Agenda Item 9.

# Finance & Performance Sub-Committee
# 11 February 2019

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

**Purpose of report**

To advise the Council on the robustness of the estimates in the budget and the adequacy of the proposed financial reserves before recommending to Council the Medium Term Financial Strategy 2019/24, Capital Strategy, the Revenue Budget for 2019/20, Capital Programme 2019/29, Reserves levels, Capital Strategy and Treasury Management Strategy 2019/20.

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**1.0 Background**

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.

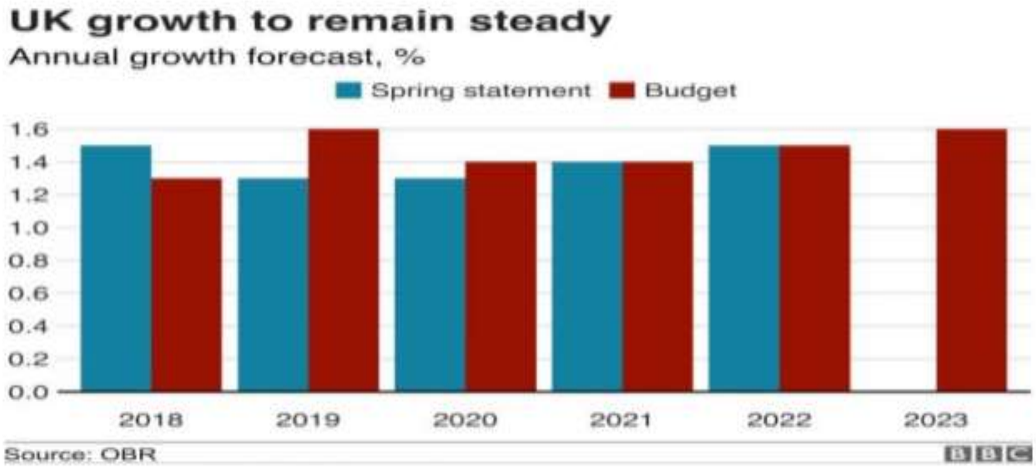
1.2 Section 25(2) of the 2003 Act requires the Council to have regard to this report in approving the budget and Council Tax.

**2.0 Context**

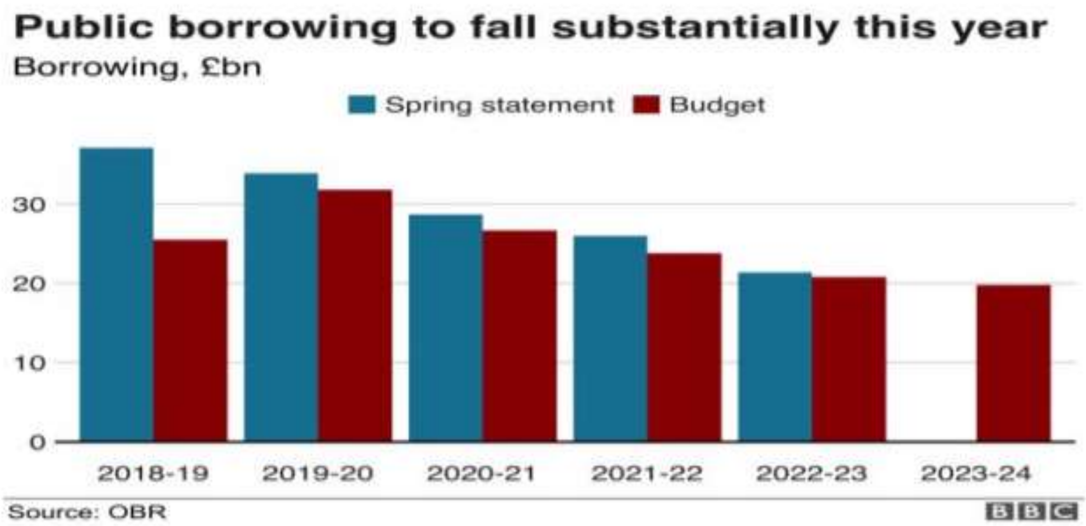
2.1 The Council is setting its budget at a time when it faces a range of issues to contend with. In broad terms these can be split into 3 categories; economic, local government and local. Each of these are explored below:

2.2 Economic
In 2018 the estimated annual growth in the UKs Gross Domestic Product (GDP) was around 1.3%. Based on forecasts by the Office for Budget Responsibility this growth is expected to be slightly higher in 2019 at 1.6%, and then broadly continue at this rate over the medium term. There is a major risk to these forecasts as the impact of Brexit on the economy is not clear at present.

2.3 The graph below shows the forecast annual growth increase in GDP over the next 5 years. The pace of the increase is broadly the same between the Spring and Autumn Budgets in 2018.



2.4 In the Autumn Budget 2018 the Chancellor announced that the new government borrowing deficit would be less than estimated in the Spring Budget 2018 for years over the medium term. This has enabled the government to announce extra funding for the Health Service. However, it is anticipated that there will be continued austerity measures for the rest of the public sector beyond 2020. These austerity measures are likely to be reflected in less government funding for local government and in general economic conditions which could affect collection levels on business rates/council tax and planning fee income.




2.5 Local Government

Since 2010 Government funding for local government has reduced by approximately 40% in real terms. The 2019/20 financial year is the last year of the four year deal for local government. This creates uncertainty for planning future budgets for the medium term. During 2019 it is anticipated there will be a number of announcements with regards to local government finance, including:

- A Spending Review which will set the level of resources for local government. At this stage it is unclear what period of time this will cover.
- Switch of funding toward councils with social care responsibilities
- Further proposals to change the New Homes Bonus
- A review of how local government funding is allocated, with a view of it being fairer and based on need. The government is consulting on a new scheme.
- Proposals to move to a 75% business rates retention scheme. The government are currently consulting on the new scheme.

2.6 In addition to the continuing austerity measures it is anticipated there will be further changes to Government policy which councils will be expected to implement.

2.7 In October 2016 the Council accepted the Government's Four Year Funding Offer which provided certainty for some funding sources until 2020. The last year of this is 2019/20. Beyond this funding estimates are based on informed extrapolations rather than known figures.

2.8 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 has led to a re-distribution, albeit over time, of local government funding. There will be a further opportunity for Government to redirect resources when enhanced Business

Rates Retention is implemented as a review of fairer funding is being undertaken which is anticipated to equalise current perceived inequality of how baseline funding from Government is allocated to councils. Given the Council has benefitted from a growth in its business rates in recent years, a re-basing is likely to have a negative impact for East Northamptonshire. All of these changes present significant risks to the Council over the period of its Medium Term Financial Plan.

2.9 Local

Over recent budget planning rounds the Council has implemented a financial strategy which has delivered contributions on an annual basis to its reserve levels, sold assets to finance its capital expenditure so that it does not need to rely on borrowing money and implemented efficiencies to reduce, in real terms, the council's operations.

2.10 Specifically, during 2018/19 the Council has made good progress in delivering its MTFS, the primary areas being:

- The purchase of a site for a planned Enterprise Centre which is expected to generate positive cash flows for the council.
- Delivery of revenue budget savings and operating at a surplus in its revenue budget for 2018/19.
- The continued realisation of increases in business rates, particularly at Rushden Lakes, and council tax due to growth.
- The continued identification of areas where the Council can operate more efficiently and effectively by the Business Transformation Team and the implementation of some of those efficiencies.
- An IT Strategy review is being implemented and has resulted in on-going savings.
- Creating of shared service and exploiting the benefits of joint working with neighbouring councils.
- Improving financial governance, procedures and processes.

2.11 However, and despite the improvements mentioned above, the Council continues to face significant external challenges that it will need to manage over the medium term. There are still a number of actions and mitigations that are in the process of being implemented, potential pressures on the renewal of the waste recycling disposal contract, the financial position of the County Council and the impact of County Council budget proposals on the Council.

2.12 In addition the council is facing the uncertainty of local government reorganisation across Northamptonshire. The latest position is that the government is consulting on the decision of 7 (out of 8 councils) in Northamptonshire to move from the current two tier system into a two unitary model. A formal decision by the Secretary of State to form the new councils is expected during the 2019/20 financial year. The budget for 2019/20 and MTFS is based on the assumption the council will be continuing in its current guise. However, this likely to change during the course of the year.

2.13 As mentioned previously, the MTFS and the Efficiency Plan is only a plan. The biggest challenge will be for the Council to deliver it.

## 3.0 Medium Term Financial Strategy (MTFS) 2019/20 to 2023/24

3.1 The MTFS is a key part of ensuring the Council's future. The approach during the 2019/20 budget planning round has been to update the previous year's MTFS for any changes to assumptions, local policy changes, national policy changes and known risks. The Council's Corporate Management Team has been maintaining a constant eye on the MTFS since March 2018 and has taken action to reduce costs, increase income and make the organisation more efficient.

3.2 Key assumptions, risks and mitigations

The Budget Report presented to the Finance and Performance Sub Committee on 11 February 2019 sets out all of the assumptions which underpin the MTFS. These assumptions 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 MTFS contain the most risk:

- **Government funding.** The current assumption is as announced in the Local Government Funding Settlement for 2019/20 and extrapolated indicative allocations for the 4 subsequent financial years. The Council took up the Government's Four Year Funding Offer in October 2016, and 2019/20 is the last year of this deal. Over this period there has been an aggressive reduction in RSG. The reductions in funding for districts councils are faster and deeper than previously envisaged as Government has changed its methodology for allocating grant on two fronts, moving monies away from rural areas to urban areas and towards councils with social care responsibilities. It should be noted there are 3 areas of significant uncertainty in the Council's funding after 2020:
    - Spending Review. The date of the next Spending Review is yet to be announced but when it is it will determine the amount of money available for local government as a whole from 2020/21. It is unclear if this will be a one year or multi year Spending Review.
    - Fair Funding Review. As part of the provisional settlement it was announced that a number of proposals would be consulted upon over the coming months. The outcome of this consultation is planned to be reflected in councils funding allocations from 2020/21. Any review will see winners and losers from a funding perspective with appropriate transitional arrangements being in place.
    - Business Rates Retention (BRR). The Government has announced that it intends to extend BRR from the current 50% scheme to 75% from 2020/21. On the face of it this should benefit the Council. However, it should be noted there is the potential for Government to amend the methodology for allocating resources, as part of the Fair Funding Review, when Business Rates retention is introduced. The government has issued a number of proposals for 75%BRR which it will consult on over the next few months.
    - 75% BRR Pilot. Northamptonshire was successful in its bid to become a pilot for the new scheme. This could see an extra £17m compared to the existing BRR scheme coming into the county. The governance arrangement for this additional monies will see all of the £17m being allocated into a Sustainability Fund to be allocated across the county in accordance with approved governance arrangements. As such the additional monies have not been factored into the draft budget 2019/20.

- **New Homes Bonus (NHB)**. The Government undertook a review of the NHB system in 2016. The reductions arising from this review have been reflected in the MTFS forecasts. It should be noted there is no certainty over the NHB scheme continuing beyond 2019/20. Any proposals for change are anticipated as part of the announcements on local government funding for implementation in 2020/21.

- **Business Rates Retention.** The current assumption is for the level of business rates in 2019/20 to grow to around £33m from 2018/19's projected baseline of £31.9m. The Council is likely to retain around £3.6m with a further £0.5m generated by "pooling" with other councils in Northamptonshire. The level of business rates income has increased substantially in the last 2 years with the opening of the Rushden Lakes development. The actual level of business rates for 2019/20 will not be known until after the end of the financial year. Beyond 2019/20 there are assumptions included in the MTFS regarding the level of expected Business Rates. The baseline includes actual growth at Rushden Lakes, but that by its very nature existing business rates is still volatile and subject to movements due to market fluctuations and appeals.

The Council has also made assumptions around business rate appeals. Currently there are 110 appeals outstanding with a total rateable value of £24.0m an estimated potential impact of £2.9m on the total level of business rates.

- **Council Tax.** The Council's strategy with regards to the level of council tax for 2019/20 is unclear as a firm position will not be known until Council meets on 4 March 2019. The MTFS therefore assumes no increase in 2019/20 or over the MTFS period.

  The Government's position with regards to council tax has changed significantly in recent years. At present the Government, through its Core Spending Power, is assuming councils will increase their council tax to maintain services. For East Northamptonshire Council, the Government is assuming the council will increase its council tax by £5 per year in 2019/20. In addition, the Government is assuming an increase in our taxbase of around 3% per annum. This assumption includes an expected increase in relation to council tax support and new housing growth.

  A clear strategy on the Council's policy for council tax levels over the MTFS period is an essential part of a council's financial planning. In establishing a strategy for council tax, the Council is reminded of the financial challenge faced by the organisation over the medium term and the potential need to harmonise council tax rates to the levels of other councils in North Northamptonshire if a new unitary councils was created in 2020. The Chief Finance Officer strongly recommends the Council establishes a clear policy for the medium term. An increase of £5 would generate an additional £160,000 per annum.

- **Localisation of council tax support (CTS).** The current assumption is that the shortfall arising from the Government funding for CTS in 2019/20 will be met from council tax discounts/exemptions and a 20% council tax liability for those entitled to CTS. This is no change from 2018/19 and is expected to be broadly cost neutral with regards to the impact on the wider council tax payer given ongoing reductions in government grant to finance the gap. The risk is that the actual position is different from the budget at the start of the year as the final position won't be known until the end of the financial year. Extensive modelling has been undertaken to provide the Council with assurance of the financial impact. The primary reason for maintaining the liability at 20% is to ensure a balance between a cost-neutral scheme for all taxpayers and ability to pay from receivers of the support. Beyond 2019/20 it is assumed any additional costs arising from reduced government funding are mitigated by reductions to the CTS scheme. If a unitary council is operational from April 2020 the harmonisation of CTS schemes will need to be considered.

- **Waste Contracts Re-procurement**. The waste collection contract commenced in August 2018. The budget reflects the estimated position of the signed contract. However, it should be noted that elements of the contract are dependant upon the level of demand for the service. This means the level of the contract could change. The waste team will continue to model the impact of the new contract against the budget provision and report any changes through the financial monitoring process. The Council is currently in the process of procuring its waste collection and recycling contracts. The Budget and MTFS being considered for approval is based on a best estimate of the likely costs. As such there is potential for the figure to change when the contract is awarded.

- **Housing and Homelessness**. In recent years the Government have implemented or made announcements which will affect social housing in England. These have included a 1% reduction in social rents per annum for the next four years and an extension of Right To Buy. Both of these changes will also affect Housing Associations and their tenants. As a result the Housing Associations will have less income to provide social housing in the district, although this is planned to be offset in the case of Right To Buy. This has started to have an impact on the Council's homelessness budgets. It should be noted that there has been a significant pressures on neighbouring councils' homelessness budgets, and whilst the impact has been minimal so far in East Northamptonshire the Council should take steps in order to mitigate any pressures., This could include continuing to invest in prevention and considering strategies which would mean the Council would not be faced with additional high temporary accommodation costs, for example hotel Bed and Breakfast rates.

To mitigate the effect of this the Council will need to work closely with its Housing Associations and closely monitor the knock-on implications on its homelessness budgets.

- **Demand led budgets**. The Council has a number of demand led budgets where it is difficult to estimate the level of usage for a service and the level of income that will be realised. Such budgets include planning fees, building control and licencing. Robust modelling based on both historic and future expectations of demand been undertaken and reflected in budget estimates. However, there is the risk that the actual position will be different to those assumptions. The budget monitoring, performance management and control processes will identify any such variations and report the position to management and councillors, including any mitigating action being taken.

- **Universal credit**. The picture for implementing universal credit continues to emerge and evolve. However, the implications for the Council's finances still remain unclear. Indications from the pilot councils show there could be an impact on the Council's budget. The Council will mitigate this risk by using its intelligence networks to estimate the financial impact as information emerges.

- **Employee Costs and Vacancy Factors.** Pay inflation has been assumed to be 2% for 2019/20 and across the MTFS period. This is in line with government announcements on public sector pay. In addition the council is planning to move to the national pay scales, the costs for which have also need reflected into the budget. Prior to the 2015/16 financial year the Council had budgeted for a full establishment. However, due to vacancies arising from staff turnover, the budget had been consistently underspent. The Council has experienced an average staff cost variance of 4.6% during this period. Vacancy factors have been included in the budget since 2015/16. These will be closely monitored via Finance Sub-Committee and CMT. These vacancy factors will continue in the 2019/20 budget and MTFS at a level of 3.5% (£200k).

3.3 Within the period of the MTFS there is expected to be an annual surplus in all years which will lead to a contribution to reserves. It should be noted that whilst estimates of government funding and business rates are based on current methodologies and best intelligence there is a risk of change from 2020/21 due to potential changes to the local government funding regime.

3.4 The budget for 2019/20 and across the medium term incorporates the financial benefits arising from a number of Efficiency Plan work streams:

- Delivered:
  - Economic growth in terms of houses built and businesses in the district being ahead of targeted levels, particularly Rushden lakes, leading to additional income for the Council.
  - Being more efficient due to the realisation of cost reductions following process reviews by the Council's Business Transformation team.
  - Better procurement with higher-than-expected contributions being received by the Council from the recently procured leisure contract.
  - Better procurement with work being undertaken to re-procure the Council's waste services.

- Working in partnership with BC of Wellingborough on the IT Strategy
- . Planned for delivery
    - Enterprise Centre

3.5 However, there are a number of uncertainties the Council faces over the period of the MTFS which are not reflected in it. These include the following, which are discussed in more detail above:

- Government funding uncertainty from 2020/21 arising from Spending Review and Fair Funding Review.
- Business rates. The move to 75% retention in 2020/21 and appeals.
- The affordability of the capital programme from 2023.
- The implications of the County Council's financial position and outcome of the best value review by Government.
- The impact of budget proposals from the County Council on local communities.
- Timing of monies arising from forecast business rates, e.g. delays in new developments becoming operational.
- The impact of the national homelessness challenges in East Northamptonshire.
- Additional risks arising from the need for the Council to be more commercial in its approach.
- The continued delivery of projects and strategies within the Efficiency Plan, including the IT Strategy and Business Transformation.
- Local government reorganisation
- Delivery of the Enterprise Centre, including potentially funding from borrowing

3.6 At this stage it is unclear of the full impact of these uncertainties on the Council. The Council cannot assume these uncertainties will work out to be positive from a financial perspective and should therefore be working proactively to develop strategies and plans to identify further saving opportunities efficiencies.

3.7 Delivering the MTFS

The MTFS requires a number of key actions to be implemented in order to achieve a stable and sustainable financial position for the Council. These include implementing savings plans, identifying further savings, reviewing contracts, delivering a successful enterprise centre, delivering business transformation projects, considering more shared services, taking a more commercial approach and increasing revenues by encouraging more businesses into the district. As noted in Section 2 of this report, all of these will need to be managed against a backdrop of further significant change to the Local Government sector, particularly the potential for local government reorganisation in Northamptonshire. To ensure delivery, officers at the Council are advised to ensure that:

- project teams are established to deliver the savings programmes, particularly those still to be identified, and that these teams are resourced to the right level and with the right skills.
- projects have clearly defined deliverables to transform services which balance service improvement with reducing costs and being more efficient.
- monies need to be set aside to support these programmes on an invest to save basis, with clear criteria and expectations of return.
- Processes, procedures and practices are continually updated to reflect the Council's more commercial approach.

Members are advised to ensure that:

- progress against savings plans is regularly monitored, with variances and any mitigating actions reported to Finance Sub Committee.
- members take future decisions that support the aim of maintaining a financially stable and sustainable Council as set out in the MTFS, including a clear funding source.
- business case for Corporate Plan investments should be rigorously reviewed to ensure they deliver value for money to the Council.

## 4.0 Revenue Budget 2019/20

4.1 The revenue budget 2019/20 is the first year of the Council's five-year MTFS. The budget has been developed using a robust process with officer and member involvement.

4.2 Budget Process
An important feature of the budget process is that 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 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 confident that financial targets are achievable. During the 2019/20 budget cycle all items within the base budget have been challenged by Corporate Management Team (CMT) and any changes to the figures submitted have only been incorporated with the acceptance of the Head of Service. The Finance Manager has also challenged current practices, improved the budgeting process, and provided assurance around the robustness of budget estimates. Councillors have been involved in the budget process through the Finance Sub Committee and the Policy & Resources Committee.

4.3 Budget Proposals
The budget includes £0.7m of savings, many of which have already been delivered as part of the in-year savings programme for 2019/20. The remaining savings proposals are considered to be low risk in terms of delivery.

4.4 The budget includes 1 unallocated savings budgets. This is a vacancy factor (£200k), It is anticipated all these unallocated savings budget will be met during the year. However, there remains a small risk to these being achieved.

## 5.0 Capital Strategy and Enterprise Centre

5.1 The Capital Strategy is an integral part of the councils corporate and financial plans.

5.2 The councils Capital Strategy has been refreshed and improved since last year to reflect best practice guidance. It has also been externally reviewed by Link Asset Management to ensure it covers all aspects appropriate to the councils capital investment plans.

5.3 The largest scheme in the capital investment programme is the building and operation of an Enterprise Centre for start up and small businesses. The council has purchased a plot of land for the site. At the time of writing there are a number of risks in relation to this scheme which need to be managed and mitigated, these include:

- The level of capital costs could increase making the project unaffordable. The procurement process is currently taking place with tenders due back on 8th February, followed by evaluation and a selection of a preferred bidder at council on 4th March, at the same meeting when the budget is agreed. This would enable the council to understand the capital cost at the same time as it is settings its budget. It is essential this scheme is affordable from a financial perspective, as well as delivering wider value for money for the taxpayer and community. Members should be aware that if the capital cost is significantly higher than currently forecast the affordability of the scheme may not be sustainable.

- A financially sustainable future trading position. A business case for the scheme which covers both capital investment and operating cashflows was established at the inception of the scheme, and has been updated regularly throughout the each stage of the project. This has demonstrated a positive affordability position, both financially and value added for the district in terms of increasing the number of jobs and providing much needed premises to grow the small business sector. The latest update of the business case took place in February 2019, and has incorporated learning from councils who also have similar centres in operation. However, there is still a risk that the business case may not deliver from a financial perspective throughout the period of the long term as there are many factors, many of which are outside the councils control, which could affect it, for example macro economic conditions. An operator is expected to be appointed to run the centre during 2019. It is imperative an experienced operator is selected, particularly to run the centre during its formative years.

5.4 The financing of the Enterprise Centre consists of LGF grant funding, council reserves and borrowing. At the time of writing the council is in the process of satisfying the due diligence process for the LGF grant, and is anticipating a positive outcome for this. The council has been building up its reserves over the last few years to contribute towards this project. The balance of any funding is expected to come from borrowing. The council has been debt free since it sold its housing stock in 2001. It is a significant change of strategy to move into a borrowing position. To recognise this the council has worked closely with its treasury management advisers, Link Asset Management, to ensure its Capital Strategy and Treasury Management Strategy are fit for purpose. If the council were not successful with its LGF bid or reserves were required to be moved to fund other areas of expenditure (for example unitary transition) the level of borrowing would need to increase. There is a direct link between the affordability of the scheme and the level of borrowing.

**6.0 Draft Capital Programme 2019/20 to 2028/29**

6.1 Historically the Council’s Capital Programme has been funded from capital reserves, which accrued from the sale of housing stock in 2001.Seven years ago it was recognised these reserves would run out and new funding sources would be required to fund capital investment.

6.2 In 2012 the Council agreed to embark on a strategy to dispose of surplus assets and expected, at the time, to generate around £5m to finance capital investment. This has been achieved.

6.3 The realisation of these monies has provided greater certainty with regards to funding the capital programme. The Council has also worked to reduce its capital costs by transferring risk as part of the Leisure and IT strategies. If the Council were to continue with all its capital spending plans as included in the Approved Capital Programme and Development Pool it would have sufficient funding until 2023.

6.4 The Council would use up its capital reserves over the next 4 years. In line with current capital programme governance it would be imprudent to release any further schemes from the Development Pool which do not have a clear funding source. Each scheme needs to be considered on its own merit prior to moving into the Approved Capital Programme. It should be noted that Disabled Facilities Grants are statutory in nature where the Council has little or no discretion about spending the money.

6.5 In recent years the Council has made clear its intention not to enter into long term borrowing to finance capital investment. However, as noted in paragraph 5.4 the Enterprise Centre scheme is planned to be financed by some borrowing, the costs for which are intended to be funded from income generated from the project. Whilst this is a one off scheme the Council needs to determine its future long term strategy for financing its capital programme at some point over the period of the MTFS. There are a number of options to do this, including:

- Managing the release of schemes from the Development Pool which would extend the period of using capital reserves. However, there would still be an issue about how the programme would be funded over the longer term.
- Generate more capital receipts by selling assets. However, the Council owns few remaining assets and there would still be an issue about how the programme would

be funded over the longer term.

- Finance the capital expenditure each year directly from revenue. This would require significant savings to be made from other areas of revenue-funded services.

6.6 To seek to mitigate this impacts a review of all capital schemes in the Development Pool has been undertaken as part of the budget setting process.

6.7 There is a real danger that the Council is not willing, or in some cases unable, to invest sufficient resources into capital investment. This could negatively impact on deliver of the Corporate Plan, service provision, meeting statutory obligations, business continuity and the ability to deliver further efficiencies which the Council needs if it is to deliver its revenue budget savings targets. The options the Council will explore to finance its capital investment plans include:

- Maximising external funding (e.g. European Funding & Lottery Funding).
- Shifting the burden of capital investment to those who receive the benefit, for example Disabled Facilities Grants from the Better Care Fund.
- Sharing the costs of investment with partners.
- Using the Council’s reserves to provide invest to save funding (subject to strict business case criteria) to enable revenue savings to be delivered.
- Realising monies from further asset sales, although it should be noted the opportunities for these will be minimal.

6.8 It should be noted that there could be a time in the future when the Council needs to consider further borrowing to finance capital investment as it has exhausted all the funding sources identified in paragraph 6.7 and has further ambitions to deliver its Corporate Plan. Examples may include to grow its asset base, to become more commercial, to invest in the infrastructure of the district or if the Council is faced with financial sustainability challenges. In such instances the Council may need to borrow monies to fund investments. Any such investments should be subject to a robust business case, due diligence, have a positive financial impact, and meet the requirements of the Prudential Code. To this end the Council has established five Golden Rules through its Commercialisation Strategy.

6.9 In response to the new requirements of the capital Guidance from Government and the Prudential Code the Council produced a Capital Strategy in 2018 and has updated this as part of the budget planning process and is to be considered along side setting the budget.

**7.0 Annual Treasury Management Strategy 2019/20**

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

7.2 Forecasting the Council’s future short and medium term investment returns 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.

7.3 The Council has updated its Treasury Management Strategy and Prudential Indicators to reflect the latest Government issued Guidance for capital expenditure and the updates to the CIPFA Prudential Code.

## 8.0 Local Government Reorganisation in Northamptonshire

8.1 The council is setting a budget and MTFS at an uncertain time as the council prepares for the likelihood of local government reorganisation across Northamptonshire in April 2020. A formal decision from the Secretary of State is not expected until later in 2019. The budget and MTFS have therefore been set on the basis of East Northamptonshire Council continuing as an entity into the future.

8.2 If, as expected, there is a move to a unitary council in 2020 this presents risks to the budget for the year ahead, including:

- A requirement for further transitional costs to be incurred by the council over and above the monies set aside in reserves. The council will need to be flexible in the year about the use of its finances, in particular the way it utilises its reserves and how it finances capital investment such as the Enterprise Centre.
- The budget is not managed as diligently as in previous years due to lack of capacity to provide existing services and transition to a new council. To mitigate this the control framework will need to be closely monitored throughout the year.
- A tension between delivering the needs for East Northamptonshire Council and that of a new council for North Northamptonshire. For example spending reserves for East Northamptonshire or preserving reserves for a new council.

## 9.0 Forecast Reserves and Balances

9.1 Members will be aware that in recent years the Council has made contributions to its reserves. This is an extremely positive position to be in with the current financial environment in local government. During 2017/18 a comprehensive review of reserves was undertaken.

9.2 Use of Reserves to Finance Spending

The MTFS assumes that the level of reserves used to fund the revenue and capital budgets is as follows:

- Revenue – throughout the period of the MTFS there is no planned requirement to fund general revenue spending from reserves. In fact there is a small planned contribution to reserves each year. The assumption is that any reserves will be utilised to mitigate specific / general financial risks facing the Council or are held for investment to improve the services for the residents of the district..
- Capital - the capital reserve is expected to be fully utilised in 2023. The Council needs to identify further funding sources to finance its capital expenditure commitment and plans beyond that date. During the year it is expected that earmarked reserves will be used to partially finance the Enterprise Centre project .

9.3 Minimum reserves

The minimum level of reserves, as assessed after considering the risks facing the Council over the medium term, is proposed to be £1.5m and consists of two component parts, namely:

- An underlying minimum level of £1m for the long term, and
- In the short to medium term, a minimum level of £0.5m to reflect the uncertainties currently facing the Council. These uncertainties include the delivery of cost reduction and income generation projects to deliver the Efficiency Plan, implementation/early operation of recent Government policy changes (including business rates retention and fair funding review), the introduction of universal credit, local government reorganisation and decisions being made by the County Council which are could affect East Northamptonshire.

The additional £0.5m to cover short to medium term risks will be reviewed, along with the underlying minimum level, on an annual basis.

9.4 Earmarked Reserves
The number, type and level of earmarked reserves have been reviewed in light of the risks faced by, and the plans of, the Council. As part of this review the Council split its reserves in two categories; Delivering the Corporate/Service Plan and Technical and Risks.

9.5 In the last 5 years the level of earmarked reserves had risen to £12m at 31st March 2018. The Council has plans to invest some of these reserves in delivering its medium term financial strategy and Corporate Plan. This commenced during the 2018/19 financial year with the purchase of a new fleet of waste vehicles and development of an Enterprise Centre. As a result the level of earmarked reserves at 31st March 2019 is expected to be £9m. During 2019/20 further earmarked reserves, around £3m, are expected to be utilised to finance the build of the Enterprise Centre.

## 10.0 Conclusion

10.1 Based on the assumptions made in its Budget 2019/20 and MTFS 2019/24 for income and expenditure, the Council can set a balanced budget for 2019/20.

10.2 However, there are a number of risks, or “known unknowns”, outlined in paragraph 3.5. The most significant of these risks are local government reorganisation in Northamptonshire, local government funding levels and the Enterprise Centre.

10.3 Whilst in the Council’s financial position is sustainable over the medium term there are a number of uncertainties. As such the Council, or any successor council, will need to ensure it makes the right decisions in the short term (next year) to ensure it is financially stable and sustainable over the medium to long term. Such a strategy should include maximising all income streams, exploring shared services, being more commercial, continuing to generate efficiencies and influencing the risks faced to optimise the Council’s future financial viability.

10.4 Provided the Council carefully considers and acts upon the analysis in this report, 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.

## 11.0 Equality and Diversity Implications

11.1 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 MTFS to deliver the savings yet to be identified.

## 12.0 Legal Implications

12.1 These are set out in Section 1 of the report.

## 13.0 Risk Management

13.1 This report by its nature considers risk management from a financial perspective.

## 14.0 Resource and Financial Implications

14.1 The report is of a financial nature and the implications are set out within the report.

## 15.0 Constitutional Implications

15.1 This report is of a financial nature. There are currently no direct implications impacting on the Constitution.

## 16.0 Implications for Our Customers

16.1 This report is of a financial nature. There are no direct implications impacting on customer service.

## 17.0 Corporate Outcomes

17.1 The Corporate Outcomes that the MTFS seeks to help deliver are:

- Good Quality of Life
- Good Value for Money
- Effective Management
- High Quality Service Delivery

## 18.0 Recommendations

18.1 That the Finance & Performance Sub-Committee, Policy and Resources Committee and Council note the S151 Officer's opinion set out in Section 9 and carefully considers the content of this report prior to recommending the approval of the Council's Medium Term Financial Strategy 2019/24, the Revenue Budget for 2019/20, Capital Strategy, Capital Programme 2019/29 and Treasury Management Strategy 2019/20.

*(Reason: To ensure the Council complies with statute in setting its Budget.)*

18.2 That the Finance & Performance Sub-Committee, Policy and Resources Committee and Council recognise the work undertaken over the last seven years to ensure we have a balanced budget and are in a good financial position to face the medium term uncertainties.

*(Reason: To ensure the Council has a stable and sustainable Medium Term Financial Strategy and Plan)*

<table>
<tr><td rowspan="2">Legal</td><td colspan="5">Power: Local Government Finance Act 1992, Local Government Acts 1972, 2000 & 2003, Localism Act 2011</td></tr>
<tr><td colspan="5">Other considerations: Constitution</td></tr>
<tr><td colspan="6">Background Papers: Reports To Finance Sub Committee and P&R; precept notifications</td></tr>
<tr><td colspan="6">Person Originating Report: Glenn Hammons, Chief Finance Officer.<br>☎ 01832 742267 ✉ ghammons@east-northamptonshire.gov.uk</td></tr>
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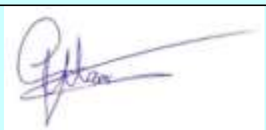
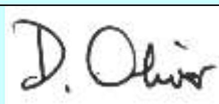
<tr><td>CFO<br>01/02/19</td><td></td><td>MO</td><td></td><td>CX<br>01/02/19</td><td></td></tr>
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