



CABINET REPORT

Report Title	General Fund Revenue Budget and Capital Programme 2016/17 and Medium Term Financial Plan 2016/17 – 2020/21
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	24 February 2016
Key Decision:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Management Board
Accountable Cabinet Member:	Cllr M Hallam
Ward(s)	NA

1. Purpose

- 1.1 To report the outcome of the consultation process on the 2016/17 General Fund Revenue and Capital Budget and the Formula Funding Settlement for 2016/17.
- 1.2 To agree Cabinet's proposals for recommendation to Council on 29 February 2016 for the 2016/17 General Fund budgets and Council Tax level and the indicative levels for 2017/18 to 2020/21.
- 1.3 To outline the General Fund Capital Programme and Funding proposals for 2016/17 and future years.

2. Recommendations

- 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 3.2.22), in light of technical adjustments and the Local Government Funding Settlement, be agreed.
- 2.3 That a General Fund Revenue Budget for 2016/17 of £29.6m (excluding parishes) be recommended to Council for its own purposes (detailed in paragraph 3.2.23 and **Appendices 4, 5 and 6**).
- 2.4 That the Council be recommended not to increase the Council Tax for its own purposes, i.e. excluding County, Police and Parish Precepts, for 2016/17.
- 2.5 That the Cabinet recommend to Council that they approve the General Fund Capital Programme and proposed financing for 2016/17 as set out in **Appendix 7**.
- 2.6 That Council be recommended to confirm as minimum level of General Fund reserves of £5.3m for 2016/17, having regard to the outcome of the financial risk assessment, and also note the position on earmarked reserves (**Appendix 8**).
- 2.7 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.
 - Update prudential indicators in both the Prudential Indicators Report and Treasury Strategy Report to Council, for any budget changes that impact on these.
- 2.8 That the Cabinet notes the key medium term financial issues as set out in **Appendix 9**.
- 2.9 That the draft Fees and Charges set out in **Appendix 10** be approved, including immediate implementation where appropriate.
- 2.10 That Cabinet recommend to Council that they approve the Treasury Management Strategy for 2016-17 at **Appendix 11** of this report: incorporating:
- (i) The Capital Financing and Borrowing Strategy for 2016-17 including:
 - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (England) (Amendment) Regulations 2008.
 - The Affordable Borrowing Limit for 2016-17 as required by the Local Government Act 2003.
 - (ii) The Investment Strategy for 2016-17 as required by the CLG revised Guidance on Local Government Investments issued in 2010.

- 2.11 That authority be delegated to the Council's Chief Finance Officer, in liaison with the Cabinet member for Finance, to make any temporary changes needed to the Council's borrowing and investment strategy to enable the authority to meet its obligations.
- 2.12 That Council be recommended to approve the Capital Strategy for 2016 to 2021 as attached as **Appendix 12**.
- 2.13 That authority be delegated to the Chief Finance Officer to make any technical changes necessary to the papers for the Council meeting of 29th February 2016, including changes relating to Parish Precepts and Council Tax levels associated with those changes.
- 2.14 That Council be recommended to delegate authority to the Chief Executive, Directors and Chief Finance Officer to implement all budget options and restructures.

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 2016/17 in February 2016. The proposals in this report have been developed by officers in consultation with relevant Cabinet members and Management Board.
- 3.1.2 The budget proposals and options presented in this report have been subject to a period of public consultation and reviewed by both Audit Committee and Overview and Scrutiny Panel. The outcomes of these consultations are set out in **Appendices 1, 2 and 3**.

3.2 Issues

Economic Context

- 3.2.1 The UK economy is forecast to continue on its growth trajectory, albeit perhaps with some slowing due to the global economic situation and further fiscal tightening. Demand for housing is strong and this is of benefit to Northampton's growth strategy. Inflation is forecast to remain low, with oil prices not expected to increase in the short term. This helps to contain inflationary pressures within the Council's own budget.

Spending Review 2015

- 3.2.2 On 25th November the Chancellor announced the results of the Spending Review 2015. The main points that have had an impact on NBC are:
 - Core central government funding, comprising business rates and revenue support grant, to local government will fall by 24 per cent in real terms over the Spending Review period. Given that certain areas of expenditure, such as

social care and police, are being protected the impact on Districts and Boroughs is likely to be more significant.

- The Treasury-led Business Rates review will report in Budget 2016. The Spending Review confirmed that by the end of the Parliament local government will retain 100 per cent of business rate revenues to fund local services, giving them control of £13 billion of additional local tax revenues, and £26 billion in total business rate revenues.
- New Homes Bonus – the scheme is to be revamped, including means of sharpening the incentive to reward communities for additional homes and potentially reducing the length of payments from six years to four years. This will include a preferred option for savings of at least £800 million, which can be used for social care. Details of the proposed reforms were included in the Local Government Finance Settlement and are detailed below.
- Local authorities will have the flexibility to spend capital receipts (excluding Right to Buy receipts) from asset sales on the revenue costs of reform projects, subject to conditions that were set out alongside the Local Government Settlement in December 2015.

Local Government Finance Settlement

3.2.3 The draft settlement was published on 17th December 2015 and the final settlement on 8/2/2016. The final settlement took on board consultation responses and addressed concerns about the impact of methodology changes on shire areas through the introduction of a Transition Grant, funded from outside of the settlement envelope. It is of most benefit to County Councils, the allocation for NBC is only around £24k in each of the next two years. The table below shows the figures and how they compare to those included in the draft budget for 2016/17.

	Draft Budget – Dec 2015 £k	Final Settlement – Feb 2016 £k	Change £k
Revenue Support Grant	3,531	3,256	(275)
Transition Grant	-	24	24
Business Rates Baseline	7,577	7,452	(125)
New Homes Bonus	4,745	4,910	165
Total	15,853	15,642	(211)

3.2.4 The allocation of Revenue Support Grant was lower than expected due to a change in methodology which takes into account the Council's ability to raise income from Council Tax, including an assumption that tax rates are increased up to the referendum limit of 2%. This has the effect of shifting grant from shire areas to metropolitan areas where taxbases are lower. In addition to this the

split between tiers of local government has been done in such a way that funding is redirected towards authorities with social care responsibilities.

3.2.5 Given that the central government methodology includes an assumption that Council Tax is increased as part of an authorities core funding, the Council's medium term forecasts have been updated to include an assumed increase in the Band D Council Tax of £5 per year from 2017/18 onwards. This is the new limit announced in the final settlement above which a referendum would be triggered. No increase is proposed for 2016/17 in line with the consultation proposals.

3.2.6 Business Rate Baseline funding was lower than previous forecasts due to lower inflationary increases of 0.88%. The government will be consulting later in the year on plans to move towards 100% local retention of business rates. No details are available at this stage.

3.2.7 New Homes Bonus for 2016/17 is higher than previous forecast due to higher growth in property numbers. However, changes to the scheme will be implemented from 2017/18 onwards which will have a downward pressure on this funding source. A consultation was launched alongside the draft settlement and closes on 10th March. The key elements of the government's preferred option are:

- Number of years for which legacy payments under the Bonus are to be paid reduced from 6 years to 4 years (also considering reduction to 3 or 2 years).
- No NHB payable for years in which LA does not have a Local Plan in place.
- Reduction (by 50% or 100%) in NHB for homes allowed following an appeal.
- Introduction of a baseline growth of 0.25%, only growth above this level would be rewarded.
- No change proposed to district/county split.
- Implementing these changes aims to save £800m pa nationally by 2019/20.

3.2.8 The Finance Settlement included indicative figures for Business Rates Baseline and Revenue Support Grant for the 3 years up to and including 2019/20, which have now been built into the Council's medium term forecasts.

3.2.9 The government has offered local authorities the option to fix these funding allocations for the period up to 2019/20, which would provide increased certainty. In order to take up this offer the Council would be required to produce an Efficiency Strategy. A decision on whether or not to accept this offer is required by mid-October, giving time for the Council to consider its options over the next six months.

Sources of Funding – Medium Term Forecasts

3.2.10 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.

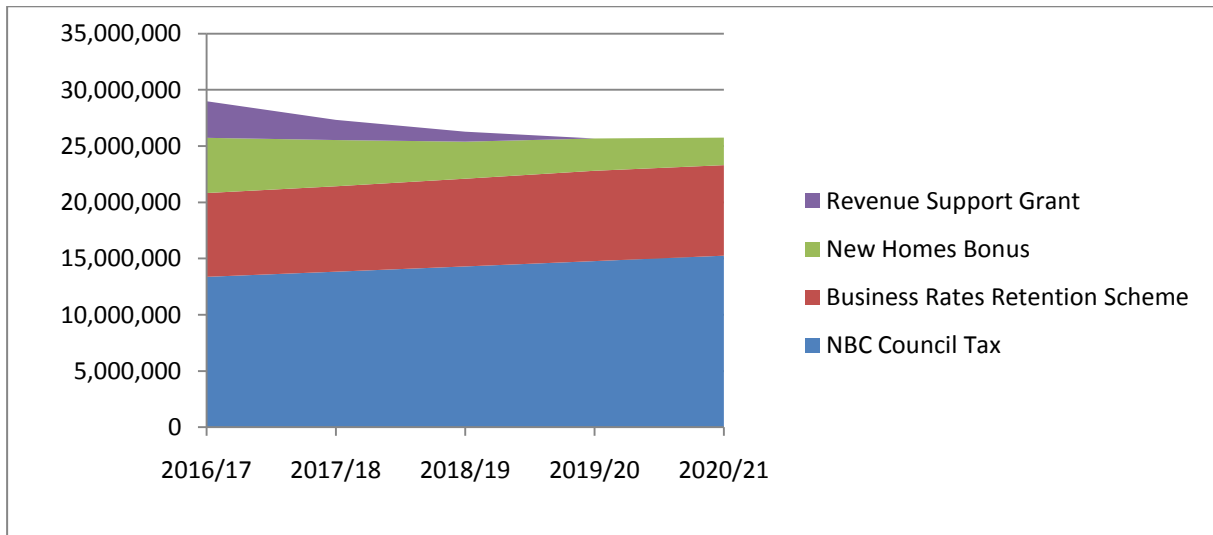
3.2.11 Council Tax – although the Council's band D Council Tax is assumed to remain frozen for 2016/17 and then increase by £5 per year thereafter. The total forecast income is also expected to rise due to an increase in the taxbase of 3.2% for 2016/17 and an assumed average of 1% per annum thereafter.

The Council Tax Freeze Grant that has been received in previous years is now part of the settlement Funding Assessment.

3.2.12 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.

3.2.13 New Homes Bonus – this has been a significant source of funding in recent years. The revamp of the scheme currently out to consultation is likely to lead to a significant reduction in this source of income for the Council, although this is mitigated by continued housing growth.

3.2.14 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. The total falls significantly over the period and shows a significant shift from central to local funding.



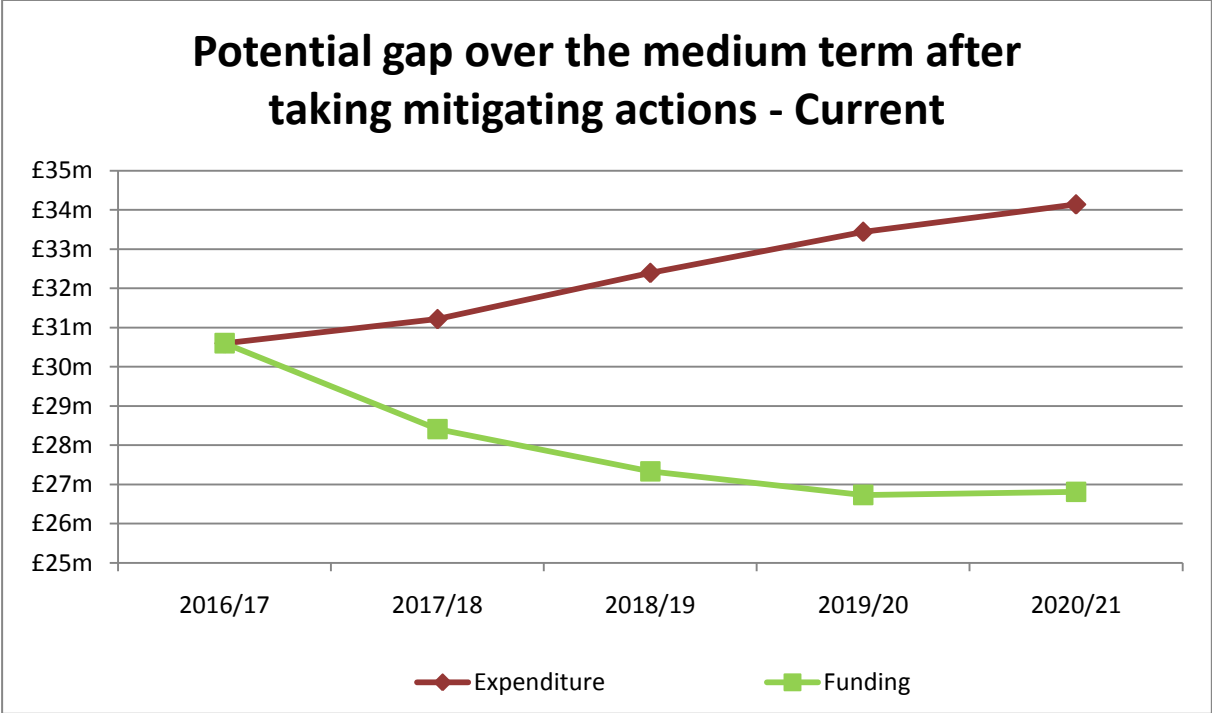
Enterprise Zone

3.2.15 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 and growing industrial estates. 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.

3.2.16 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.

Medium Term Financial Plan

3.2.17 The Medium Term Financial Plan provides a forecast of the Council’s expenditure and income over the next five years. Savings options have been identified for 2016/17 that allow a balanced budget to be set. However, the forecasts, detailed in Appendix 4, show the need to make substantial year-on-year savings, rising to £7.3m by 2020/21. The graph below illustrates the growing gap between forecast expenditure and funding.



3.2.18 This position will be kept under constant review and funding forecasts updated as new intelligence is gathered in relation to both business and housing growth.

3.2.19 The scale of the savings that the Council needs to find require a fundamental review of the way in which services are provided, as well as the range and scope of those services. Work is beginning across three themes:

- Economic Growth – to prioritise new ways of delivering investment and sustaining revenue streams. This will include support for continued growth in housing and business.
- Partnership – to build on existing successful delivery partnerships such as LGSS, Northampton Partnership Homes and the Leisure Trust.
- Community Empowerment – to deliver a clearly defined community-led approach that enables the delivery of ongoing service improvements and financial savings.

3.2.20 Financial savings resulting from these workstreams will be identified and quantified over the next 12 months. Other opportunities to narrow the budget

gap will also need to be identified, including both savings and increased income.

General Fund Revenue Budget 2016/17

3.2.21 The Cabinet met on 16th December 2015 and recommended proposals for consultation. The headlines were:

- No proposed Council Tax increase, for the Council's own purposes, for 2016/17, and an indicative nil increase for planning purposes in future years.
- A General Fund Budget of £29.4m, excluding parish precepts

3.2.22 Further work has been undertaken to refine the budget. This includes the impact of the Local Government Finance Settlement and technical adjustments to the continuation budget and corporate budgets. The changes are summarised in the table below:

Summary of Changes since Cabinet December 2015	Budget 2016/17 (£)
Continuation Budget Changes (net changes)	5,526
Technical Changes to Corporate Budgets	(72,000)
Parish Precepts	22,923
Contribution to/(from) Earmarked Reserves	179,302
Total Changes to Net Budget	135,751
Changes to Funding	
Revenue Support Grant	274,797
Transition Grant	(23,746)
Business Rates	125,045
New Homes Bonus	(165,535)
Parish Council Tax	(22,923)
Collection Fund Surplus	(323,389)
Total Changes to Funding	(135,751)

3.2.23 The proposed net budget for 2016/17 is shown in Appendix 4 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. A contribution to reserves of £2.9m will help to deal with budget pressures arising in the medium term, in particular in relation to the provision of waste collection services. The likely future cost increases are being proactively managed by gradually increasing the budget rather than having a substantial hit in one year.

Description	2016/17 £000s
Service Base Budget	28,214
Savings	(665)
Growth	355
Corporate Budgets	(175)
Contribution to Reserves	2,872
Net Budget	30,601
Revenue Support Grant	(3,256)
Transition Grant	(24)
Business Rates	(7,452)
New Homes Bonus	(4,910)
Council Tax	(14,426)
Collection Fund Surplus	(533)
Total Funding	(30,601)
Savings to be identified	(0)

Council Tax

3.2.24 In the final settlement the Secretary of State has set a referendum trigger of £5 per year increase in the Band D Council Tax, which will apply for all principal local authorities in 2016/17. It does not currently apply to local precepting authorities (Town and Parish Councils). Authorities with social care responsibilities are allowed to increase their Council Tax by a further 2% with the funds generated ringfenced to social care.

3.2.25 The draft budget for 2016/17 assumed a continuation of the Council Tax freeze as delivered in previous years. The Council Tax freeze grant received in previous years has been subsumed into the baseline for settlement funding assessment. Government funding forecasts assume a 2% pa increase in Council Tax as part of each authorities core funding.

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

	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Northampton Borough Council	209.57	208.19	207.91	207.91	207.91
Northamptonshire County Council	1,028.11	1,028.11	1,048.57	1,069.02	TBC
Northamptonshire Police & Crime Commissioner	193.20	193.20	197.04	200.96	TBC
Total	1,430.88	1,429.50	1,453.52	1,477.89	TBC

General Fund Capital Programme 2016/17 to 2020/21

3.2.27 The proposed General Fund Capital Programme and Funding for the next 5 years is detailed in Appendix 7 and summarised in the table below. All proposed schemes have been reviewed, challenged and prioritised by the Capital Programme Board.

3.2.28 The value of the proposed programme for 2016/17 is £14.532m. and includes new schemes in support of the continued regeneration of the borough, including significant improvements to St Giles Street.

3.2.29 Self-funded schemes in relation to car parking at Midsummer Meadow and CCTV upgrade will be subject to the completion of detailed business cases to demonstrate that the investment can be repaid from resultant income or revenue savings. The scheme to extend St James Mill Link Road is subject to the confirmation of Local Growth Fund grant and the use of future uplift in Business Rates income.

3.2.30 The proposed capital programme can be contained within existing resources over the 5 year planning period. It does however include the bringing forward of resources from later years into 2016/17 and, subject to the profile of capital receipts, some short term borrowing. This will not have any net impact on revenue budgets.

3.2.31 The scale of the capital programme, particularly major schemes such as the Vulcan Works, Central Museum and Delapre Abbey, inevitably creates risks. Expenditure on these schemes will be closely monitored and mitigating actions taken to minimise any potential overspends. Where budget increases are required additional external funding sources will be identified.

Description	Budget 2016/17
	£000s
Disabled Facilities Grants	1,875
IT Improvements	215
Town Centre Improvements	2,245
Heritage and Culture	5,340
Block Programmes	1,120
Enterprise Zone Schemes	1,000
Other (as detailed in Appendix 4)	2,737
Total GF Capital Programme	14,532
Funding Source:	
Borrowing (incl. self-funded)	5,712
Growing Places Fund/ Local Infrastructure Fund	438
Capital Receipts	2,250
Grants & Developer Contributions	6,132
Total Funding	14,532

Earmarked Reserves and General Fund Balances

3.2.32 Earmarked Reserves are held to mitigate against specific risks and future spending pressures. They are reviewed on an ongoing basis, but specifically as part of the budget process and again at the closure of accounts. Contributions to and from reserves will be adjusted for future years as the forecasts of government funding are updated.

3.2.33 A review of the 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. A specific reserve of £500k has been set aside to fund activity linked to the recovery of monies in relation to Sixfields, and, in line with the report to Cabinet in November 2015 potential successful recovery of monies would replenish reserves in the future. The reserves position following this review is set out in Appendix 8.

3.2.34 As part of the budget process the Council determines a prudent minimum level of General Fund balances to hold against general risks. This minimum level is

designed to cope with unpredictable circumstances, which cannot be addressed by management or policy action within the year. It is informed by a risk assessment, which currently suggests that £5.3m would be a prudent level of general reserves. This is a slight increase from the assessed level in previous years, reflecting increased funding uncertainties. It is however slightly lower than the actual level of general reserves held as at March 2015.

Robustness of Estimates and Adequacy of Reserves

3.2.35 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

3.2.36 The schedule of draft Fees and Charges for 2016/17 is attached at Appendix 10. The Cabinet is recommended to agree 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.

Treasury Management Strategy

3.2.37 The Treasury Management Strategy 2016-17 at Appendix 11 sets out the Council's policy for its debt and investment portfolios over the next financial year. It is reviewed annually and reported to Cabinet and Council as part of the budget setting process. The purpose of the strategy is to establish the framework for the effective and efficient management of the Council's treasury management activity, including the Council's investment portfolio, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse. The resources required to deliver the Council's Treasury Management Strategy and policies over the next five years are incorporated into the Council's HRA and General Fund revenue budgets.

3.2.38 The Treasury Management Strategy incorporates:

- The Council's capital financing and borrowing strategy for the coming year
- The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
- The Affordable Borrowing Limit as required by the Local Government Act 2003.
- The Annual Investment Strategy for the coming year as required by the CLG revised Guidance on Local Government Investments issued in 2010.

3.2.39 The Treasury Management Strategy also includes the Council's policy on borrowing in advance of need and its counterparty creditworthiness policies.

Next Steps

3.2.40 The Council meeting on 29th February will consider the recommendations of this Cabinet in relation to the expenditure and tax proposals that relate to the Council's own spending.

3.2.41 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 29 February 2016 in any event.

3.3 Choices (Options)

3.3.1 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.

3.3.2 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)

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 Medium Term Financial Plan and Capital Strategy.

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 report on risks and the 2016/17 budget was also considered by the Audit Committee at its meeting on 18th January 2016.

4.3 Legal

4.3.1 The Council must set a balanced budget for the next financial year by midnight on 11 March 2015 (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.

4.4 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 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 2016.

4.5 Consultation

- 4.5.1 The consultation process was carried out in two phases, internally, involving the formulation of options at service level followed by challenge by Management Board and relevant Cabinet members, and externally, involving public consultation with residents, businesses and interested stakeholders.
- 4.5.2 Public consultation commenced 18 December 2015 and ended 31 January 2016. The consultation period will formally close on the date the budget is approved in February 2016.
- 4.5.3 People were asked if they agreed with freezing Council Tax levels for a further year and if they would be prepared to pay more if it helped the Council protect or improve services. Views were also sought in relation to the budget options proposed and respondents were also invited to suggest any other ideas that would achieve savings or improvements.
- 4.5.4 The Council's dedicated budget information web pages received over **400** visits and **90** people completed online questionnaires. More than **2** out of **3** respondents agree with proposals to freeze council tax. However, almost **7** out of **10** respondents would be willing to pay more to help protect or improve services. Full results, including comments on proposals and alternative suggestions are available in Appendix 1.
- 4.5.5 Overview and Scrutiny Committee reviewed the budget proposals at its meeting on 20 January 2016. The views of the Overview and Scrutiny Committees are reported in Appendix 2.
- 4.5.6 Audit Committee reviewed the budget proposals from a risk perspective on 18 January 2016. The key risks identified are reported at Appendix 3.

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 All of the discretionary investment proposals in the proposed budget reflect and/or are aligned to the corporate priorities as set out in the Corporate Plan.

4.7 Other Implications

4.7.1 None not already covered above.

5. Background Papers

5.1 None

5.2 Appendices

1. Consultation Responses – Public Consultation
2. Consultation Responses – Overview and Scrutiny Committee
3. Consultation Responses – Audit Committee
4. Proposed General Fund Revenue Summary 2016/17 to 2020/21
5. General Fund MTP Savings Options
6. General Fund MTP Growth Options
7. Proposed General Fund Capital Programme and Financing 2016/17 to 2020/21
8. Schedule of Earmarked Reserves
9. Key Medium Term Financial Issues
10. Draft Fees and Charges 2016/17
11. Treasury Management Strategy 2016/17
12. Capital Strategy 2016 to 2021

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