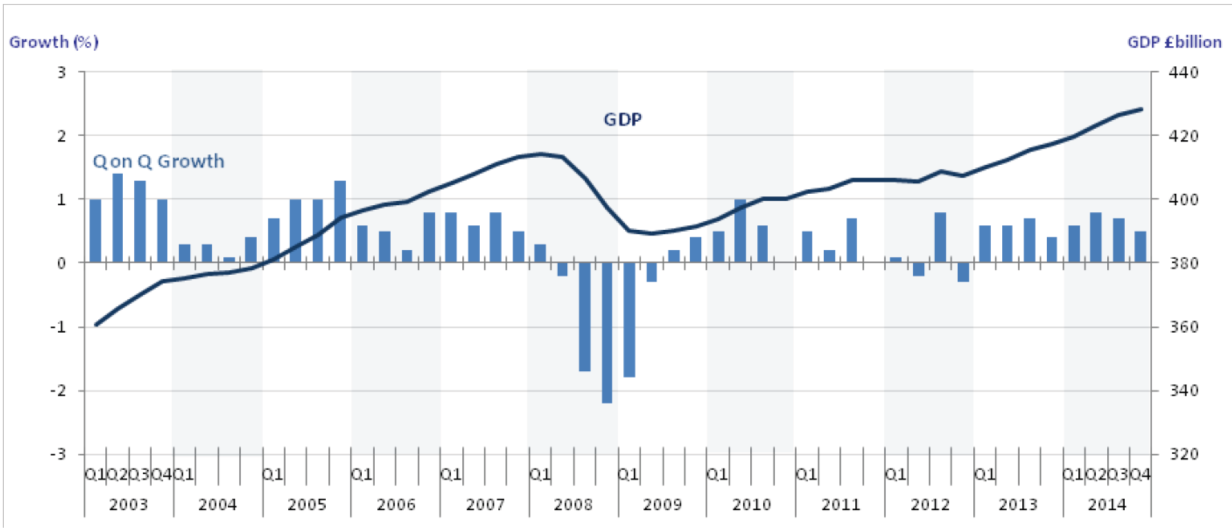
3.2 Context

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

Economic Challenges

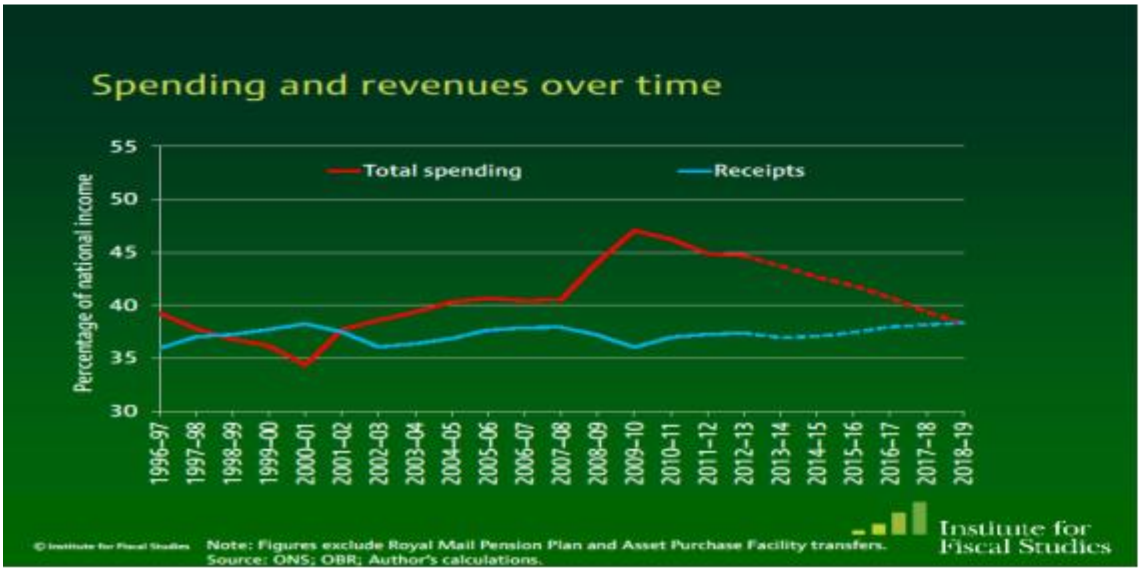
3.2.2 The UK economy has returned to growth. In 2014 the annual growth in Gross Domestic Product (GDP) was 2.4%. This is the fastest rate of growth since the financial crisis in 2008 and the introduction of austerity measures in 2010. This growth is expected to continue in 2015 with a survey of 25 independent forecasters complied by the Office for Budget Responsibility projecting growth at 2.6%.

3.2.3 The graph below from shows the quarterly growth increase (left hand axis) and total GDP (right hand axis) over the past 10 years. The impact of the financial crisis and recession in 2008/09 is clearly evident. However, since 2013 the economy has grown consistently each quarter and the total level of GDP has risen above pre 2008 levels. This is extremely positive news for the UK economy.



Source: Office for National Statistics

3.2.4 The UK economy is still operating with an annual deficit and the Government has stated its commitment to a balanced budget by 2018, although some commentators are suggesting it could be 2020. Due to the depth of the downturn this is longer than previously envisaged. The graph below from the Institute of Fiscal Studies (IFS) shows how the UK income receipts could increase and public spending is likely to continue reducing over the next 5 years.



Local Government Challenges

3.2.5 As announced by Government in their Budget and Autumn Statement during 2014 the austerity measures for the public sector, including Local Government will continue until at least 2018. Since 2010 Government funding for local government has reduced by approximately 40% in real terms. Although there are no official allocations for local government for the period 2016-2020 intelligence is suggesting that Government funding will reduce at a similar rate to that seen in the last five years.

3.2.6 In addition to the continuing austerity measures councils have implemented significant changes to Government policy, including the localisation of council tax support, technical reforms to council tax discounts & exemptions, keeping council tax increases to a minimum and Business Rates Retention Scheme. During 2015 universal credit will continue to be rolled out across the country and it is anticipated there will be continued reform of the welfare system.

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

3.2.8 However, with a general election in May 2015 there is a lot of uncertainty about how this will impact on local government funding. Latest intelligence suggests all the main political parties are signed up to reducing the annual deficit in the UK finances. Where the parties differ is likely to be about how monies within local government are allocated. One area of funding that could come under close scrutiny post the election is New Homes Bonus. Another challenge facing local government is the continued impact of an increasing elderly population and the associated pressures on social care and health services. This may lead to a redistribution of monies, albeit over time, of local government funding. All of these changes present significant risks, as well as opportunities, to the Council over the period of its Medium Term Financial Plan.

Northampton Challenges

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

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

- Delivery of revenue budget savings and operating within its revenue budget for 2014/15; and
- Changes in terms and conditions and a senior management restructure.
- The transfer of support services to LGSS which is expected to deliver substantial savings over the next five years.
- The creation of Northampton Partnership Homes to manage the Council's housing stock.
- Investment in the town centre to encourage economic growth, for example improvements to Abington Street, Guildhall Road and the Greyfriars area.

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

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

3.3 Medium Term Financial Plan 2015/16 to 2019/20

3.3.1 The Medium Term Financial Plan is a key part of ensuring the Council's future. The approach during the 2015/16 budget planning round has been to update the previous year's plans for any changes to assumptions, local policy changes, national policy changes and known risks. This has then been used as a basis to identify savings requirements for the years 2015/16 to 2019/20.

Risks and Mitigations

3.3.2 General Fund Revenue

a) There are £2.5m of savings to be achieved in 2015/16 onwards; those currently identified are itemised in the budget report at appendix 5. Specific ones of notes are:

- Service reviews and implementation of 2014 employee cost review of £2.2m.
- Review of information and advice services £200k.
- Reduction in contribution to JPU £91k.

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

b) A number of significant reviews will be undertaken or implemented during year. These include:

- Print unit;
- Strategic Housing & Wellbeing

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

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

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

d) Through the Business Rates Retention Scheme, the Council retains a proportion of the net growth outside the Waterside Enterprise Zone for its own purposes. There is a risk that the forecasts of this business rates growth may not be achieved resulting in lower revenue streams than anticipated. Since the introduction of the Business Rates Retention Scheme in April 2013 the Council has experienced significant volatility in its business rates baseline, primarily due to business appealing against their Rateable Value (RV). As a result the Council's baseline business rates yield has reduced by around 10%. It should also be noted for 2015/16 onwards there has been a change to the composition of the Northamptonshire business rates pool. This Council is no longer part of the pool, but has protected its financial interest to benefit from the benefits of pooling as if it was a member of the pool.

This risk is mitigated through the inclusion of a prudent risk assessed level of business rates being incorporated into medium term plans. The Council has in place intelligence gathering and information sharing between planning, revenues & finance combined with more detailed modelling of future projections including risk and sensitivity analysis. The Council also works closely with members of the Northamptonshire business rates pool to ensure the benefits are maximised on an annual basis.

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

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

f) Business rates revaluation is planned for 2017 in England and Business Rates Retention Scheme rebasing is planned by 2020. Both of these could impact on projected business rates growth and have a consequent effect on Council revenues.

   The risk of these impacts is medium term and is mitigated as per d) above and will be mitigated through liaison with the Valuation Office and monitoring developments in this area.

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

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

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

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

3.3.3 General Fund Capital

h) There are a large number of high profile capital schemes to deliver over next two years.

The Capital Programme Board set up in 2014 has introduced a more systematic approach to governance, capital planning and managing schemes through their lifecycle.

i) There is significant capital investment relating to investment in improved infrastructure in the Enterprise Zone. Initial funding of this is from various sources including the Growing Places Fund; repayment of the funding is reliant on business rates uplift.

This risk is managed as per e) above.

3.3.4 Housing Revenue Account

j) An area under annual review is recharges between the General Fund and Housing Revenue Account. There is a risk of additional costs falling in the Housing Revenue Account arising from this review.

Any additional costs will be built into the HRA 30 year business plan and the overall finances will managed within that context.

k) The Council has created NPH to deliver the Council's landlord function, plus other housing functions. NPH is funded by a Management Fee from the Council. The Management Fee is the financial representation of the Management Agreement between the two parties and has been sub divided into six component parts. As with any new organisation there are risks, one risk worthy of note from a financial perspective is that the budgets are not allocated correctly between the components elements of the Management Fee.

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

l) Due to historic reasons around 5,000 homes in the Council's property stock of 12,000 have rents which are under the target level set by Government. The "cost" to the Council is around £400k per annum.

The Council is moving towards the target level of rents as properties become vacant.

3.3.5 Housing Revenue Account - Capital

m) There are a large number of high profile capital schemes to deliver over next two years, including the improvement of council housing upto the Decent Homes Standard and Northampton Standard.

The Capital Programme Board set up in 2014 has introduced a more systematic approach to governance, capital planning and managing schemes through their lifecycle.

n) There are specific rules the Council must adhere to with regard to monies generated from Right to Buy receipts. One of these is the need to spend these receipts within a set timeframe. The Council currently has around £3m of these at present, but doesn't have a clear plan about how these will be spent. There is a risk the Council will have to repay these to Government if it does not spend them within the required timeframe.

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

3.3.6 Treasury Management

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

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

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

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

Delivering the Medium Term Financial Plan

3.3.7 The medium term financial position for the Council continues to show costs increasing at a faster rate than funding. By 2019/20 there is projected to be a £7.1m gap between expenditure and income and this could get wider over the longer term using current projections.

3.3.8 The primary reasons for the gap are increasing employee costs (pay awards, national insurance changes and pension contributions), pressures arising on maintaining the current levels of the performance on external contracts and reducing funding from government (Revenue Support Grant is expected to reduce by 90% over the 5 year period).

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

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

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

3.4 Revenue Budget 2015/16

The Financial Position

3.4.1 The revenue budget 2015/16 is the first year of the Council's five year Medium Term Financial Plan. The budget has been developed using a robust process with officer and member involvement.

Budget Process

3.4.2 An important feature of the budget process is that Directors and Heads of Service are responsible, with the support of finance staff, for the preparation and determination of their income and expenditure estimates. The active involvement of Directors and Heads of Service in determining their spending plans and income generation estimates ensures ownership of the budget and that the officers responsible for delivery of the services are happy that financial targets are achievable. During the 2015/16 budget setting cycle, all items within the base budget have been scrutinised and any changes to the figures submitted have only been incorporated with the acceptance of the Directors and Heads of Service. The Council's Management Board have discussed and reviewed the budget on a regular basis throughout the process. In addition there have been weekly meetings between the Leader, Cabinet Member for Finance, Chief Executive and Chief Finance Officer to steer the budget process.

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

Budget Proposals

3.4.4 The budget includes £2.5m of savings, delivery of which will need to be managed.

Council Tax

3.4.5 Freezing the Council tax has been a key policy objective for the Government and there is to be a Council Tax Freeze Grant for the fifth year running. There is a grant equivalent to 1% of Council Tax payable for next financial year only. It is available for councils freezing or reducing Council Tax in 2015-16.

3.4.6 The Government has stated Council Tax Freeze Grants will be incorporated into the baseline for future funding settlements. The MTFP assumes it is included in base funding in future years.

3.4.7 The Budget 2015/16 and MTFP 2015/20 has recommended a Council Tax freeze in each year. This will need to be reviewed on an annual basis in light of the financial position of the Council and in response to the threshold set by Government to trigger a referendum.

Council Tax Support

3.4.8 Council Tax Benefit reforms were put in place from April 2013 which provided for decisions on benefits to be made at a local level. These reforms did, however, come with a target reduction of 10% in the overall benefits bill. This has been a challenge for local authorities with a number of previous Council Tax Benefit claimant categories exempt from the reduction, and hence there has also been a need to take advantage of flexibility around Council Tax discounts. As the funding for CTS has been incorporated into the wider local government finance settlement there is little transparency over how much this funding has reduced for each council. However, the it can safely be predicted the funding has reduced in line with the wider government funding changes. There was a likelihood that there would be an impact on collection rates as well as general uncertainty in the first year of the new arrangements. Collection rates have actually held up better than anticipated and the council is continually reviewing its scheme on an annual basis to ensure it is financially neutral.

3.5 Draft Capital Programme 2015/16 to 2019/20

3.5.1 Historically the Council's General Fund Capital Programme has been funded from capital receipts, capital grants, prudential borrowing financed from service revenue savings and prudential borrowing that is affordable within the overall revenue position. This remains largely the case, although New Homes Bonus income is now also being used to finance regeneration and economic growth related projects.

3.5.2 Over the period of the Medium Term Financial Plan, the General Fund Capital Programme is projected to be financed from £8m capital receipts. There are risks around the delivery of this level of capital receipt. Progress on the achievement of this level of receipt will therefore be closely monitored through the Corporate Asset Board, with any amendments to capital programmes and financing through the Capital Programme Board.

3.5.3 There is £7.5m of funding provided through the, Growing Places Fund and Local Infrastructure Fund which is to be repaid from the Enterprise Zone business rate uplift; risks around the repayment of this are being managed as per 3.3.2 e) above.

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

3.6 Treasury Management Strategy 2015/16

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

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

3.7 Forecast Reserves and Balances

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

Minimum Levels of Working Balance

3.7.2 The risk assessed minimum level of balances for 2015/16 is £4.9m, the same level as in 2014/15. The risk assessed minimum level of balances is expected to remain at this level in 2016/17.

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

Use of Earmarked Reserves

3.7.4 There is a net contribution to earmarked reserves within the 2015/16 revenue budget of £2.298m. This is made up as follows: -

	£m
Early delivery of savings for 2016/17	1.964
New Homes Bonus (NHB) receivable in 2015/16	3.835
Use of NHB in 2015/16	-3.501
Net Contribution to earmarked reserves	2.298

3.7.5 New Homes Bonus receivable in year, in line with previous years, is transferred into earmarked reserves. Regeneration, economic development schemes and funding of initiatives in the general fund revenue budget to the value of £3.501m have been identified to be funded from the NHB earmarked reserve.

3.7.6 To assist in managing risks in the budget the Future Budget pressures earmarked reserve has been increased to £1.6m to reflect uncertainties in delivering savings proposals and potential impact of budget proposals from other councils/partners.

3.7.7 In recognition of the future General Fund revenue pressures, rising to a budget gap of £7.1m in 2019/20, an earmarked reserve of £3.1m for Strategic Investment has been established by using monies from the previous Invest to Save reserve and the net contribution to reserves from the 2015/16 budget. The use of this reserve will be based on strict criteria linked to a business case and will require sign off by the Chief Finance Officer and the Cabinet Member for Finance. The reserve will only be used for projects which contribute overall to closing the projected budget gap in the short to long term. It is expected such projects will have either a clear return on investment and/or provide the Council with an asset that would have a strategic benefit for the Council in the future.

3.8 Conclusion

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

3.8.2 However, it should be noted:

- Whilst risk does exist the estimates are robust both in respect of the underlying assumptions and the future deliverability of potential reductions.
- From a Chief Finance Officer perspective there is always a desire to have a high level of reserves to protect against the unknown. However, against the backdrop of reduced public finances, the need to protect service, especially the most vulnerable in the community and provide investment for future growth the level of reserves is currently considered adequate.
- That the Council faces significant financial pressures, particularly in its General Fund Revenue Budget where a potential 25% pressure exists, over the medium term. Over this period the Council must ensure it takes the necessary action to ensure a continued stable and sustainable financial position is maintain.

3.9 Choices (Options)

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

4. Implications (including financial implications)

4.1 Policy

4.1.1 The revenue and capital budgets are set in support of the Council's priorities and in order to do this effectively, the calculations used within the budgets must be robust; this report demonstrates that, in the opinion of the Chief Financial Officer, the budgets for 2015/16 are robust within the parameters outlines in this report.

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

4.2 Resources and Risk

4.2.1 The report is of a financial nature by its nature considers risk management from a financial perspective.

4.3 Legal

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

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

4.4 Equality

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

4.5 Other implications

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. Cabinet will also be recommending the budget plans to Council at its meeting on 18th February 2015..

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

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

5. Background Papers

5.1 General Fund Budget Report

5.2 HRA Budget Report

5.3 Treasury Management Strategy Report

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