



CABINET REPORT

Report Title	DRAFT GENERAL FUND MEDIUM TERM FINANCIAL PLAN 2017/18 – 2021/22 AND DRAFT BUDGET 2017/18
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	14 December 2016
Key Decision:	NO
Within Policy:	YES
Policy Document:	NO
Directorate:	Management Board
Accountable Cabinet Member:	Cllr B Eldred
Ward(s)	NA

1. Purpose

- 1.1 To present for consultation draft budget proposals for 2017/18 and forecast budgets for 2018/19 to 2021/22, covering both General Fund Revenue (as set out in Appendix 1) and Capital (Appendix 3).
- 1.2 The report also presents the Council's draft Treasury Management Strategy (Appendix 4).

2. Recommendations

- 2.1 That the draft General Fund Revenue budget 2017/18, as summarised in Appendix 1, be approved for public consultation.
- 2.2 That the proposed growth and savings options set out in Appendix 2 be approved for public consultation.
- 2.3 That the proposed Council Tax increase for 2017/18 of £5 a year per Band D property be approved for public consultation.

- 2.4 That the draft General Fund Capital Programme and Financing 2017/18 to 2021/22, as detailed in Appendix 3, be approved for public consultation.
- 2.5 That the draft Treasury Management Strategy is approved for consultation.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Council is required to set a balanced budget and its Council Tax for 2017/18 in February 2017. The proposals in this report have been developed by officers in consultation with relevant Cabinet members. Management Board has reviewed and endorsed the draft budget.
- 3.1.2 The draft budget proposals and options presented in this report will be subject to a period of public consultation prior to final recommendations being made to Council by Cabinet in February 2017.

3.2 Issues

Economic Context

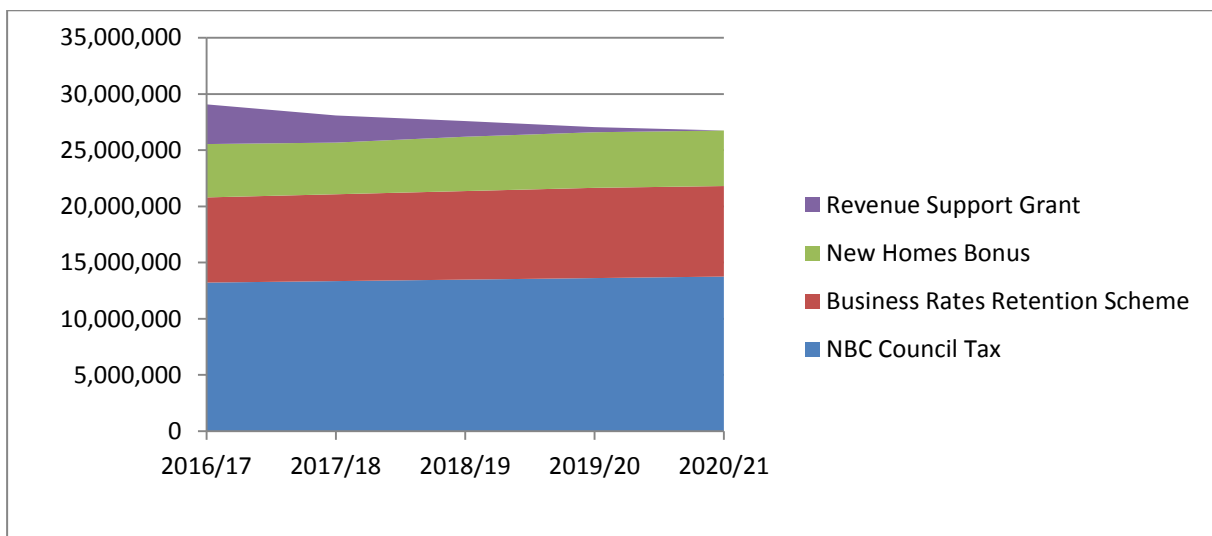
- 3.2.1 The national and global economic outlook has shifted over the last 12 months, due to the outcome of the referendum on June 23rd leading to the UK's proposed withdrawal from the European Union, and more recently the outcome of the presidential election in the United States. The impact on the Borough Council's budget and medium term financial plan are:
- Reductions in GDP growth forecasts, which are likely to reduce the level of any growth in business rates income.
 - Demand for housing currently remains strong and this is of benefit to Northampton's growth strategy.
 - Inflation is expected to increase from current rates (CPI 0.9%, RPI 2%) over the next 12 months as the impact of the fall in the value of the pound feeds through into consumer prices. This will potentially lead to inflationary pressures within the Council's budget.
 - Interest rates are forecast to stay low over the medium term. The Bank of England base rate was reduced to 0.25% in August 2016 and is not expected to rise in the short term. These reduced interest rate forecasts have a significant negative impact on the Council's income from interest on cash balances. On the positive side, PWLB borrowing rates are also low making longer-term borrowing to fund investments more attractive.

Sources of Funding

- 3.2.2 The main sources of funding for the Council's net General Fund revenue budget are Council Tax, Business Rates, New Homes Bonus and Revenue Support Grant. The balance between these is expected to change significantly

over the 5 year period of the Medium Term Plan, with Revenue Support Grant falling to zero by 2019/20.

- 3.2.3 Council Tax – The Band D Council Tax for Northampton Borough Council has been frozen or reduced in each of the last 4 years, supported initially by a Council Tax Freeze Grant. This grant no longer exists and the government funding settlement assumes that Council Tax is increased by the maximum allowable without triggering a referendum, which for the Council is £5 per year. This increase has been built into the Medium Term Financial Plan.
- 3.2.4 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. This volatility is enhanced by the rates revaluation which will impact from April 2017, which may prompt further appeals. The five-year forecasts reflect an average inflationary increase in business rates income of 1.2% per year. The government’s policy is to move to 100% local business rates retention from 2020, further details are required in order to model the impact.
- 3.2.5 New Homes Bonus – this has been a significant source of funding in recent years (£4.9m in 2016/17). The revamp of the scheme announced in the 2015 Spending Review is likely to lead to a significant reduction in this source of income for the Council. The consultation issued in early 2016 suggested that the payment period be reduced from 6 to 4 years (a 33% reduction) and the government consulted on a “preferred option” to save a total of £800m, which will be redirected to Social Care. The details are yet to be finalised, but in broad terms this could represent a 66% reduction in the NHB pot nationally. The final shape and likely impact of the revised scheme will be clearer after the provisional local government finance settlement is announced.
- 3.2.6 The graph below shows how the balance between these sources of funding was expected to change for the Borough Council over the next five years, based on the February 2016 forecasts. The total falls significantly over the period and shows a significant shift from central to local funding. Revenue Support Grant is set to fall to zero in 2019/20.



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

Enterprise Zone

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

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

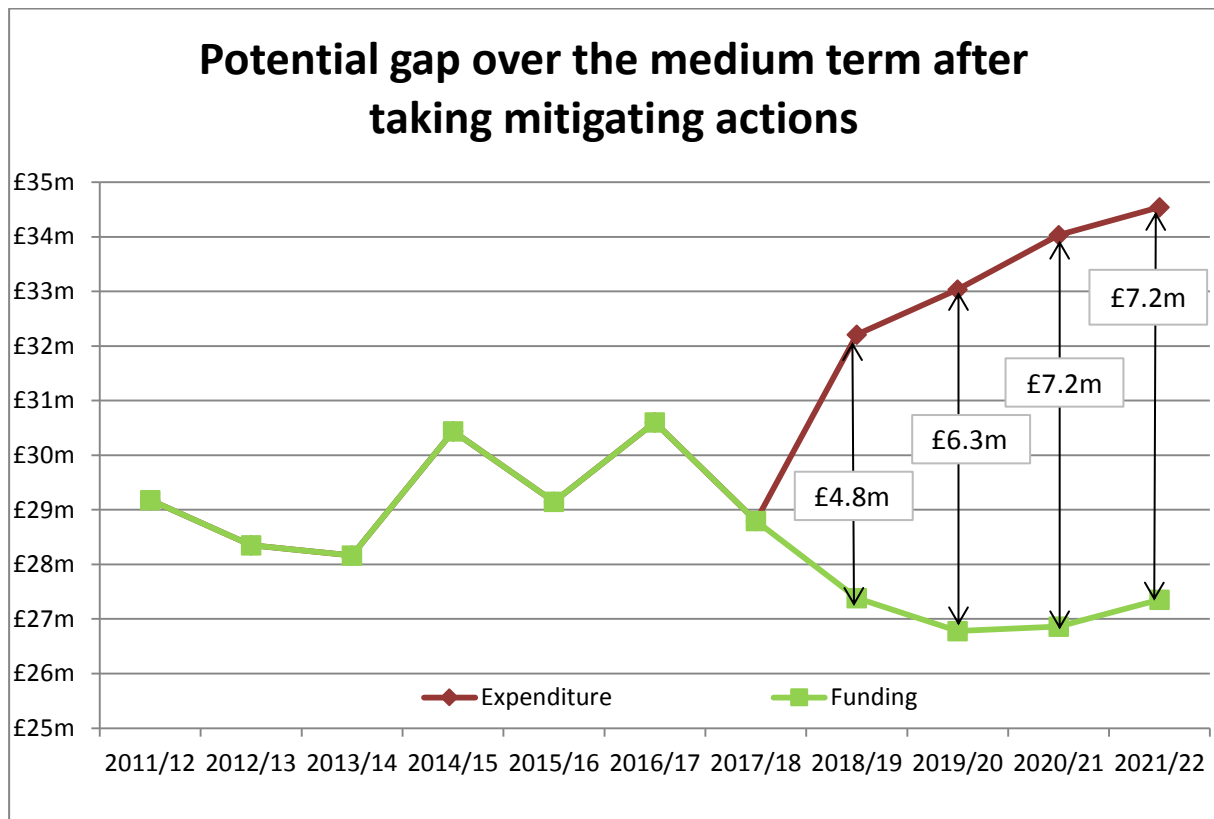
3.2.10 The SEMLEP board in November 2016 approved the principle of a £10m local infrastructure funding facility (LIF). This will enable further upfront investment to bring EZ sites forward for development to generate business and job growth, and an increase in business rates. Any proposals to utilise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

Medium Term Financial Plan

3.2.11 The Medium Term Financial Plan provides a forecast of the Council's expenditure and income over the next five years. The forecasts, detailed in Appendix 1, show the need to make substantial year-on-year savings, rising to £7.2m by 2020/21. The focus of activity is on the delivery of the Efficiency Plan in order to eliminate this medium term gap. The budget for 2017/18 has been balanced through a robust review and challenge of base budgets. These have been right-sized, for example ensuring that the budgets for Planning and car park income reflect actual income over the last few years, and the debt financing budget has been thoroughly reviewed and assumptions updated. This right-sizing has mitigated against demand pressures in the budget, most notably an increase of £570k in General Fund Housing due to the increase in homelessness – average numbers have increased from 60 to 140 per month.

3.2.12 One of the significant reasons for the increasing budget gap is the potential cost increases forecast to result from the retendering of Environmental Services, with the new contract due to come into force in June 2018. This is a significant project for the Council and as part of this there will need to be a balance drawn between quality of service and cost of delivery.

3.2.13 The graph below illustrates the growing gap between forecast expenditure and funding. This position is likely to change when the full implications of the Local Government Finance Settlement are known. The forecasts will be kept under constant review.



Efficiency Plan

3.2.14 As part of the Local Government Finance Settlement in February 2016, the Government made an offer to Councils to improve medium term planning by setting minimum levels of Revenue Support Grant over a 4 year period. In order to secure this minimum level of funding Cabinet in September approved an Efficiency Plan and this was submitted to government by 14th October

3.2.15 As well as securing the benefits above, the Efficiency Plan is essential to delivery of a balanced budget over the medium term. The scale of the savings that the Council needs to find requires a fundamental review of the way in which services are provided, as well as the range and scope of those services. Work has begun and is progressing across the following themes, as detailed in the Efficiency Plan:

- Economic Growth – to prioritise new ways of delivering investment and sustaining revenue streams
- 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.

- Exploiting Commercial Opportunities – The Council will use its substantial asset base to deliver commercial income, through a combination of redefining an asset's use in order to maximise income and through disposal of underutilised assets. This workstream will also look at options to invest in new assets that generate a good rate of return. There may be a need for significant capital investment which will need to be closely scrutinised to ensure that it is affordable, prudent and sustainable.
- Being more efficient - All services will continue to review their working practices to ensure that they deliver high quality services at the lowest possible net cost.

3.2.16 The targets in the Efficiency Plan are sufficient to bridge the forecast gap in the MTFP and are monitored closely by Management Board. The Council's proposed new governance arrangements include a specific officer board focussed on the delivery of the Efficiency Plan and associated improvement projects. Meeting the target for 2017/18, which was largely about right-sizing budgets, has enabled a balanced budget to be proposed.

General Fund Revenue Budget 2017/18

3.2.17 The proposed net budget for 2017/18 is shown in Appendix 1 and summarised in the table below. A balanced budget has been achieved through the Council's prudent financial management and continued commitment to delivering efficiency savings.

Description	2017/18 £000s
Service Base Budget	28,843
Proposed Growth	15
Proposed Savings	(15)
Corporate Budgets	(102)
Contribution to Reserves	54
Net Budget	28,795
Revenue Support Grant	(1,793)
Transition Grant	(24)
Business Rates	(7,595)
New Homes Bonus	(4,112)
Council Tax	(14,933)
Collection Fund Surplus	(338)
Total Funding	(28,795)
Savings to be identified	(0)

As part of setting its General Fund Revenue Budget the Council has undertaken a rigorous review of its Service Based Budget. This process has identified £0.6m of efficiency savings and realistic income targets which are included as part of the Service Base Budget.

Fees and Charges

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

Council Tax

3.2.19 The draft budget for 2017/18 assumes an increase in the annual Council Tax of £5 per band D property. This is the maximum increase allowed without triggering a referendum and is consistent with Central Government assumptions in the funding settlement.

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

	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Northampton Borough Council	208.19	207.91	207.91	207.91	212.91
Northamptonshire County Council	1,028.11	1,048.57	1,069.02	1,111.25	TBC
Northamptonshire Police & Crime Commissioner	193.20	197.04	200.96	204.96	TBC
Total	1,429.50	1,453.52	1,477.89	1,524.12	TBC

3.2.21 The Council charges special expenses to its residents as part of its Council Tax charge. This special expense charge is primarily used to contribute to the costs of maintaining parks and open spaces in the Borough. Because these smaller parks and open spaces are not evenly distributed across the borough, the special expense charge (unlike the main council tax element) differs across the parishes of the Borough. The mechanism for calculating the special expense charge had not changed for a number of years, so a review of this mechanism has been carried out during the last year. This review has shown that some of the figures used in this mechanism should be updated to recognise the true current cost of maintaining these parks and open spaces. As a result the special expenses calculation has been refreshed for 2016/17 leading to some small changes to the special expenses being charged.

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

Capital Strategy

3.2.23 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 overall strategy remains the same as that approved by Council in February 2016 and has not therefore been updated.

3.2.24 However, the governance arrangements that support the delivery of the capital strategy and programme are being reviewed and tightened. Schemes will initially be approved into a "Development Pool" pending the development of a robust business case and the confirmation of costs. Only after this would budgets be allocated and expenditure on the proposed scheme be allowed. Full details of the new capital governance arrangements will form part of the final budget report. The Council's proposed new enhanced governance arrangements include stronger Member oversight of changes to the Capital Programme and close Management Board monitoring of the achievement of scheme objectives.

General Fund Capital Programme 2017/18 to 2021/22

3.2.25 The draft General Fund Capital Programme and Funding for the next 5 years is detailed in Appendix 3 and summarised in the table below. The value of the proposed programme for 2017/18 is £13.6m. Proposed new schemes support the continued regeneration of the borough, through further public realm works on Fish Street, and improvements to town centre traffic management.

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

3.2.27 Further significant schemes supporting the achievement of the Efficiency Plan may be brought into the capital programme over the next 12 months, supported by robust capital appraisals and business cases. This will include schemes proposed under the Local Infrastructure Fund as detailed in paragraph 3.2.10.

Description	Budget 2017/18
	£000s
Disabled Facilities Grants	1,475
IT Improvements	150
Town Centre Improvements	205
Heritage and Culture	8,633
Block Programmes	800
Other	117
Development Pool	2,191
Total GF Capital Programme	13,571
Funding Source:	
Borrowing (incl. self-funded)	2,012
Growing Places Fund/ Local Infrastructure Fund	1,000
Capital Receipts	6,078
Grants & Developer Contributions	3,994
Contribution from Revenue Reserves	487
Total Funding	13,571

Earmarked Reserves

3.2.28 Earmarked Reserves are held to mitigate against specific risks as well as for regulatory reasons, such as grant conditions. They were thoroughly reviewed and realigned by Cabinet in September 2016 in order to ensure that they are focussed on the achievement of the Efficiency Plan. Contributions to and from reserves will be adjusted for future years as the forecasts of government funding are updated.

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

3.2.30 General Fund Reserves as at 1st April 2016 stood at a total of £25.9m. A breakdown following the September realignment is shown in the table below.

	Balance 1st April 2016	Purpose
Service Specific Earmarked Reserves	£3.6m	To cover specific known spending commitments
Corporate Earmarked Reserves	£14.6m	Held to mitigate against corporate risks and to fund future budget pressures
Technical Reserves	£2.2m	To deal with technical accounting differences across financial years
Minimum Level of General Reserves	£5.5m	To cover general unquantified risks
Total General Fund Reserves	£25.9m	

Treasury Management Strategy

3.2.31 The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. It is a requirement under the Treasury Code of Practice to produce an annual strategy report on proposed treasury management activities for the year. The Council's Treasury Management Strategy (TMS) for 2017-18 is attached at Appendix 5.

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

- The Affordable Borrowing Limit for 2017-18
- The Council's policy on the Minimum Revenue Provision (MRP) for the repayment of debt
- The Investment Strategy for 2017-18
- The Prudential and Treasury Indicators for 2017-18 to 2021-22
- The Council's policy on borrowing in advance of need
- The Council's counterparty creditworthiness policy

Consultation

3.2.33 Formal consultation with the public and stakeholders including local businesses will be launched in December 2016 and will continue until the budget is formally adopted in February 2017 in line with an agreed consultation programme. An online questionnaire will be available until 31 January 2017.

3.3 Choices (Options)

- 3.3.1 Cabinet can agree the revenue and capital budget proposals and proposed Council Tax increase detailed in this report or propose changes, subject to the advice of the Chief Finance Officer.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The revenue and capital budgets are set in support of the Council's priorities and within the context of the Medium Term Financial Plan and Capital Strategy.

4.2 Resources and Risk

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

4.3 Legal

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

4.4 Equality and Health

- 4.4.1 The Public Sector Equality Duty (PSED) requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out its activities. Failure to comply with this duty would be challengeable in the courts.

4.4.2 Equality and diversity is considered as part of budget construction and a Equality and Community Impact Assessment is published as part of the budget consultation documents. Equality and diversity were considered as part of each of the medium term planning options submitted. Equality impact assessments are 'living' documents and will be updated to take into account relevant feedback from the consultation process. Where these documents identify mitigating action, this will be undertaken in implementing the relevant option should it be taken forward and approved in February 2017.

4.5 Consultees (Internal and External)

4.5.1 Internally heads of service and budget managers have been consulted and Management Board has carried out a detailed challenge of the budget with Members. As options developed relevant stakeholders were engaged as appropriate.

4.5.2 This paper is to agree to put out a draft capital and revenue budget and Council Tax to public consultation, which will be undertaken with the general public, partners of the Council and businesses. This is in line with best practice and the statutory requirements of the Local Government Finance Act 1992.

4.6 How the Proposals deliver Priority Outcomes

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

4.7 Other Implications

4.7.1 None not already covered above.

5. Background Papers

5.1 None

5.2 Appendices

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

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