

**STATEMENT BY
FINANCE EXECUTIVE MEMBER
ON COUNCIL TAX ESTIMATES 2016/2017**

COUNCIL MEETING – 11 FEBRUARY 2016

THE CURRENT YEAR FINANCIAL STATEMENT

At the commencement of this financial year (2015/16) it was anticipated that the available reserves for general fund activities at 1 April 2016 would be £8.176million. This included a balance in the general fund of £1.673million to cushion against unexpected increases in costs and reductions in revenues (financial risks). As at the end of January (month 10), the estimate of total available reserves has reduced to £7.921million, a reduction of £255k. This is largely due to a number of unfavourable variances reported during the year (£354k) and a reduction in the total funding expectation (£163k). The impact on reserves of activities in 2015/16 has, however, been partially offset by the request to carry budgets forward into 2016/17 and delay the spending on projects (£262k). The general fund balance has therefore been at a level greater than the budgeted minimum approved by Members at the time of setting the 2015/16 budget.

At the end of November, the revised estimate of net expenditure chargeable to the General Fund is £0.31m higher than the original budget of £16.06million.

All the various funds and other earmarked reserves held in the General Fund are estimated to total £10.8million at 31 March 2016 and comprise of the general fund of £6.2million and other earmarked reserves of £4.6million. The detail of the earmarked reserves can be found in Table 6 of the budget report.

The total amount of available reserves has been increased in a planned way over recent years in order to cushion against future funding uncertainties. The special reserve has continued to be maintained to help ensure there are sufficient funds available to help fund “invest to save” investment, which is likely to be required to achieve longer term efficiencies.

CAPITAL ACCOUNTS

The Council’s Capital Financing Requirement (CFR) is estimated to be a negative £16million at 31 March 2016. This is a reduction of over £4million on the position at 31 March 2015 because set aside receipts have been used to fund the capital programme. The CFR denotes the Council’s underlying need to borrow for capital purposes.

When the Council disposes of assets, the proceeds must be earmarked in the Useable Capital Receipts Reserve for spend on capital purposes only. It is estimated that at 31 March 2016 the Council will have a balance of just over £2million in this reserve for capital purposes.

GENERAL FUND ESTIMATES 2016/2017

This financial year again reflects the principles of priority-led budgeting. This approach seeks to ensure that policy drives financial planning and gives members choices on their budget priorities.

The Corporate Business Planning process for 2016/17 began early in the year, due to the extent of the efficiencies required to balance the budget over the longer term and the uncertainty over the government funding arrangements. The medium term financial strategy highlighted those key areas of strategic, statutory and inflationary spending where the Council has made a positive decision to meet both Government and customer expectations and indicated that to maintain a reasonable use of reserves the Council would need to find on-going efficiencies of around £2.6million over the period 2016/17 to 2020/21. The consultation process included discussion at members' workshops and seeking the views of the business ratepayers. The budget proposal includes the results of the consultation exercises and is based on the Council's priorities to include the following:

- The Budget is based on financing activity that supports the Council's priorities
- In-built contractual inflation based on the relevant indices e.g. CPI, RPI or RPIX
- Contractual pay increase and 1% Pay Award
- For investment income an average rate of 1% on new long term deals and 0.7% on short term deals.
- Standstill budget for all other items i.e. no general inflation
- A 2.1% (November CPI + 2%) increase on discretionary fees and charges income
- Government support in 2016/17 totaling £6.0million, a reduction of 11% on the current year
- Efficiency proposals totaling £357k.
- Investment or growth in expenditure of £411k.

The following is a list of the key growth and pressures on the Council's budgets with an indication of the effect on the Council Tax:

	£'000	Increase in Council Tax
Contract Inflation	90	1%
Contract Pay Inflation	180	2%
Increase in Employer NI contributions from introduction of Single Tier Pension from April 2016	217	2%
Investment and growth in priorities	411	4%
Total Growth	898	9%

Without significant efficiency gains in the base budget and savings identified by officers, the Council would potentially be seeking for the council taxpayer to fund that level of increase, 9%, which would have resulted in a referendum.

The five year financial strategy outlined the additional costs falling on the General Fund in future years as a result of inflation and growth and outlined a strategy to deal with these increases. It planned for the removal of Revenue Support Grant but did not foresee the introduction of negative RSG, which was announced in the provisional settlement in

December. The Final settlement has delayed the introduction of negative RSG, which now first becomes payable in 2019/20. To deal with the budgetary pressures, we will continue to scrutinise all budgets and use the Council's Corporate Board to investigate other means of reducing net expenditure. This year the Financial Strategy also made further explicit proposals to continue advancing the themes from previous years:

- That discretionary fees & charges are increased by CPI plus 2%
- The Council will set the level of Council Tax increase year on year at no more than 0.1% below the Referendum threshold imposed by Government. If no Referendum threshold is imposed, the council will ordinarily set the level of Council Tax increase year on year at no more than 2%
- Introduction of specific policy papers for Reserves and Fees & Charges
- Introduction of a specific Asset Management section
- That, as part of the annual budgetary process, Full Council may approve that unallocated Area Committee budgets can be carried forward from one year to the next and not be subject to the normal rules for carry forward budgets.
- The potential to utilise social media for budget consultation and/or an externally facilitated participatory budget exercise.

By planning for the medium to longer term, consideration can be given to projects which may require initial investment before delivering benefits. These include looking into mechanisms for market housing development; working with other Authorities, such as with regard to Waste Services, and also working with our contractors to investigate opportunities to save on revenue costs by releasing capital investment e.g. North Hertfordshire Leisure Centre.

A major issue to be taken into account in setting the budget for 2016/17 is, as always, the Local Government Finance Settlement. The provisional settlement announcement made on 17 December 2015 resulted in a settlement funding assessment for 2016/17 totalling £3.316million, considerably less than the amount of £4.361million received for 2015/16. While the final settlement announcement on the 8th February confirmed the provisional funding assessment, it also made available additional funding to ease the pace of funding reductions during the first two years of the settlement for councils with the sharpest reductions in Revenue Support Grant. As detailed in the addendum report, for NHDC this additional funding equates to a confirmed transition grant allocation of £144,700 in 2016/17, with a further £140,600 indicated in 2017/18. New Homes Bonus is also a key element of the Council's funding. In 2016/17 the Council is expecting to receive a total of £2.718million for the scheme. Together with the settlement funding assessment and the transition grant, this means that in total the reduction in Government funding from 2015/16 to 2016/17 is £584k or 8.6%.

The final settlement published on 8 February 2016 was for the next four financial years, with indicative funding figures included for the three years up to 2019/20. In announcing the final settlement to Parliament, the Secretary of State confirmed that Councils have the option to apply for this 'four year budget' and have until 14 October 2016 to respond to this offer. He has yet to announce the details of the required efficiency plan. He has also previously indicated that if authorities chose to opt for a single year settlement there can be no guarantee that funds will be available at the levels shown in future years.

In the final settlement announcement, the Secretary of State also indicated that the referendum limit for District Council Council tax increases was set at the higher of 2% or £5 over the four years to 2019/20.

The government is also currently consulting on future changes to the New Homes Bonus. Proposals include a reduction in the payments timescale for New Homes Bonus from six years to four and also that the bonus is only paid for houses built above a certain baseline level. The current assessment is that any changes will not commence until 2018/19, however the Consultation paper makes clear that only authorities with a Local Plan will be eligible to receive New Homes Bonus from 2017/18 and that the bonus will be reduced where homes are allowed only on appeal.

The estimates have been prepared in line with the Council's management structure and the proposed budget estimates are provided in your papers tonight. The general fund summary outlines the total budget for each Directorate that make up the proposed budget of £16.553million.

CAPITAL PROGRAMME

Total capital expenditure requested by the Senior Management Team for 2016/17 amounts to £8.6million. Total capital expenditure requested for the period 2016/17 to 2019/20 amounts to £19.7million.

The Cabinet at their meeting on 26 January 2016 considered the requests of the Senior Management Team and resolved to recommend approval of the programme subject to adequate resources being available. You will also have seen the Capital addendum report which adds 4 schemes which were omitted from the original lists. The budget allocations for each capital scheme will be provided in the budget book together with the anticipated funding arrangements.

BUSINESS RATES

Locally retained business rates give us a financial incentive to promote growth in the business base of the district. The Chancellor has reiterated the commitment to move to 100% Business Rates retention by the end of this Parliament and consultation is to begin in 2016. It has been made clear that the Government view this as the opportunity to review "the role and purpose of Local Government" and will be seeking to also pass additional funding responsibilities to the sector.

As of the 1 April 2013, 50% of the collectible Business Rates is retained by Local Government with the remaining 50% paid to central government. NHDC then passes 20% of the retained 50% to the County Council and then, as a tariff authority pays approximately 83.75% to Central Government to reflect the fact that our income from Business rates is higher than our assessed need. This means that for every £1 collected in Business rates, NHDC is anticipated to keep 6.6p.

In 2016/17 the Council will remain in a business rate pooling arrangement with Hertfordshire County Council and four other Districts. As a result the Council will benefit from a lower levy on any growth above the baseline. It has been calculated by HCC, the leader member of the pool, that being part of the pooling arrangement in 2015/16 has reduced NHDC's estimated levy payment by around £200k.

As in previous years, and in accordance with the Local Government Finance Act 1992, I arranged a consultation meeting with representatives of Industry and Commerce on 18 January 2016.

DISTRICT COUNCIL REQUIREMENTS 2016/2017

The budget proposals were put together after taking into consideration the comments and recommendations from the various consultation meetings and reflecting on the priorities of the Council.

The overall estimates considered by the Cabinet at its meeting on 26 January 2016, indicate a net expenditure for the Council's own requirements of £16.553million. This is £492k more than the 2015/16 original projected net expenditure and reflects the growth and pressures mentioned earlier.

An assessment of the risks faced in the coming year has identified items where the financial impact is not wholly known and prudence would therefore indicate the need to set the General Fund balance substantially higher than the minimum. The full list of all the identified financial risks is attached to the budget report as an appendix.

Although the total assessment of risk is £6.155million, the level of risk varies from high/medium to low. Taking a proportion of the risk into account would mean it would be prudent to increase balances by £866,000 above the minimum level. As required by the Local Government Act 2003, the Strategic Director of Finance, Policy & Governance, as Chief Finance Officer, must give an assurance on the robustness of the estimates and the adequacy of reserves allowed for in the budget. The Strategic Director advises that a General Fund minimum balance of £1.694million for 2016/17 is necessary.

As mentioned previously, the proposed efficiencies total £357,000 in 2016/17. In light of the future cuts in government funding indicated in the Provisional Settlement announced in December, with central government funding estimated to reduce by 45% over the next four years, it is imperative that the Council finds further efficiencies over the coming four years. The Council will continue to seek alternative means of working in order to bridge the budget gap and restrict the impact on essential services to residents as far as possible.

The planned increases in General Fund balances over recent years enables NHDC to drawdown on reserves to mitigate the impact of the reduced funding settlement in 2016/17. The maintenance of the special reserve also means that the Council does have funds available for any specific financial pressures such as pump priming for invest to save and initiatives for shared services, one-off redundancy costs following restructures, changing working practices, major contract renewals, unexpected contract variations and other financial pressures.

Any major change to the way services are delivered is likely to require a lead-in time to fully implement and similarly any reduction in service is likely to need a phased approach. As such, it is clear that this Corporate Business Planning process must continue to establish the agenda for the next four years.

We should not forget that the Council has already taken action to reconfigure services through outsourcing, centralising and restructuring. Around £2million has been taken from the staff establishment since 2009/10. We have also made a significant amount of investment in the Council's assets to ensure we continue to provide good value for money

in the delivery of our services, the enhancements to our leisure centres being a good example.

Cabinet recommend that a 1.9% increase on the Council Tax (average band D of £211.96) be levied upon the Collection Fund for 2016/17, a precept of £10,171,906. In order to achieve this Cabinet is therefore recommending that a budget of £16.553million and a minimum General Fund balance at 31 March 2017 in the region of £1.694million be maintained.

This represents an increase of £3.95 (or just under 8 pence per week) to a Band D Council Tax payer. The 1.9% increase can be demonstrated as follows: -

DISTRICT COUNCIL TAX AT BAND D

		Change from 2015/2016
	£	%
NHDC Budget	<u>344.93</u>	+2
Less:-		
Contribution from reserves	5.28	
Government Grant & Business Rates	68.03	-25
<u>New Homes Bonus</u>	<u>56.64</u>	<u>+12</u>
NHDC (All Areas)	<u>211.96</u>	+1.9

The Council Tax requirement for the Council's own purposes (excluding Parish precepts) is £10,171,906. Parish Precepts, as listed in the addendum report tonight, total £1,005,472. Therefore, the total Council Tax requirement including Parish Precepts is £11,177,378.

The Hertfordshire Police and Crime Commissioner will give formal notification of their precept requirement on Friday 26 February 2016 and Hertfordshire County Council will give formal notification of their precept requirement on Tuesday, 23 February 2016. This has forced us to delay our formal Council Tax Resolution until 29 February 2016.

Finally I would like to thank all the officers across the Council, for their hard work and commitment in producing the budget information under such continued difficult financial circumstances.

**As Presented by COUNCILLOR Terry Hone.
*Finance Executive Member***