



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	MEDIUM TERM FINANCIAL STRATEGY 2010-13
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	25 November 2009
Key Decision:	YES
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	David Perkins
Ward(s)	Not Applicable

1. Purpose

- 1.1 This report presents the 2010-13 Medium Term Financial Strategy for Northampton Borough Council for approval. It includes the setting out of the key internal and external environmental factors that are likely to put pressure on the council's finances, that need to be considered by the council in its short and medium term financial and service planning.
- 1.2 Areas that can cause pressures of this sort include Government policy and new initiatives, economic climate, statutory changes, etc. Further information on such pressures can be found on page 17 of the Strategy.

2. Recommendations

- 2.1 Cabinet to approve the Medium Term Financial Strategy 2010-13 as set out in appendix A.
- 2.2 Cabinet agree that the Medium Term Financial Strategy is used as a guide to financial planning for the 2010/11 and medium term budgets.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The council faces significant financial challenges. The current tight financial settlement determined by Government is exacerbated by the impact of wider economic changes, which are affecting key income streams and cost inflation, particularly energy. In starting from behind the field of local authorities and wanting to be near the front, the demands on the council to invest to increase performance for the public are ever greater. Significant changes in the way the council provides services was planned and with the greater pressures arising from potential severe government cuts, this places greater emphasis on this approach.
- 3.1.2 The Council has made significant progress on its improvement journey. The Council is increasingly being assessed as in a better position than historically has been the case. It is expected that the Council will continue on its journey out of Government intervention.
- 3.1.3 The Council has made clear that its ambition is not just to be “not poor”, but rightly the Council aims to provide the public of Northampton with the best. It is therefore the council’s stated ambition to be amongst the best councils in terms of public service by 2013.
- 3.1.4 From 2009, the Council will be assessed under the new comprehensive area assessment (CAA) scheme, which will include an “organisational assessment” covering managing finance, governance, managing resources, and managing performance. This will be augmented by a countywide “area assessment” in which NBC will have a key role to play.
- 3.1.5 The Audit Commission will be looking under the organisational assessment for the council to exhibit high levels of community engagement, ambitious shared vision, productive relations with key partners, self-awareness and effective performance management, innovation and well-managed risk-taking. Overall, the Commission will be looking for sustainable improvements in outcomes for the public and in citizen satisfaction.
- 3.1.6 It is under this regime that the Council’s future improvement will be assessed, and the achievement of the Council’s ambition will be judged.
- 3.1.7 Such a major leap forward over the next few years requires strong leadership and management backed by committed people. Strengthened management arrangements are in place and the new senior management team has been leading the council since early 2009. It was also recognised in the Direction of Travel assessment 2008 that members are providing strong leadership and guidance to officers.
- 3.1.8 Strong motivation and supportive development of the people who deliver council services and improve Northampton is essential, particularly for those people employed by the council but also including members, contractors, partners, local business, the police, community groups, developers and others. The council’s performance is interdependent with the performance and commitment of many others.
- 3.1.9 Key activities will need to continue to develop including performance management, project and programme management, partnership activity, and community engagement and reputation management.

3.2 Issues

- 3.2.1 The 3-year financial statement highlights that there continues to be a gap between the Authority's spending pressures and the projected available resources. In order to meet this gap the following strategy will be adopted:
- a. An effective Medium Term Financial Strategy in place to drive forward the financial planning process and resource allocation. The financial strategy is determined by policies and priorities contained within the Corporate Strategy and other key internal Strategies, feeding through to and up from Service plans.
 - b. The Council recognises the pressures on its budget, and while seeking to protect and enhance front-line services as far as possible, will aim to contain these pressures within existing resources. Cabinet Members will examine all budget pressures and seek reductions where possible.
 - c. We will seek new funding and new ways of working with support provided by the regional efficiency partnership. Cabinet Members will continue to look at new methods of service delivery over the three-year budget period to improve services to the public and the value for money that they provide.
 - d. That Council recognises the need to improve efficiency and deliver value for money. Cabinet Members will seek to identify efficiencies that will not impact on service delivery, and to identify options that will improve the value for money services through improving performance, and/or reducing service costs.
 - e. That the Council has determined, that given the financial pressures faced by the Authority, growth can only be supported in priority areas, or where the Council is required to fund new items e.g. by new legislation.
 - f. That the Council will undertake a series of strategic business reviews enable the Council to move forward more rapidly within services to deliver ever better outcomes for the public and efficiency and effectiveness in organisation.
- 3.2.2 The 2009/10 Medium Term Financial Strategy (MTFS), as attached at Appendix A, sets out initial guidance for officers and members for the preparation of the 2010/11 to 2012/13 budgets.
- 3.2.3 The budget process for 2010/11 to 2012/13 is well underway. The continuation budgets have all had an initial challenge from the Director of Finance and Support and the Head of Finance & Assets. The continuation budget and the Medium Term Plan options have also now been reviewed/challenged by Management Board.
- 3.2.4 Whilst financial management has greatly improved, significant financial risks still remain. These are a mix of clear cost pressures, which are quantified in year as part of the normal budget monitoring process and other factors, which are much more challenging to quantify such as demand and economic factors (such as interest rates) being outside the authority's control or influence and therefore best estimates must be made.
- 3.2.5 A balance needs to be struck between areas where budget pressures need to be recognised within the medium term plan where they are quantifiable, and areas of risk where it is deemed that the level of balances held, derived through a robust risk assessment process will cover any potential realization of the financial impact of that risk.

General Fund

- 3.2.6 The strategy highlights the significant budget pressures facing the forthcoming budget round, taking the 2010/11 forecast budget from last years budget cycle and taking into account known key changes. On page 21 of the MTFS, it shows that in February 2009 when the 2009/10 General Fund budget was set, it was identified that savings of £3.104m were needed for the 2010/11 budget cycle.
- 3.2.7 Significant pressures are being identified that need to be managed within this budget process. The pressures fall broadly into three areas:
- Government Funding: At a time where inflation is rising rapidly, the overall increase in the government grant to the authority next year is 0.5%. The September RPI (retail price index) sits at 1.3%. This means that the Council's funding is not keeping pace with inflation.
 - Pressures directly relating to the current economic environment and credit crunch.
 - Pressures relating to service areas and changes to legislation and regulations, which the Council must recognise.
- 3.2.8 These pressures, along with the known budget gap of £3.104m need to be offset by efficiencies and service reductions to enable the Council to balance the 2010/11 budget.
- 3.2.9 This means that the Council, in line with the public and business, must make economies. We must look to make services more efficient, deliver better value for money, reign in expenditure and reduce service levels, where necessary, over this difficult period of time, to ensure that the authority remains financially viable and is able to improve its service offering when the economic climate improves. These will also need to be managed carefully in this financial year to ensure that there is minimal impact on reserves.
- 3.2.10 Examples of these pressures can be found on pages 17-18 of the MTFS.

Housing Revenue Account

- 3.2.11 Pages 25-26 of the Medium Term Financial Strategy addresses the HRA. The financial pressure on the HRA is increasing over time. This arises from a number of factors, the main ones being: -
- Rents pressure through the government's rent restructuring process;
 - The sale of council houses through Right to Buy whereby, broadly speaking, the better quality housing stock will be sold; and
 - Repairs costs through the pressure to meet and maintain the decent homes standard.
- 3.2.12 An overview of the findings of the HRA financial model was used to forecast the impact of major initiatives on the long-term viability of the HRA. The indications provided by this model are considered alongside the Housing Asset Management Strategy, which is to go to Cabinet in the Autumn/Winter 2009/10.
- 3.2.13 A baseline position forecast, which assumes no additional revenue contributions to capital from 2009/10 onwards, shows that the Housing Revenue Account revenue position remains with positive balances until

2021/22 but with an annual in year deficit from 2014/15. Additional revenue contributions to capital or unsupported borrowing to finance capital expenditure will worsen the position and will lead to deficits in earlier years.

- 3.2.14 The main pressure on the Council Housing service is in the capital area where there is a shortfall in the capital resources required to reach and then to maintain the decent homes standard. Without additional action being taken, the provision of additional capital resources through revenue financing or borrowing will have an impact on the revenue position.
- 3.2.15 In order to maintain the HRA position, the revenue impacts of the additional capital financing must be matched by efficiencies or savings from within the HRA.
- 3.2.16 Three principal housing areas needing significant attention have been identified as being likely to be subject to area wide regeneration programmes. These are:
- Dallington Grange / King's Heath / Northwest Northampton
 - Central Area
 - Eastern Northampton
- 3.2.17 The Council is currently progressing a bid for an HRA PFI scheme, which is proposed to concentrate on Eastern Northampton. This has the critical mass of around 4,000 Council owned properties, most of which require Decent Homes works.
- 3.2.18 This neighbourhood also presents significant potential for site development and the improvement of the public realm. A PFI project would also contribute to the social and economic regeneration of the wider area. Whereas the PFI scheme itself could not encompass all 4,000 properties, the PFI work is being undertaken in such a way that the findings will lead to proposals for the regeneration of the whole area owned by the Council.
- 3.2.19 Alternative options, around the delivery of the decent homes programme to the whole of the stock, will be reflected in the new 30-year financial model as and when appropriate.

Capital

- 3.2.20 Capital expenditure represents major investment in new and improved assets such as land, buildings, infrastructure, equipment and information technology. It therefore plays a key part in the development of the Council's services.
- 3.2.21 The Capital Strategy was presented to Cabinet on 19 February 2009 as part of the budget setting process. The three-year capital strategy is updated on an annual rolling basis and forms an integral part of the medium term financial strategy and is addressed at page 28.
- 3.2.22 The Council Decisions on capital investment are made against the background of constrained resources, and the Council is heavily dependent upon capital receipts and grants from central government to support its capital programme. Other available funding sources include prudential borrowing, capital receipts, third party contributions, and revenue contributions. These are all actively pursued to support capital investment with the exception of prudential borrowing.

3.2.23 The Council is allowed to undertake prudential borrowing, on the basis that it is affordable, as there is no government support to fund the interest and capital payments on the borrowing. Due to pressures on the revenue budget it is advisable to assume that prudential borrowing will only be undertaken where savings on a 'spend to save' scheme will cover the borrowing costs. However, in practice there may be priority schemes that members consider have to go ahead or items that have to be funded this way for affordability reasons (e.g. capitalisation directives).

Strategic Business Reviews

3.2.24 In recent years the Council has developed a greater ability to respond in a more innovative and flexible manner.

3.2.25 The Council's corporate plan and service plan process has begun to enable better decision-making about priorities and is developing further this year. This is underpinned by the corporate priorities and management aims set out in the Corporate Plan (see page 12 of the MTFS).

3.2.26 The council is now taking a consciously planned and step-by-step-building approach to development of the Council and its services rather than the previous practice of trying to make major leaps forward without the foundations to build upon.

3.2.27 The report accompanying the 2009-12 MTFS (Cabinet 15 October 2008) recommended that a new process be established in the Council, to be termed "strategic business review".

3.2.28 The purpose of these reviews is to ensure that every service has a high-level forward plan for its development over at least the next five years. Each plan will be geared to enabling the council to deliver more with every pound spent in real terms, deliver the best outcomes for the public possible within the resources available, and deliver on the Council's ambition and corporate objectives.

3.2.29 Strategic business reviews provide an opportunity to think beyond accepted norms. It is an opportunity to be innovative, and to set an overall direction in each service, to deliver more and better service on the ground.

3.2.30 This approach draws on much current thinking about efficiency and value for money at national level, which recognises that only so much can be achieved by "Gershon" approaches. The "Varney" approach, developed nationally, focuses more on how services are delivered and looking at how changing the mode or model of delivery can provide even greater efficiencies.

3.2.31 It is from this agenda, which is actively promoted by government, that the increased drive towards innovative ways to deliver has come. The government has backed this with funding for regional Improvement and Efficiency Partnerships. There is a Northamptonshire Improvement and Efficiency Partnership and the Leader is responsible at county level for the development of the Northamptonshire sub-regional improvement and efficiency strategy/plan.

3.2.32 It is not, however, the case that all services can instantly be subjected to a strategic business review. Capacity does not exist in the Council to adopt the process across more than a small number of services at any one time. Consideration has therefore been given by officers as to which services should be subject of a strategic business review initially with the result that four Strategic Business Reviews are currently underway looking at:

- Asset Management
- Leisure and Culture
- Waste Service
- ICT

3.2.33 It should be absolutely clear that none of these reviews precludes the need for all other services to look at ways in which each service can become more efficient through not just operational value for money but also through beginning to change the way the service is delivered. There are several other major change processes that will alter service delivery approaches, for example in waste management, and housing, which are not part of strategic business review at this stage.

3.2.34 Each of the three services has different timescales for the review process and these were agreed with the relevant portfolio holder/s according to the work considered necessary and the resources available.

3.2.35 Options to bid for regional improvement and efficiency funds to support this process have been considered.

3.3 Choices (Options)

3.3.1 Cabinet is invited to agree the Medium Term Financial Strategy.

3.3.2 Cabinet is invited to agree that the Medium Term Financial Strategy is used as a guide to financial planning for the 2010/11 and medium term budgets.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The annex to this report sets out the council's Medium Term Financial Strategy 2010-13 for approval.

4.2 Resources and Risk

4.2.1 Pressures are highlighted above are currently being quantified. Savings and efficiencies need to be identified, not just for 2009/10 but also for the medium term to enable robust, balanced medium term budget to be set.

4.3 Legal

4.3.1 The Council must set a balanced budget each financial year. The medium term financial strategy gives direction and guidance which helps underpin the budget process.

4.3.2 There are no specific legal implications arising from this report.

4.4 Equality

4.4.1 Equality Impact Assessments will be undertaken as part of the budgeting process. The capital appraisal forms and revenue budget options detail equalities as one of the criteria to review.

4.4.2 There are no specific equalities implications arising from this report.

4.5 Consultees (Internal and External)

4.5.1 The Heads of Performance, Landlord Services, and Head of Policy were consulted.

4.5.2 The Portfolio Holder for Finance has been consulted via e-mail.

4.5.3 The Director Of Finance and Support has also been consulted.

4.5.4 Management Board will be consulted as part of the callover process.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Having a good Medium Term Financial Strategy is a key ingredient in effective financial governance, which contributes to the priority of being a well-managed organisation that puts the customer at the heart of what we do.

4.7 Other Implications

4.7.1 Not applicable

5. Background Papers

5.1 Council Report 26th February 2009 (General Fund Revenue Budget 2009/10 – 2011/12),

5.2 Cabinet Report 15th October 2008 (Medium Term Financial Strategy 2009-12)

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