Section 25 Report

1. Introduction

1.1 Legislation is in place which requires the Section 151 Officer to report to Council on the robustness and adequacy of reserves when setting its budget. These provisions are relatively concise and are set out below.

1.2 Section 25 (1) of the Local Government Act 2003 requires that 'the Chief Finance Officer of the authority must report to it on the following matters -

I. the robustness of the estimates made for the purposes of the calculations, and

II. the adequacy of the proposed financial reserves.'

1.3 Section 25 (2) requires that an authority to which a report under this section is made, shall have regard to the report when making decisions about the calculations in connection with which it is made (i.e. setting its budget).

2. Robustness of Estimates

2.1 In keeping with previous years this commentary will need to have a detailed focus across all four years of the financial plan. The Council has responded to the Government's offer to pull together a Medium Term Financial Plan (MTFP) which makes use of the Department of Communities Local Government's (DCLG) flexibilities to use Capital receipts to support revenue costs in delivering savings and transformation programmes over the period 2017-18 and 2018-19 with some assurances that there are robust plans in place over the medium term to match the use of capital disposals.

2.2 The Council wide approach to ensuring there is a robust Budget set for 2017-18, was to undertake a 'zero-based budgeting' financial review of all planned service provision. This approach allowed the introduction of a robust budgeting methodology which will continue to be refined over the medium term.

2.3 The detailed delivery plans are provided to give greater reassurance and confidence with a clear assessment of risk based on the information known at this point. Nevertheless, 2017-18 is the key financial year for the Council as it attempts to rebalance its finances and address the 'structural deficit' which it carries in its budget. £58m of savings is an enormous ask in these financial times and does present the most significant risk with minimal reserves to fall back on.

3. Funding

Government Grant

3.1 The Spending Review in December 2015 offered the long awaited multi-settlement offer for local authorities which provided some reassurance on funding for the period 2016-17 through to 2019-20 alongside flexibilities in the use of capital receipts to support transformation and delivery of savings which has been a welcomed flexibility and Northamptonshire County Council (NCC) have taken full advantage of this. However, looking forward, with the new 100% Business Rates Retention model expected to be in place by 2019-20, it is still not known how this will affect those authorities that have taken the four year settlement.

3.2 The provisional settlement representing year two provides a government grant in line with the original offer. In addition, the government has responded to the national crisis within Adults Social Care and reviewed the New Homes Bonus to redirect funds to provide a total new grant of £241m which has been allocated to local authorities using a needs based formula. Northamptonshire overall has seen an increase in funding of £2.7m and the Council will receive a net benefit of £2.2m included within the final settlement. In addition, local authorities have been given the flexibility to bring forward the increase to the Adults Social Care precept enabling a further 1% to be charged for 2017-18 and 2018-19. However, the total increase will remain at 6% for the period 2017-18 through to 2019-20, which does go some way to address the pressure in the short term but does not generate enough funds to manage the ever increasing demand that is already in the system now and moving forward.

Revenue Support Grant (RSG)

3.3 There has continued to be a great deal of controversy about the lack of consultation on the significant redistribution of RSG away from shire areas towards northern metropolitan and inner London Councils since the Final Settlement in February 2016, especially as the pressure within social care services is an ongoing concern. The transitional relief of £1.7m still remains for 2017-18 but this is only a one off and is insignificant in relation to the reduction over the medium term.

3.4 In addition, a number of grants were transferred into the settlement funding in 2016-17 which included the Care Act monies which represented a total of £3.4m. Whilst there has been a delay in some of the proposed changes which are now expected to be reviewed later in the medium term, it is still not fully known what additional responsibilities will be expected and financed by the Council moving forward.

Business Rates Retention

3.5 We are now entering the fifth year of the Business Rates Retention system for the funding of local government and a number of the initial concerns and observations previously made over the past couple of years persist.

3.6 As previously commented, the change to the system of local government funding and the retention of rates locally placed a far greater emphasis on the need to accurately forecast in-year growth and growth levels for future years in the MTFP. This does create a dependency risk for the Council as this is managed by the district and borough councils and continues to be one of the final pieces of information made available when constructing the final budget.

3.7 There was an expectation that the new system would better reward growing areas of the country compared to the previous systems but experience demonstrates there are continued barriers to this. Most notable has been the inability to forecast the impact of appeals. More recently, it has been announced that there will be a national provision for managing appeals risk. However, this will be funded through a top slice to local government funding. Details are not fully known and early indications suggest that those with exceptionally high levels of appeals i.e. London, will significantly benefit through this arrangement to the detriment of others.

3.8 The impact of the Business Rates Revaluation on NCC is not fully known at this stage. Although nationally it is reported that there is an increase of 11%, early indications suggest that the business growth within Northamptonshire has not been as great as other areas of the country. Consequently, there is a risk that the expected net yield for the County will reduce. The 2017-18 Final Budget makes assumptions based on the NNDR1 returns which is in line with current growth levels, however the real impact will not be fully known until later in 2017-18.

3.9 More significantly, the introduction of 100% Business Rates Retention will not only change the government funding model moving forward but will also delegate further responsibilities to local authorities. This is a programme of work that has started with consultations already being considered and working groups in place to consider and present suggested approaches ahead of implementation which is planned to be included within the settlement funding from 2019-20. Both of these present further risks to the financial stability of local authorities in the short and medium term. As soon as the Finance Bill is passed, NCC will model and communicate the impact.

Capital Receipts Flexibilities

3.10 The Council is taking advantage of the new flexibilities offered as part of the multi-settlement accepted in 2016. The capital receipts are expected to provide a total of £31.7m additional income for 2017-18 and 2018-19 to support the overall transformation to the Next Generation Council over the medium term and is outlined within the Council Plan. Whilst a land and property exploitation board is in existence and members and Councillors meet monthly to manage the process, there is a significant risk that capital receipts have to be delivered to meet the targets approved within the revenue budget.

New Homes Bonus

3.11 The MTFP assumes that the New Homes Bonus becomes a rolling four year programme from 1 April 2018. As previously mentioned, the settlement has reviewed this funding again following the consultation that took place during 2016. A further top slice of this grant totalling £241m has been freed up and will fund the new Adults Social Care Grant. NCC will see a benefit of £2.7m for 2017-18 only which is insignificant compared with the pressures seen within the existing Council services. There have been no changes with the grant funding still in place within the published Core Funding Offer.

Improved Better Care Fund

3.12 The 2016 Final Settlement saw the NHB scheme being reduced and the resources freed up, combined with top sliced RSG to fund an improved Better Care Fund in 2018-19 and 2019-20. The Better Care Fund remains in place at the same level. However, planning guidance from Central Government has been delayed until the end of February and the formal submission will be made in May. This will cover both 2017-18 and 2018-19.

Council Tax

3.13 This source of funding represents, in excess, of 65% of the overall net budget requirement and therefore is vital to a more self determined future. Whilst the referendum limit remains, there is now a greater focus on growing Council Tax revenues which is a key element of the MTFP locally. It does naturally present a number of risks and merits the examination of specific elements – The Adult Social Care precept, Tax base growth and the Collection Fund Surplus.

3.14 The Adult Social Care precept is possibly the most secure component with the commitment to provide some flexibility in 2017-18 and 2018-19 yield and raise the previously agreed 2% to 3% but holding the increase at a total of 6% for the remaining life of the Parliament. However, there is a significant risk in 2019-20, if the precept charged were to be fully removed. On the upside, Northamptonshire has seen strong growth in its tax base in recent years and given its role in the Government's growth agenda for the country it is reasonable to assume that the rate of growth will continue.

3.15 The Collection Fund surplus is the greatest Council Tax risk for the MTFP. Normal practice has only been to recognise it for one year for planning purposes. In its simplest form it is a measure of the district and borough councils' accuracy in forecasting the tax base for future years and so has the potential to be in deficit as well as surplus. In order to present a four year balanced budget it has been necessary to assume a similar Collection Fund surplus for 2018-19 and £2.8m for the remaining years of the plan. This is the assumption made to take account of continued new homes building within the County and difficulties in timing for collection. In addition there has been a surplus on the Collection Fund every year for at least the past five and will need to be reviewed as part of the MTFP process next year.

Spending

3.16 During 2016-17 NCC faced and continue to face a significant challenge in delivering the budget, this necessitated the review of the base budget and historical proposals which culminated in a 'zero based financial review' of the budget. This particularly focussed on Adult's' and Children's Social Care Services to establish the underlying budget required to deliver these services alongside future business planning and development of savings for future years.

3.17 I have assessed the spending proposals on a function basis exploring forecasts for inflation, demography and other service pressures on a Council wide basis. In addition, there was a fundamental change in approach to the construction of the 2016-17 to 2019-20 MTFP with the creation of Business Plans for the Chief Executive and Directors to deliver. This in itself is a very positive step in bringing greater financial accountability for budget delivery and strengthening the Council's overall financial management arrangements and was supported by four further developments.

3.18 Firstly, the creation of Strategic Commissioning roles for People and Place in the Next Generation Council model which has been in place since April 2016. These roles, and the functions under them, have responsibility for ensuring that the providers deliver the quality of service within their financial envelope, in essence doubling the senior management focus on delivery across the range of county services.

3.19 Secondly, building on the Budget Tracker which continues to inform the management team on progress of delivery, directors have completed action plans to support each of their savings lines. This continues to provide additional information over and above the narrative to feed into my assurance assessment when drafting this report.

3.20 Thirdly, whilst the process for reviewing forecasts has improved from a disappointing historical position, the performance of forecast submissions will continue to be monitored monthly by the management team to ensure that the requirements of the financial SORP are fully met. This will also be supported from the beginning of the year through the initial 2017-18 budget sign off that will feature as a budgetary control moving forward.

3.21 Finally, the senior leadership programme jointly developed with CIPFA has been refreshed and delivered with further foundation training to be mandated and delivered prior to the 2017-18 financial year alongside the training requirements for the new financial system currently being developed with full implementation expected during 2017.

4. Proposals Assessment

4.1 Proposals have been assessed as green if there is a clear implementation plan, already been delivered or they are the outcome of a clearly articulated plan. If this does not completely exist but plans are in place, and reliance is placed on another party or there is an inter dependency, they are ranked as amber.

4.2 If plans don't exist or further due diligence, scrutiny and consultation from the issue of draft budget had meant they are not deliverable they have been ranked red and counter proposals have been produced.

4.3 The initial review of the plans in place for the following proposals resulted in a total value of £13m of the plans being risk assessed as Red. These risks have now been addressed following the confirmation of funding and review and development of proposals which is detailed within the report and discussed in later sections.

4.4 The summary table below makes an assessment on the proposals and risk of delivery.

RAG Rating	Number of Proposals	Value £m
Amber	22	(36)
Green	32	(22)
Total	**54**	**(58)**

4.5 At this stage £22m of the proposals are green with £36m amber as identified within the Integrated Impact Assessment forms (IIA). This is an assessment which has been undertaken by the management team as well as Finance to enable me to draw my overall conclusions and recommendation.

5. 2016-17 Outturn

5.1 In setting the 2017-18 budget I must articulate, the outturn for 2016-17 and therefore the budget is built on the assumption that the Council will spend to budget during the 2016-17 financial year. The Council is expected to contain the pressure with the full details of actions and progress reported within the Monthly Finance Report. However, whilst the current reported overspend position represents 2.2% of the net budget or 1% of the gross expenditure budget and nearing the end of the financial year there is an ever increasing risk that the outturn will equate to a draw-down of reserves.

6. Adult Social Care

Growth and Pressures

6.1 2016-17 has been once again a very challenging year with significant in year pressures as a consequence of non-delivery of savings and additional demand pressures emerging in year. This structural budget deficit totals £24.3m and has been added back into the budget for 2017-18 and forms part of the overall £33.9m total growth and pressure in the opening year of the plan. Part of this growth going into 2017-18 will be funded through the estimated Social Care precept of £7.8m raised through an additional 3% increase in Council Tax for Northamptonshire residents and an estimated £1.5m from the redirection of New Homes Bonus.

6.2 Part of the £33.9m growth allows for both inflation and demography. Demography has been calculated at £3.9m for 2017-18 that captures the latest population statistics for both Older People and the estimated prevalence of Learning Disability and Physical Disability within Northamptonshire. In addition, pay inflation has been allowed for at £0.3m in line with expected local pay increases (Council sets outside of national agreement) inflation on block contracts and third party contracts has been set at £3.1m. This allows for the estimated impact of National Living Wage on third party contracts and again will be closely monitored throughout the year.

Savings

6.3 A challenging but robust set of savings proposals need to be delivered for Adult Social Care across the medium term, £36.2m across the Plan period and given the need to respond to the pressures brought forward from 2016-17, £25.2m of this will need to be delivered in 2017-18. Given the high level of savings that have had to be achieved over the last 3 years within Social Care budgets due to the protection of children's services budget and the extra burden placed on adult social services during that time, this will be once again a challenging task for the County Council.

6.4 The rebasing of the Adult Social Care budget following the ZBB exercise has established a more robust baseline to deliver effective service transformation.

Efficiencies

6.5 The efficiencies component of the Plan totals £3.8m which includes the Financial Controls, Income and improved debt position proposal which has been built around some of the excellent work around improving debt collection and the pathway for invoicing customers for Adult Social Care in 2016-17. This work will drive through lower debt levels in future years, hence a reduced provision required for the service. In addition, this proposal incorporates the impact of Welfare benefits inflation that is applied to the charges to Adult Social Care customers' income received from client contributions.

6.6 The creation of the Debt Board has and will help to minimise debt resulting in write off. However, the key risk continues to be the level of debt with Health which needs to be significantly improved moving forward. Reviewed processes and procedures need to be adhered to and significant work has already taken place during 2016 to ensure that behaviour changes are evident to prevent a repeat of previous partnership failings caused by the stresses on the overall health and social care system,.

6.7 In addition this proposal captures the requirement to optimise the pricing for traded services/ within the NASS that adheres to the Adult Social Care Business Plan and links into proposal 16-001-18 NASS delivery. This proposal carries a low level of risk in terms of financial deliverability.

Service Transformation

6.8 The majority of Adults' Social Care proposals are within Transformation as expected from a requirement to continue to deliver large scale savings for the authority. Adult Social Care have set out 5 strategic themed areas to drive out savings of which £20.7m is targeted for 2017-18. A Transformation Board and governance programme has already been developed with a number of projects that sit underneath each theme. This is to ensure all of these savings are delivered in year and there is absolute focus on what is required.

6.9 16-001-05 Prevention and Eligibility £0.626m. This focuses on improving/ revising the accessibility to the Adult Social Care pathway for customers. The level of risk of financial deliverability is relatively low, as a number of key components have already been implemented in 2016-17, and the financial savings will have a full year impact in 2017-18.

6.10 16-001-06 Staffing and Effective structural efficiencies. This is the proposal that covers the savings associated with a revised management and staffing structure across the whole of Adult Social Care. In 2016-17 all staff are under consultation for the TUPE transfer to the new NASS organisation, and following this consultation restructures will take place. There is a low risk of not implementing the new structure by the 1st April and there are considerable numbers of vacancies across the service that will contribute to the in-year saving, alongside tight controls around staff recruitment.

6.11 16-001-07 Purchasing & Placement Savings £12.020m. This is the largest proposal to be delivered in 2017-18 that is focused on implementing a dedicated brokerage function to deliver lower placement costs and maximise the use of community based services and family support. The brokerage team has already been put in place from the 3rd January where management have ensured that all placements are made through the team. The scale of the savings is significant against the Independent Care budget, but with the team already in place for the latter part of 2016-17 any issues can be quickly addressed before the start of the financial year. The success of the brokerage team will be hinged on the ability to negotiate with providers and call on preventative services that will involve close working with First for Wellbeing colleagues. This team has been mobilised during quarter 3 of 2016-17 to maximise the opportunity for a full year delivery during 2017-18. This proposal carries a medium level of risk, which will be closely monitored under the Transformation programme.

6.12 16-001-17 Partnerships £5.250m. This proposal has been reduced following the budget consultation as it was risk assessed as red and partly undeliverable. This relates to the Learning Disability joint pooling and commissioning with Health (Note that the joint procurement for a prime provider will not be awarded until April 2018). While the saving is still significant, the joint business case commissioned by Health and NCC and supported by external consultants shows that we could save £30m over 3-5 years with a new strategic provider. The proposal does carry a medium risk with the potential of double counting with the Brokerage proposal. However, there is significant scope to work differently with our Health colleagues and drive out efficiencies across Learning Disability services particularly as Northamptonshire appears to have higher cost provision compared to neighbouring authorities.

6.13 16-001-18 Review of OCS £2m. This proposal was reduced from £8.5m during consultation on the budget. This proposal reflects the intelligence from a detailed report carried out on the services that highlights areas where provision is costly, and can be met elsewhere. It has highlighted the need to focus on what the organisation does well and to grow these areas. There is considerable opportunity to generate efficiencies, across services, although this proposal remains at amber as clarity is required on the way forward.

6.14 The reductions in the Partnership and OCS review proposals since the draft budget which are deemed to be red totalled £10m. This is to be financed by the additional ASC precept of 1% and £2.7m coming from the redirection of the New Homes Bonus. The remaining balance has been financed through additional proposals and final changes in funding that are identified in the Budget report.

7. Children, Families & Education

7.1 Throughout the current financial year, the Directorate has been focused on continuing its social care improvement journey and also the design and planning of the Alternative Delivery Model for Children's Services that is singularly focused on support for vulnerable children. This will enable the delivery of improved outcomes at all key stages of a child's journey into social care, while also driving efficiency and effectiveness across its business, through the use of redesigned care pathways and improved work practices and tighter management grip.

7.2 A key financial planning principle in setting this budget and medium term forecast was the use of a zero-based budgeting approach. This budgeting approach considered the ongoing financial issues in the current financial year, while building up from the bottom a new budget within 2017-18 based on an aligned financial and business planning process to ensure resources are set aside to fund current activities and to the optimum value. Incremental budget growth was built into 2017-18 to ensure the base budget was robust, then savings proposals were developed to ensure the service could remain within an affordable financial envelope.

Growth and Pressures

7.3 There are similar growth pressures in Adult Social Care Services as there are in Children, Families & Education, with an identical imperative to ensure that the base budget is at the right level before applying savings proposals. The scale of the challenge is also similar, with a need to bring £23.2m of ongoing 2016-17 pressures to correct the opening 2017-18 budget position and accounts for around 90% of the service's overall 2017-18 £26.7m growth proposals. These are as consequence of the continued growth in demand for Look After Children placements (an increase of over 20% over the last two years) and the accompanying staffing requirements.

7.4 The Business Plan does contain a number of strategies to reduce the numbers and costs of Looked After Children over the medium-term, but notwithstanding it is still necessary to recognise the historic and recent growth in demand for social care services, combined with the general anticipated increase in population within Northamptonshire, hence the Council investing an additional £9.9m of demographic growth over the next four years.

7.5 Growth proposals for contractual and pay inflation have been set aside, which amounts to a 4 year forecast of £7.8m, which are in line with indices covering this provision, and lastly, technical adjustments with respect to changes to specific service funding, have been reflected too.

Savings

Efficiency

7.6 There are £4.6m of efficiencies planned within 2017-18, which increases to £8.1m over the medium-term. The key proposal under this heading relates to 'New Models of Care Delivery', this proposal will reduce costs by £2.5m in 2017-18 and save £6m over the medium-term, through building on recent enhanced care reviews, that ensure that all looked after children are receiving the care packages that best suit their needs at the optimum cost to the Council. The remaining savings relate to general efficiencies which will be delivered as a result of sharpened business policies, processes and improved procurement of contracts.

Service Transformation

7.7 Service Transformation is a critical element of the Children, Families & Education Business Plan, as an overall saving of £10.8m is planned for 2017-18. Of this savings figure, £6.8m relates to the right-sourcing of all key early help and children's centre contracts, which will refocus resources and eliminate duplication of service provision. Since the publication of the draft Budget, this particular saving proposal has been reduced by £3m to ensure the optimum level of resources are in place to fund the necessary preventive services required.

7.8 Through minimising the use of expensive agency workers and significant workforce restructuring, this will deliver the remaining £4m of savings. This alone, I believe will significantly contribute to the delivery of a stable and able workforce which is paramount to ensuring the stability of the service. There is clear evidence that the 'stable and able' project is beginning to deliver the changes with some teams such as the Independent Reviewing Officer (IRO) now fully permanently staffed.

Income

7.9 There are plans to deliver £0.9m of new permanent income streams over the medium term, through exploiting commercial opportunities which will be available when the service is operating as a Children's Trust.

Service Cuts

7.10 Where possible, service cuts have been kept to a minimum, therefore there are just £0.7m of service cuts planned which are closely aligned to Central Government policy on the responsibility for school improvement and the increased numbers of academies with Northamptonshire.

8. **PLACE**

Growth and Pressures

8.1 There is £9.2m of growth and pressures built into PLACE. £3.2m of this relates to volume changes on Waste budgets and the phased return of revenue funding for Highways structural maintenance. This is netted off by the removal of £1.2m of one-off growth items for 2016-17.

8.2 There is £5.5m to cover contract inflation over the four year period based on the best information at this time on the indices determining the annual uplifts. Similar to other Business Plans there is also allowance for pay awards and the national living wage increase – this is a relatively smaller sum of £1.6m to cover all four years and reflects the smaller size of the workforce here given the majority of the work is delivered through external contracts.

Savings

8.3 The PLACE savings total £25.5m and are predominantly in the service transformation category.

Efficiencies

8.4 There are £5.1m of efficiencies planned, all in 2017-18. These mainly relate to the newly combined property and asset functions of the authority and aim to drive out revenue savings through the further exploitation of NCC assets.

Service Transformation

8.5 There are nine transformation proposals saving a total of £19.2m over the four year period with only two not contributing to the Business Plan in year one. These proposals play a major role in the Council's overall long-term financial sustainability and involve significant engagement with both public and private sector partners. Progress will be subject to regular review via updates to Cabinet as outline and final business cases are completed.

Income

8.6 Of the additional income generation totalling £1.2m, £0.5m does give some level of challenge given the number of fees and charges which are set nationally and £0.6m relates to a new approach to income generation through investment in commercial real estate.

Service cuts

8.7 These total £0.1m, all in 2017-18.

9. **Public Health & Wellbeing**

Growth and Pressures

9.1 The only pressures for Public Health & Wellbeing are inflationary with £0.7m built in over the four years to cover pay uplift and the national living wage so there is minimal risk attached with this.

9.2 Whilst the funding for Public Health Grant has been ring fenced for a further year, the Government has indicated Public Health funding may be included within the

Business Rates Retention Scheme moving forward. However, this doesn't take away the Council's commitment to prevention and delivery of statutory public heath responsibilities as outlined within the Council Plan.

Savings

Efficiencies

9.3 There are £1.7m of efficiencies built into the Plan which are all delivered in 2017-18. The Council is ceasing its school meals service and this is the largest single contributor being £0.7m in 2017-18. The work is well established following the cessation of the traded delivery last summer with remaining closure activities to conclude. A further £1.0m in 2017-18 is to be delivered through closer collaborative working with First for Wellbeing, review of existing NHFT contracts and the voluntary sector organisations in Northamptonshire.

Service Transformation

9.4 There is an ambitious £2.4m First for Wellbeing transformation programme commencing in 2017-18. The detailed plans are being developed at present.

Income

9.5 Despite being one of the smaller directorates, PHW is one of the larger income generators. There is an additional £1.1m planned for over the next four years. This includes £0.3m from traded activity to other Councils and business clients. I would not expect increases of this magnitude to have an adverse impact on demand for the services and the overall income take.

10. NCC Group – Chief Executive Services

10.1 This is a diverse area of business for the Council covering the functions managed by the Chief Executive's office as well as those services directly run or managed by LGSS, including the Council's corporate treasury spend.

Growth and Pressures

10.2 There is £9m of growth and pressures provided for across the four years, £4.9m of which is to cover inflation. The most significant component of this is the year on year increase to the employer's pension contribution which amounts to £3.4m. Of the other inflationary pressures, £1.3m covers pay awards and the increase in the national living wage.

10.3 The non-inflation pressures total £4.1m and are predominantly of a 'corporate' nature. There is £3m for additional debt repayment and £1m to address the structural budget deficit identified during 2016-17.

Savings

10.4 There are over £24m of savings planned for the next four years.

Efficiencies

10.5 There are £4.2m of efficiencies, of which £2.4m relates to the delivery of further efficiencies from LGSS in line with its own Strategic Plan.

Service Transformation

10.6 Transformation will deliver £19.9m of the NCC Core Business Plan savings. This relates mainly to a single item for Unitary Local Government Reorganisation forecast to deliver £10m in each of the latter two years of the Plan. The potential financial benefits have been tested based on the assumptions made within the Ernst Young analysis prepared for the County Councils Network and proposals published in other Counties, although detailed scenarios have yet to be developed. Ultimately, the Council's sustainability is not reliant on a unitary model and will carry some dependency risks for all stakeholders, but financially it is deliverable.

11. Capital Programme

11.1 The Council undertook a radical overhaul of its Capital Strategy for 2011-12 and the establishment of its own prudential indicators in the form of the 'Golden Rules' was an essential ingredient of the strategy. However as part of the December 2015 spending review Government provided councils with the flexibility to utilise Capital Receipts for transformation and cost reduction programmes in the 3 years 2016-17 to 2018-19. NCC is taking advantage of this flexibility in order to fund its Next Generation Council (NGC) transformation and subsequently is suspending Golden Rule Two during this period. Golden Rule Two is concerned with the use of Capital Receipts which it states will be utilised 50% to repay borrowing and 50% for new schemes funding. Debt will start to be paid down by the end of the four year Plan period and the intention is to reinstate the Golden Rules for the 2019-20 to 2023-24 MTFP.

11.2 The Council must be mindful of capital financing requirements reaching significant levels and will look to move to manage the revenue budget over the period of the MTFP in order to finance borrowing.

11.3 The context is an improving position with capital grants now at or approaching their levels pre austerity. There has been some easing of uncertainty in that the Conservative Government have essentially continued on the same course without the system reset often seen with a change of Government. The large focus within the Autumn Statement around infrastructure and housing delivery has helped in reinforcing the continuation of the previous direction of travel.

11.4 The Major Schools Build Programme does have some challenges in its planning and delivery due to the Basic Needs framework becoming more fragmented and ad hoc with school funding coming forward almost on a scheme by scheme basis from the Education Funding Agency (EFA). This is a major barrier to effective financial planning at a time when the demand for new schools places is at an all time high in Northamptonshire. This also represents a risk in relation to being able to establish a clear funding package in the control of NCC. However, NCC has established a very good working relationship and has been very successful in bringing in funding for the schools programme.

11.5 The Local Growth Fund administered through the Local Enterprise Partnership (LEP) has been another mechanism for funding from 2015-16 and is supporting the Council in delivering a number of high profile transport schemes. However as with EFA funding the involvement of more parties and the bidding approach can increase bureaucracy and delays and provide a lack of local delivery flexibility through having additional agencies involved. The Council continues to foster good relationships with its delivery partners but will need to manage the changing environment and structure within which it will be operating.

11.6 Following Government approval for a single LEP for the South East Midlands and Northamptonshire area, the County Council will cease its role as Accountable Body for the Northamptonshire Enterprise Partnership (NEP) from 31st March 2017. Responsibilities will transfer to Luton Borough Council who provide the Accountable Body role for SEMLEP. As part of this process NEP has ceased to trade from 30th September 2016 with a small number of key staff remaining until 31st March 2017. Work has been undertaken between all parties involved (NCC, NEP, SEMLEP and Luton Borough Council) to work through the legal and financial management of the current programme and the transfer and novation of contracts where required. I am confident that risks are being minimised during the transformation period closing NEP and integrating with SEMLEP.

11.7 The targets for asset disposals have been subject to a further thorough review as part of the more recent budget planning process. There will continue to be receipts coming forward across the next two years from the disposal of former Northampton School sites. The release of receipts from Strategic Land Holdings are clearly in the planning horizon of the five year Capital Programme but there is naturally some uncertainty as to their likely value albeit officers are making progress in bringing plans forward to realise the full value of these assets. For this reason, prudent assumptions have been made arising from the Capital Receipt Flexibility which will continue in 2017-18 and 2018-19 there will be a need for regular in year reviews of receipts in 2017-18 to manage the expectations of the MTFP in relation to the funding of the Council's NGC Plans.

11.8 Whilst there has been a thorough review of capital disposals there is no guarantee that the sales will be realised and ongoing review will be necessary and reported through the Monthly Capital Report.

11.9 One of the Council's key objectives is to grow Northamptonshire and this challenge will not easily be achieved without investment in the county's infrastructure. The first scheme being delivered through the Council's Revolving Innovative Funding Strategy, the Daventry Development Link is now in full delivery mode with main works commencing in July 2016 for completion early 2018. This historic agreement between the County Council and Daventry District Council has proven that partnership can certainly work. Naturally we will need to balance the desire to generate solutions through more innovative approaches with the management of risk. There are monthly officer meetings in place reviewing the overall approach.

11.10 England's Economic Heartland may be given Strategic Transport Board status from April 2017 and this collaboration between ten local authorities does have the potential to attract more capital resources into the region, particularly the Oxford Cambridge corridor.

12. Treasury Management

12.1 Forecasting the Council's future borrowing and lending costs 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, albeit with cheaper short term loans, and rates of return on investments at this time. The base rate is continually being forecast to remain at its historical low further into the medium term and the budgets will be regularly reviewed. Despite the improvement in the UK economy over the past year the base rate is still expected to stay at this level throughout 2017-18 with latest forecasts for Base Rate to remain at this level to Q2 2019. However we must continue to consider the timing to move to longer term borrowing.

Adequacy of Reserves

12.2 As set out in the Reserves Policy, the Council holds earmarked reserves to provide against known commitments and General Fund reserves to protect against a wide range of financial risks at this time. These are very much at an absolute minimum level going into 2017-18.

General Fund

12.3 There has been a continued stance on the recommended level of General Fund balances to be held, £12m for the life of the 2017-18 to 2020-21 MTFP. There are a number of factors which have added to the financial risks faced by the Council but also an acceptance that the Council has to operate in a higher risk environment. Nevertheless, it is positive and reassuring that the Council has not had cause to make use of its General Fund Balances during this continuing period of austerity.

12.4 However, as previously mentioned 2016-17 delivery does remain a challenge, therefore this will need to be used if spend exceeds budget and replenished immediately in 2017-18 through additional budget proposals or spend reductions.

12.5 Given the need to deliver £58m savings with only £12.0m of General Fund balances in place does leave the Council very exposed. However, to further replenish reserves would, of course, come at a cost. An increase would need resources to be diverted away from the revenue budget and potentially require additional reductions in service provision.

Earmarked Reserves

12.6 The Council has continued to use earmarked reserves in an appropriate manner, and in line with Government policy, therefore only has very specific ear marked reserves. Consequently any further use of reserves would be found from the General Fund, in the event of non-delivery of savings plans or new pressures emerging. However the General Fund must only be a measure of last resort and protected therefore placing the absolute onus on delivery of the savings contained in the Business Plans to address the structural budget issues faced by the Council.

12.7 There are no specific concerns surrounding school balances at this time but it is worthy of note that they will reduce over time with the transfer of schools to academy status.

13. Conclusions & Recommendations

13.1 It is well known and worth reiterating that the County Council has been historically poorly funded and the current system continues to penalise rather than reward upper tier authorities at the leading edge of the Government’s growth agenda.

13.2 With this the Council is not holding significant levels of earmarked and general reserves and has to build and implement the Next Generation Council at the same time as delivering services. Having little room to manoeuvre by historically using reserves, this ‘build as you go’ necessity has resulted in the need for in year interventions to take place if the direction of travel necessitates.

13.3 That said, 2016-17 and 2017-18 saw the introduction of the use of in year Capital Receipts to finance revenue transformation and the Council has taken full advantage of this.

13.4 In setting the 2017-18 budget I feel the need to identify the following risks;

Risk 1 - The key risk with taking advantage of the Capital Receipt financing flexibilities is that the planned level of Capital Receipts has to be delivered. I am confident that the Asset Exploitation Board and the approach to realising the necessary level of receipts is strong enough to minimise this risk.

13.4.1 There is a key assumption that the 2016-17 budget will be delivered and as is well documented transparently this is a significant undertaking and as at the time of setting the budget the forecast out turn states there is still £9.3m to be delivered.

Risk 2 – That the 2016-17 Revenue Budget is not fully delivered and that any non-delivery will need to be financed from General Reserves and replenished during 2017-18 with further proposals. This will need to urgently take place following the County Council elections. Management team are preparing proposals for this eventuality.

13.4.2 The Zero Base exercise has attempted to remove historical structural deficits and ensure that for 2017-18 the base budget reflects service demand and strategic outcomes. However this exercise completed in 2016 should not be seen as a one off exercise and should be adopted by all service areas and undertaken on an ongoing basis. Budgeting must not be seen as a one off exercise.

Risk 3 – Between Draft and Final Budget in February and the eventual out turn in May 2017 there may be significant movement in the service demand resulting in pressure on the base budget. I would therefore recommend that following the 2016-17 out turn the zero base budget reviews are repeated to ensure that the structural deficits are realigned for 2017-18.

13.4.3 As part of delivering the 2016-17 interventions and undertaking the zero base budget exercise we took the opportunity to review proposals identified in the 2016-17 budget and MTFP in terms of deliverability and timeframe. This resulted in far greater certainty in place in the implementation timetable as quite a lot of proposals had been supported by detailed planning and identification of implementation actions.

13.4.4 The conclusion was that specific proposals around Adults and Childrens, Families and Education Services needed to be revisited following the Draft Budget. The confirmation of Government Funding, Council Tax and Business Rates enabled these savings to be moderated to a total of £13m with the balance requiring further proposals which have been developed and included in the main report.

13.4.5 The proposals in place for Adults OCS and Learning Disability supported by detailed business case analysis have been reduced by a total value of £10m and has been partly financed through additional Adults Social Care Precept and funding arising from the Adults Social Care Grant of circa £5m.

13.4.6 The proposal in place for Targeted Early Help Service has been reduced by £3m to ensure the optimum level of resources are in place to fund the necessary preventive services required.

Risk 4 – The additional proposals developed since the Draft Budget haven't formed part of the budget consultation and scrutiny process therefore present a risk to deliverability. The appropriate consultation process will take place concerning any new proposals before any decision is taken. A decision in such circumstances will be taken by Cabinet after taking careful account of the results of such consultation in order to reach an informed decision. Where full consultation is necessary, full details will be presented to Cabinet separately.

13.4.7 During 2016-17 partnership with Health identified a lack of progress and development of reviews with issues around risk share and programme delivery in the BCF. This resulted in escalation and extensive officer intervention to ensure the process for 2017-18 is robust. However at the time of writing this report the BCF guidance for 2017-18 had not been released.

Risk 5 – Late guidance on the BCF could result in the direction of travel on Adult Social Care and Health integration changing. This therefore should be reviewed as soon as the guidance is available with a report back to Cabinet on any implications on the 2017-18 proposals and budget.

13.4.8 Due to the 2016-17 delivery challenges documented and highlighted during 2016-17 the Council took necessary steps to make its financial management and governance arrangements more robust to support its transformation.

Most importantly:

- Discretionary spend control; implementation of further controls to manage costs, focussing on effective procurement and increased restrictions on discretionary spends.
- Income Generation; maximising income, ensuring all new and existing opportunities are explored to maximise income generation.
- Vacancy management; further review of resourcing, ensuring staffing structures are working effectively as we transition to Next Generation Council.
- Reserves and Balance Sheet review; review commitments held within existing provisions, earmarked reserves and other balance sheet items.
- Ongoing review of the MTFP; further review of savings programmes, ensuring delivery of 2016-17 plans and identifying opportunities where delivery could be accelerated from future years' MTFP proposals.
- Identification of areas where the Council may need to consider stopping services aided by the introduction a strategic prioritisation policy framework

The 2017-18 budget delivery, even with extensive progress on the implementation of its proposals, with the risks identified above will still be challenging and will require continued focus and determination to deliver and in light of this NCC should consider maintaining the enhanced levels of financial control that are now in place in 2016-17.

Recommendations

13.5 **The Council has the plans in place in the Budget Report to transform services and to hold the course and direction of travel in ensuring its resources and services are sustainable, and from this perspective Council should approve the budget.**