

Appendices
None



Report Title	Report by the Chief Finance Officer on the Robustness of Budget Estimates and Adequacy of Reserves
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	19 February 2020
Key Decision:	NO
Within Policy:	YES
Policy Document:	YES
Directorate:	Chief Executive
Accountable Cabinet Member:	Cllr B Eldred
Ward(s)	N/A

1. Purpose

- 1.1 To advise the Cabinet 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 (HRA) before recommending to Council the medium term financial plan (MTFP) 2020/24, the revenue budget for 2020/21, capital programme 2020/24, reserves levels and the treasury management strategy 2020/21.

2. Recommendations

- 2.1 That Cabinet recommend to Council to carefully consider the content of this report with regards to the general fund and HRA prior to recommending the approval of the Council's MTFP 2020/21, the revenue budget for 2020/21, capital programme 2020/24 and the treasury management strategy 2020/21.

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 Issues

- 3.2.1 The Council is setting its budget at a time when it faces a range of issues to contend with. In broad terms these can be split into 3 categories; economic, local government and local.

3.2.2 Economic

There continues to be uncertainty around the national and global economic outlook, caused by various factors including the UK's withdrawal from the European Union (EU).

- 3.2.3 The Bank of England's monetary policy report from November 2019 reported that growth in the UK economy had been volatile during 2019, but that overall, growth had slowed. This is partly because of Brexit preparations, and partly due to lower growth elsewhere. Inflation was reported as just below the 2% target, and it is expected to fall further in 2020, but then to rise gradually to a little above 2% after that.

3.2.4 Local government

The provisional local government settlement was published by the Department of Housing, Communities and Local Government on the 20 December 2019. Some of the headlines from this settlement were as follows:

- New Homes Bonus will continue for another year but will then be phased out by 2023/24;
- A reduction in the maximum increase in core band D council tax from 2.99% (or £5.00) to 1.99% (or £5.00);
- Settlement funding assessment increases in line with the multiplier (1.6%).

3.2.5 Local

The 2020/21 budget setting process was done in the context of the proposed local government reorganisation and creation of a new unitary authority. Whilst this means that Northampton Borough Council may cease to exist in its current form beyond 2020/21, the budget set for that year must be sustainable. Therefore, forecasts are prepared for three financial years beyond 2020/21 on an existing 'ongoing' basis.

3.3 Risks and mitigations

The budget report presented to the Cabinet on 19 February 2020 sets out the councils proposed medium term financial plan (MTFP). The assumptions on which the MTFP is made are robust and are based on the most up to date intelligence available. However, as with any assumption, there is an element of risk that the reality will be different. The following assumptions in the MTFP contain the most risk:

3.3.1 General fund revenue

- a) Government funding.** Government grant income is based on known (settlement funding) or reasonable assumptions concerning future entitlement.
- b) Business rates retention.** The current assumption is for the level of business rates in 2020/21 to be £9.3m, including £0.8m of actual growth achieved in 2018/19. The actual level of business rates for 2020/21 will not be known until after the end of the financial year, and it should be noted there is a high level of uncertainty over the level and timing of business rates income. It is for this reason that growth achieved over and above budgeted levels from two years previous (hence £0.8m growth from 2018/19) has now been released into the MTFP as this provides some certainty. However, risk still remains around business rates appeals where the Council has made assumptions regarding success rates.
- c) Council tax.** A clear strategy on the Council's policy for council tax levels over the MTFP period is an essential part of a council's financial planning. The MTFP includes an assumption that the Council will increase council tax by £5.00 or 1.99% (whichever is greater) in 2020/21 and future years – this is the maximum amount permitted without triggering a referendum.
- d) Delivery of proposed savings.** The MTFP includes savings to be achieved of £1.387m in 2020/21 – these are itemised in the budget report at appendix 2. There is risk of non-delivery of these savings due to the financial quantum and complexity associated with delivery. This risk will be mitigated by monitoring the progress of these savings targets.
- e) Northampton Partnership Homes (NPH).** The Council created NPH in January 2015 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 (for example, certain housing responsibilities such as Housing Choice) and indirectly through recharges by NPH. The risks are mitigated through the governance structures and the involvement of the Chief Finance Officer and his representatives in those governance structures. This includes regular meetings between the Chief Finance Officer and NPH Resources Director.
- f) Employee costs.** Pay inflation has been assumed to be 2% for 2020/21 and across the MTFP period.

- g) Demand led budgets.** There are some services which historically have had higher levels of financial risk associated with them, including car parking, development/planning income, and homelessness/temporary accommodation. The position on each of the demand led budgets is reported to Corporate Management Board in the monthly financial monitoring report. This provides senior management with enhanced information about the cost and service demand levels to take informed judgements about maximising demand on income generating activities and reducing/mitigating demand on cost consuming activities. Cabinet receive bi-monthly budget monitoring reports, highlighting material risk and variance areas.

3.3.2 General fund capital

- h) Large capital schemes.** There are a number of high profile capital schemes to deliver over coming years including Vulcan Works and Environmental Service Vehicles.
- i) Waterside enterprise zone.** There has been significant capital investment relating to improved infrastructure in the enterprise zone over recent years. The bridging funding of this investment is from various sources including the Growing Places Fund. The ultimate repayment of this bridging finance is reliant on the delivery of business rates uplift.
- j) New schemes.** The capital budget proposals include a number of large new items, which are being investigated and will receive full economic and financial appraisals. These include enhancements to the Racecourse sports facilities, IT infrastructure refresh and a footbridge replacement scheme.

3.3.3 Housing Revenue Account (HRA)

- k) Government policy change.** Since the introduction of self-financing in 2012 there have been a host of government policy initiatives that have impacted upon housing finances. Some of the major impacting ones are the legislative backed 1 % rent reductions for 4 years from 1 April 2016, the encouraging of right to buy (RTB) by increasing RTB discounts, and the introduction of Universal Credit and Benefit Cap. More recently the Government has pledged to spend an additional £2bn on affordable housing and a new policy will come into effect from 1 April 2020 for future rent increases from 2020/21 with increases to be capped at CPI plus 1% for 5 years.

- l) Northampton Partnership Homes (NPH).** NPH, a wholly owned arms length organisation of the Council, provides the Council's landlord function, plus other housing functions. NPH is funded by a management fee from the Council. In addition NPH receive monies to deliver repairs and maintenance services and capital improvements to the Council's housing stock. The total fee paid to NPH is the financial representation of the management agreement between the two parties and has been sub divided into six component parts. As with any arms length 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 total 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 total fee. The financial performance of NPH will be closely monitored by the Chief Finance Officer through regular meetings with the NPH Resources Director.

3.3.4 Housing Revenue Account – capital

- m) The asset management plan.** The asset management plan has been reviewed and updated by NPH with the latest information from the stock condition surveys. In addition to this included in the draft capital programme is a significant investment in the Council's new build and major works 2020/21 programme (£20.9m to deliver over 100 new homes in year), reflecting the removal of the HRA debt cap from October 2018 and the new ability to prudentially borrow within the HRA. This has been included in the draft budget and will inform the refresh of the Council's HRA business plan for 2020/21. The HRA capital programme has been developed within the context of the 30-year business plan and the existing asset management plan. The capital programme has a direct impact on the revenue position of the HRA.

3.3.5 Treasury management

- n) The Council has entered into a number of loan agreements with local partners.** Risks are assessed with due diligence undertaken. Loan agreements are in place to mitigate the risks including proposed repayment schedules; interest rates charged on the loans; assessments against state aid implications; and appropriate security. The repayment of loans are monitored regularly.
- o) 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, Link Asset Services.
- p) Sixfields and recovery of NTFC loan monies.** The Council is in the process of attempting to recover the loan monies lent to Northampton Town Football Club (NTFC). The Council should closely monitor progress on this activity. In particular the costs associated with the recovery of monies will need to be monitored to ensure value for money is being achieved.

3.4 Forecast reserves and balances

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

3.4.2 Minimum levels of working balance

The risk assessed minimum level of general fund balances for 2020/21 is £3.0m and reflect the risks being faced by the Council, with a prudent level of £4.0m included in the budget setting. This is the same level as in 2019/20. The risks

assessed in respect of housing related services is reflected in the prudent level of £4.0m with an absolute minimum of £3.0m.

- 3.4.3 The working balance for the HRA continues at £5m.
- 3.4.4 The underlying minimum level of working balances necessary to mitigate against short to medium term risks will be reviewed, along with the levels of earmarked reserve, on an annual basis.

3.4.5 Use of earmarked reserves

Earmarked reserves are set out for specific purposes. There is a planned net contribution to earmarked reserves within the 2020/21 revenue budget of £0.834m.

3.5 Conclusion

- 3.5.1 Based on the assumptions made in the 2020/21 budget and MTFP for income and expenditure the Council can set a balanced financial position for 2020/21.
- 3.5.2 However, due to the continued reduction in government funding and forecast pressures on services the Council is facing a significant deficit budget of around £2.6m by 2023/24.
- 3.5.3 Whilst in the next financial year the Council's financial position is sustainable, beyond this there are well publicised financial challenges facing the whole sector. The Council (or any new entity resulting from the Local Government Reorganisation) will need to ensure it makes the right decisions over the short term to ensure it rises to these challenges over the medium to long term. Such a strategy could include maximising all income streams; sharing services with other councils and partners where possible; being more commercial; continuing to generate efficiencies; and influencing the risks faced to optimise the Council's future financial viability.
- 3.5.4 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.

3.6 Choices (options)

- 3.6.1 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 HRA.

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 2020/21 are robust within the parameters outlined 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 and the implications are set out within the report. This report 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 and health

- 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 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.

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 Environmental implications (including climate change issues)

4.7.1 Environmental implications were considered as part of each of the options put forward in the budget setting process.

4.8 Other implications

4.8.1 None not already covered above.

5. Background papers

5.1 General fund budget report

5.2 HRA budget report

**Stuart McGregor,
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