

COUNCIL

9 FEBRUARY 2017

*PART 1 – PUBLIC DOCUMENT

AGENDA ITEM No.

6

TITLE OF REPORT: ITEM REFERRED FROM CABINET: 24 JANUARY 2017 – CORPORATE BUSINESS PLANNING – BUDGET 2017/18

The following is an extract from the Draft Minutes of the Cabinet meeting held on 24 January 2017.

103. CORPORATE BUSINESS PLANNING – BUDGET SETTING 2017/18

The Executive Member for Finance and IT presented the report of the Strategic Director of Finance, Policy and Governance in respect of Corporate Business Planning – Budget Setting 2017/18. The following appendices were submitted with the report:

Appendix 1 - General Fund estimates (1.9% Council Tax increase);
Appendix 2 - General Fund estimates (£5 Council Tax increase);
Appendix 3 – Revenue Efficiency and Investment proposals;
Appendix 4 – Revised NHDC Sustainability Plan; and
Appendix 5 – Budget Risks for 2017/18.

The Chairman of the Finance, Audit and Risk Committee presented the following referral from that Committee, made at its meeting held on 23 January 2017, in respect of the Corporate Business Planning – Budget Setting 2017/18 (Minute 64 refers):

“RECOMMENDED TO CABINET: That, following the Committee’s disappointment that the Cabinet had not accepted its previous recommendation in respect of Efficiency Saving E25 – Replace Area Committees with a more informal alternative, it was recommended that this item be removed as:

- (i) it was still premature/speculative at the current time to identify a savings figure for this proposal, without a fully costed alternative; and
- (ii) the rationale for the savings figure of £50,000 was unclear from the paperwork, especially as no alternative had been identified.”

The Executive Member for Finance and IT advised that the recommendation from the Finance, Audit and Risk Committee would be considered when the Cabinet discussed the efficiencies and investment proposals later in the meeting.

The Executive Member for Finance and IT stated that the Budget would be adjusted in the paperwork that was submitted to Council on 9 February 2017 to reflect the decision made at the Council meeting held on 19 January 2017 regarding the increase in Member’s Allowances for 2017/18.

The Executive Member for Finance and IT advised that the major changes to the report from the draft Budget report considered by the Committee in December 2017 were as follows:

- The proposed changes to New Homes Bonus that introduced a baseline percentage were now incorporated into the main report, they were previously provided as an addendum;

- The forecast of numbers of new homes had been reviewed. Based on the revised information available, this was not expected to lead to a significant change in the funding;
- The Council Tax Base for 2017/18 had been reviewed. This was an increase of 1.4% from 2016/17, and was higher than the previously expected increase of 0.65%. This was expected to generate an additional £75,000 of Council Tax income from 2017/18 onwards;
- Budget risks for 2017/18 had been reviewed again, leading to small increase in the amount to allow for in the minimum General Fund balance;
- A high level review of budgets, as at the end of November 2016, had been carried out. This had identified £469,000 of underspends against the working budget. Of this there were requests for £191,000 of this to be carried forward into 2017/18. The impact on 2017/18 was expected to be minimal (£5,000);
- The decrease in funding meant that further savings needed to be identified and delivered. When combined with the shortfall against the existing target, there was a need to deliver at least a further £1.43 million of savings by 2020/21; and
- A revised NHDC sustainability plan was attached to this report as Appendix 4.

The Executive Member for Finance and IT summarised the other major elements of the report. He remained of the view that a £5 increase (Band D equivalent) in Council Tax for 2017/18 was appropriate, and that the Capital Receipts direction proposals contained in the report be confirmed.

The Executive Member for Finance and IT went through the lists of Efficiency and Investment proposals contained in Appendices 3 and 4 to the report. The following comments/amendments were made:

- E3 - Parking Strategy – meetings regarding this matter were ongoing, and any proposals forthcoming would be the subject of consultation with interested parties, including town Centre Managers and Area Committees;
- E11/E12 – Green Space Management Strategy – the expenditure reduction figures would be adjusted on these items to reflect the decision made earlier in the meeting on this matter;
- E19 - NHDC Apprenticeship Scheme – continuation of the Scheme for 2017/18 was safeguarded, but this matter would be reviewed each year;
- E25 - Replace Area Committees with a more informal alternative – the Executive Member for Policy, Transport and Green Issues commented that the issue raised by the Finance, Audit and Risk Committee in December 2016 had been addressed by Cabinet at its meeting held on 20 December 2016, the minutes stating "...although the concerns of the Finance, Audit and Risk Committee were acknowledged, this proposal should remain in place to allow alternatives to be investigated". The Executive Member for Policy, Transport and Green Issues remained of that view, and he advised that further meetings would take place to identify a more informal alternative. However, it was unlikely that that any informal alternative would be in place for the start of the 2017/18 financial year, and hence it was agreed that the saving figure for 2017/18 should be halved to £25,000;
- E28 - Removal of Allotment concessions – it was agreed that this item be deleted, pending a review of the viability of all Council concessions.

RECOMMENDED TO COUNCIL:

- (1) That it be noted that the provisional Central Government settlement for 2017/18 is £4.671 million, which is £186,000 less than previously forecast;
- (2) That the estimated position on the Collection Funds and how this will be funded be noted;

- (3) That a £5 increase (Band D equivalent) in Council Tax for 2017/18 be approved;
- (4) That the position relating to the General Fund balance be noted and, that due to the risks identified, a minimum balance of £1.6 million is recommended;
- (5) That the reduction in the 2016/17 working budget of £469,000 be approved, and the expected impact in 2017/18 of £5,000 be noted;
- (6) That the requests for carry-forward that total £191,000 be noted;
- (7) That the inclusion of the efficiencies and investment proposals, as set out at Appendix 3 to the report, in the General Fund budget estimates for 2017/18 be approved, subject to the following amendments:
 - E11/E12 – Green Space Management Strategy – the expenditure reduction figures to be adjusted to reflect the decision made earlier in the meeting on this matter;
 - E25 – Replace Area Committees with a more informal alternative – the saving in 2017/18 be halved to £25,000, as it was unlikely that any informal alternative would be in place for the start of the 2017/18 financial year;
 - E28 – Removal of Allotment concessions – this item be deleted, pending a review of the viability of all Council concessions;
- (8) That the savings targets for future years be noted;
- (9) That the inclusion of the Capital Receipts direction proposals in the budget report be confirmed;
- (10) That the NHDC Sustainability Plan, as attached at Appendix 4 to the report, be noted; and
- (11) That the estimated 2017/18 net expenditure of £16.5Million, as detailed in Appendix 2 to the report, be approved.

REASON FOR DECISION: To ensure that all relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2017/18; and to ensure that the Cabinet recommends a balanced budget to Council on 9 February 2017.

The following is the report considered by Cabinet at its meeting held on 24 January 2017 (Note: the report and appendices have been amended to reflect the Cabinet's decision on the Budget made at the above meeting.)

TITLE OF REPORT: CORPORATE BUSINESS PLANNING - DRAFT BUDGET 2017/18

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE
EXECUTIVE MEMBER: COUNCILLOR T.W. HONE

1. SUMMARY

- 1.1 To consider the draft budget for 2017/18 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Tax level and to recommend the appropriate level to the meeting of the Council on the 9 February 2017.
- 1.2 To consider the key factors, both of known and unknown amount, which could impact on NHDC finances within the period of the medium term financial strategy (2017 – 2022).
- 1.3 This report is similar to that presented to Cabinet in December. The main changes and points to note are:
 - The proposed changes to New Homes Bonus that introduce a baseline percentage are now incorporated in to the main report, they were previously provided as an addendum (paragraph 8.1.2)
 - The forecast of numbers of new homes has been reviewed. Based on the revised information available, this is not expected to lead to a significant change in the funding (paragraph 8.1.4).
 - The Council Tax base for 2017/18 has been reviewed. This is an increase of 1.4% from 2016/17, and is higher than the previously expected increase of 0.65%. This is expected to generate an additional £75k of Council Tax income from 2017/18 onward (paragraph 8.2.7).
 - Budget risks for 2017/18 have been reviewed again, leading to small increase in the amount to allow for in the minimum general fund balance (paragraphs 8.3.5 and 8.3.6).
 - A high level review of budgets as at the end of November has been carried out. This has identified £469k of underspends against the working budget. Of this there are requests for £191k of this to be carried forward in to 2017/18. The impact on 2017/18 is expected to be minimal (£5k) (paragraph 8.4.1).
 - The decrease in funding means that further savings need to be identified and delivered. When combined with the shortfall against the existing target, there is a need to deliver at least a further **£1.43 million** of savings by 2020/21 (paragraph 8.5.2).
 - A revised NHDC sustainability plan is attached to this report as appendix 4 (paragraph 8.7.2).

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the provisional Central Government settlement for 2017/18 is £4.671 million. This is £186k less than previously forecast.**
- 2.2 That Cabinet notes the estimated position on the Collection Funds and how this will be funded.**
- 2.3 That Cabinet recommends to Council a £5 increase (Band D equivalent) in Council Tax for 2017/18.**
- 2.4 That Cabinet notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £1.6 million is recommended.**
- 2.5 That Cabinet approves the reduction in the 2016/17 working budget of £469k, and notes the expected impact in 2017/18 of £5k.**
- 2.6 That Cabinet notes and comments on the requests for carry-forward that total £191k.**
- 2.7 That Cabinet approves the inclusion of the efficiencies and investment proposals at Appendix 3 in the General Fund budget estimates for 2017/18.**
- 2.8 That Cabinet notes the savings targets for future years.**
- 2.9 That Cabinet confirms the inclusion of the Capital Receipts direction proposals in the budget report that will be provided to Council.**
- 2.10 That Cabinet notes the NHDC Sustainability Plan attached at Appendix 4.**
- 2.11 That Cabinet notes the estimated 2017/18 net expenditure of £16.5m, as detailed in Appendix 2, and recommends this budget to Council.**

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure that all relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2017/18.**
- 3.2 To ensure that the Cabinet recommends a balanced budget to Council on 9 February 2017.**

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 During September and October, Political Groups were asked for savings ideas that they wanted Officers to investigate further. These have been combined with ideas generated by Officers. The total value of the ideas presented is less than the funding gap that needs to be met over 4 years. This means that currently there are not any alternative options available.**

5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD COUNCILLORS

- 5.1 All Councillors were given opportunity to comment on the efficiency and investment proposals at the Budget Workshops.**

5.2 The Cabinet will consult on the proposals in this report with the Business Rate Payers Group in January 2017. This is the only statutory consultation that is required.

5.3 Any savings that have an impact on a specific area (or areas) will be referred to that Area Committee(s) during January.

6. FORWARD PLAN

6.1 This Report contains a recommendation on a key decision to be taken by Council on 9 February 2017 that was first notified to the public in the Forward Plan in October 2016.

7. BACKGROUND

7.1 The Medium Term Financial Strategy (MTFS), which provides the financial background to the Corporate Business Planning process for 2017-2022, was adopted by Full Council on the 1 September 2016 following recommendation by Cabinet.

7.2 The MTFS included a number of assumptions, which will be updated as better information becomes available. The final budget will still contain some assumptions, and this is why monitoring reports are provided to Cabinet on a quarterly basis.

7.3 In anticipation of the decline in future funding, NHDC has increased the level of general fund reserves. The Council is legally required to have adequate reserves and the estimate is that these should be at least £1.6 million.

7.4 Significant savings have been delivered in recent years (e.g. £5.2 million since 2011/12). This means that the opportunity for savings from reducing resources and staffing levels is now extremely limited. Instead the focus is now on service transformation and making best use of capital assets.

7.5 The meeting of Full Council in September gave delegated responsibility to the Strategic Director of Finance, Policy and Governance (in consultation with the Executive Member for Finance and IT) to submit a 4 year efficiency plan. This was submitted and an acceptance letter has been received. This confirms the previously announced allocations for 2017/18 to 2019/20 subject to any transfer of responsibilities or exceptional circumstances.

7.6 NHDC's funding is split between revenue (i.e. the day-to-day running costs) and capital (i.e. creating and improving assets). The general rule is that capital funding can not be used for revenue expenditure. However in the 2015 Spending Review, the Chancellor announced the "flexible use of Capital Receipts direction". Subject to certain conditions this allows Local Authorities to use new Capital Receipts to fund the revenue costs of reform projects.

8. ISSUES

8.1 Central Government funding

8.1.1 On the 23 November 2016, the Chancellor made his Autumn Statement. This announcement provides an update on the current state of public finances and the latest economic forecasts. None of the announcements had a significant specific impact on NHDC.

- 8.1.2 The provisional settlement (announced on 15 December 2016) introduced a baseline growth in New Homes of 0.4%. This means that 0.4% growth in dwelling stock is assumed, and New Homes Bonus will only be paid on growth above this level. For NHDC, the 0.4% baseline is equivalent to around 230 new homes per year. The previous forecast had assumed some reduction in relation to a baseline or dead-weight, but not to this extent.
- 8.1.3 As expected the period over which New Homes Bonus is paid has also been reduced. When it was introduced it was intended that the Bonus would be paid for 6 years for each new home. This period has now been reduced to 5 years for 2017/18 and 4 years from 2018/19 onwards. This change had already been reflected in forecasts. Table 1 below demonstrates how New Homes Bonus is paid over time.

Table 1: Phasing of New Homes Bonus Payments

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Year 1									
Year 2									
Year 3									
Year 4									
Year 5									
Year 6									
Year 7									
Year 8									
Year 9									

- 8.1.4 As New Homes Bonus is mainly linked to the number of homes being built, updated Local Plan forecasts have been used to give a revised estimate of this funding stream. The forecast additional income is £6k over the four years, but there are greater changes in each year. The bonus is also paid on the net change in empty properties. During the period October 2015 to October 2016 there was a net increase in empty properties (44) which reduced the bonus received. Currently no forecast is made of the net change in empty properties.
- 8.1.5 The current estimates of non-specific Central Government is detailed in table 2 below. By submitting an efficiency plan (as referenced in paragraph 7.5), the totals for Revenue Support Grant, Transitional Funding and Business Rates baseline for the next three years should not change. This funding is used towards NHDC's base budget. The bottom row shows the change from the estimated funding included in the September Medium Term Financial Strategy report to Council.

**Table 2: Estimated Central Government Funding for 2017/18 onwards
(All amounts in £k)**

2016/17		2017/18	2018/19	2019/20	2020/21
821	Revenue Support Grant	0	0	(1,070)	(1,125)
145	Transitional Funding	140	0	0	0
2,495	Business Rates Baseline (share income less tariff)	2,545	2,628	2,721	2,757
3,461	Funding Assessment	2,685	2,628	1,651	1,632
2,718	New Homes Bonus	1,986	1,265	1,119	1,252
6,179	Total non-specific funding	4,671	3,893	2,770	2,884
	Change on previous year	(1,508)	(778)	(1,223)	114
	Change from previous estimate (September Council)	(186)	(352)	(439)	(594)

8.1.6 Cabinet is asked in Recommendation 2.1 to note the provisional Central Government settlement for 2017/18 is £4.671 million. This is £186k less than previously forecast.

8.1.7 NHDC also receives grants for specific purposes. These grants are built in to service budgets and have therefore already been taken in to account when determining spend forecasts, so can not be used towards funding the base budget. However as detailed in table 3 below some of the amounts are uncertain. Therefore any reductions in the amounts received are likely to create a spending pressure that would need to be met from general base budget funding.

Table 3: Forecasts in relation to Specific Government Grants

	2016/17 amount expected £'000	Expectation for 2017/18
Housing Benefit Subsidy	38,210	An estimate will be available late January 2017.
Discretionary Housing Payments	218	An announcement is expected shortly
Benefits Administration and Fraud Initiative	551	The Council has received notification from the DWP that the Housing Benefit Administration Subsidy will reduce to £379k in 2017/18 (410k in 2016/17). The Council has been informed that the provisional allocation of Localised Council Tax Support (LCTS) Admin Subsidy Grant in 2017/18 is £134k (£141k in 2016/17). The total grant expectation of £513k in 2017/18 is therefore a reduction of £38k on the amount expected in 2016/17.
Section 31 Grants to reimburse the impact of Business Rate reliefs and caps.	595	This grant is to compensate for the cost of changes to the business rates system announced in the 2016 Autumn Statement. This amount is likely to increase with the extension of the qualifying criteria for Small Business Rate Relief.
Waste minimisation – HCC contribution via the Alternate Financial Model.	336	While the total funding 'pot' is planned to reduce by a total of £1m over the next four years, the most recent projection provided by HCC indicated that NHDC annual funding will remain similar to the current expectation in the medium term estimates. Actual AFM funding received will however depend on the annual recycling performance of NHDC relative to the corresponding performance of the other Hertfordshire waste collection authorities.
Public Health Fund	33	It was originally expected that NHDC would receive the full £100k grant in 2015/16 however, due to spending cuts in the public health budget announced by the government, North Herts has instead received £33.3k in 2015/16, £33.3k in 2016/17 and will receive £33.3k in 2017/18. The total funding amount received of £100k must be spent by the end of March 2018.
NNDR Administration Grant	184	This will become known as the NNDR 1 for 2017/18 is completed in January.
Get Active	98	The Get Active North Herts programme will receive a total of £250k from Sport England over three calendar years, starting from 2016.
Total Revenue Grants	40,225	

8.2 Council Tax and Business Rates

8.2.1 NHDC is required to maintain a Collection Fund to account for the income received and costs of collection for Council Tax and Business Rates. Estimates of the net income are made at the start of the year and based on this money is

transferred out of the fund to the NHDC general fund and other precepting bodies. The Fund is required to break even over time and any surplus or deficit is transferred to the NHDC general fund and other precepting bodies.

- 8.2.2 The amount of Council Tax that is collected is dependent on the actual number of properties, eligibility for paying a reduced amount (Council Tax Reduction Scheme) and the success in collecting what is owed. The amount of Business Rates that are collected is dependent on the number and type of business premises in the area, the success in collecting what is owed, eligibility for relief and the number of successful appeals. Assumptions on these factors are made in forecasting the level of income from Council Tax and Business Rates in future years.
- 8.2.3 Current forecasts are that the Business Rates collection fund will have a deficit at the end of the year. This is due to the level of appeals and rate reliefs. NHDC will need to fund its share of the deficit. The section 31 grant that NHDC receives for business rate reliefs and caps will be used for this purpose (see table 3). It is expected that the Council Tax collection fund will have a small surplus.
- 8.2.4 **Cabinet is asked in recommendation 2.2 to note the estimated position on the Collection Funds and how this will be funded.**
- 8.2.5 A business rate revaluation has just been completed, that will take effect from 1st April 2017. This has involved reassessing the rateable value of all business premises across the country. The rateable value is multiplied by a set poundage rate to determine the rates that a business will pay. The poundage will be reset so that the overall gain from the revaluation at a national level is zero (after allowing for inflation and an appeals provision). For Local Authorities the business rate tariff is adjusted to maintain the baseline funding at the same level. A new appeals process (known as check, challenge, appeal) is also being introduced, and it is hoped that this will reduce the volumes of appeals and the funding uncertainty that this creates.
- 8.2.6 The provisional settlement maintained the option for Local Authorities to increase Council Tax by up to 2% or £5 (for Band D). For lower tier authorities, £5 tends to be more than 2% and therefore provides an opportunity to increase available funding, without the need for a referendum. Table 4 highlights the forecast difference in funding and impact on households from a £5 increase compared to a 1.9% increase. Given the overall funding pressures, Cabinet is asked to recommend to Council a £5 increase in Council Tax. The £5 increase applies to Band D properties and other increases will be pro-rata.

Table 4: Comparing a 1.9% and £5 Council Tax increase

2016/17		2017/18	2018/19	2019/20	2020/21
211.96	Band D Council Tax (£), increasing at 1.9% per year	215.99	220.09	224.27	228.53
	Band D Council Tax (£), increasing at £5 per year	216.96	221.96	226.96	231.96
	Increase as a %	2.4%	2.3%	2.3%	2.2%
10.172	Council Tax income to NHDC, at 1.9% (£m)*	10.508	10.707	10.911	11.118
10.172	Council Tax income to NHDC, at £5 (£m)*	10.555	10.798	11.041	11.285
	Difference in Council Tax income to NHDC (£m)*	0.047	0.091	0.130	0.167

* Based on a Council Tax base of 48,649 Band D equivalent properties. No growth is assumed for the purposes of a like-for-like comparison.

8.2.7 Officers have now completed the review of the net Council Tax base for 2017/18 and it is forecast to be 48,649 Band D equivalent properties. This is an increase of 1.4% from 2016/17, and is higher than the previously expected increase of 0.65%. This is anticipated to generate an additional £75k of Council Tax income from 2017/18 onwards.

8.2.8 It should be noted that the Council Tax figures in table 4 represent only the District Council element of the Council Tax bill for households. Table 5 below shows the constituent elements of the 2016/17 Council Tax bill for a Band D property (excluding any Parish precept).

Table 5: Band D Council Tax 2016/17 (excluding Parish precepts)

	2016/17	Share of bill
	£	
District	211.96	13.7%
County Council	1,163.80	75.3%
County Council- Social Care Precept	22.82	1.5%
Police and Crime Commissioner	147.00	9.5%
Total	1,545.48	100.00%

8.2.9 Cabinet is asked in recommendation 2.3 to recommend to Council a £5 increase (Band D equivalent) in Council Tax for 2017/18.

8.3 Balances and Reserves

8.3.1 Before setting the budget, it is necessary to review the position of balances and reserves. This determines the extent to which the current budget can be supported by use of reserves, or requires a budget to be set that includes an allowance for increasing reserves. In addition to the General Fund balance, NHDC has specific reserves and provisions. Specific reserves are amounts that are set aside for a determined purpose. This purpose can arise from a choice made by the Council, or where it is felt that there is an obligation. Provisions are where there is a requirement on the Council to meet future expenditure, and a reasonable estimate can be made of the amount and timing. In determining the risks that may need to be met from the General Fund, it is important to know which risks will already be covered by amounts that are set aside as a specific reserve or provision.

8.3.2 A full list of specific reserves and forecast balances is shown in table 6.

Table 6: Specific Reserves

All amounts in £000

	Balance at 1 April 2016	Forecast balance at 31 March 2017
Cemetery Mausoleum	118	118
Children's Services	10	7
Climate Change Grant	30	30
Community Development	1	1
Community Right to Bid	45	45
DCLG Grants	549	571
DWP Additional Grants	13	3
Environmental Warranty Reserve	209	209
Growth Area Fund	53	53
Homelessness	33	33
Housing Planning Delivery Reserve	370	133

	Balance at 1 April 2016	Forecast balance at 31 March 2017
Information Technology Reserve	82	0
Insurance Reserve	36	36
Leisure Management Reserve	89	109
Local Authority Mortgage Scheme	82	107
Museum Exhibits Reserve	13	13
Neighbourhood Plan Reserve	55	11
Office Move IT Works	7	7
Paintings Conservation	13	13
Personal Search Fees	179	108
Property Maintenance	58	68
S106 Monitoring	84	69
Special Reserve	1,720	1,720
Street Furniture	6	10
Street Name Plates	8	8
Taxi Licences Reserve	6	6
Town Centre Maintenance	34	34
Town Wide Review	222	222
Waste Reserve	480	499
Total Specific Reserves	4,605	4,243

8.3.3 As at the 31 March 2016 there was a total of £955k held as provisions. These comprised of:

- Business Rates appeals- the NHDC share of outstanding business rates appeals. This makes up £910k of the total.
- Insurance- covers the uninsured aspect of outstanding insurance claims
- Baldock Road Pavilion- for the rebuilding of the pavilion which burnt down a number of years ago. The monies were received from an insurance payment.

8.3.4 NHDC operates with a reserve balance for General Fund activities in order to provide a cushion against unexpected increases in costs, reductions in revenues and expenditure requirements. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) suggests that the revenue balances should be set at no less than 5% of net revenue expenditure, having taken account of the risks faced by the Authority in any particular year. As net expenditure is anticipated to be around £16.5 million, this means a minimum balance of approximately £800k. The minimum figure represents the cushion against totally unforeseen items. When setting the level of balances for any particular year, known risks which are not being budgeted for should be added to this figure, according to risk likelihood.

8.3.5 An assessment of the risks has been compiled for the coming year based on risks identified by each Head of Service/ Corporate Manager and cross-referenced to the risk register. The identified areas are where the financial impact is not wholly known, but an estimate can be made. The amount allocated is based on the forecast likelihood of occurrence. Where there is a high likelihood, 50% of the estimated financial impact is allowed for. For medium likelihood, it is 25%. For low likelihood, it is 0%. Table 7 summarises the risks, the forecast impact and the risk allowance to be made. The full list is provided as Appendix 5.

Table 7: Budget risks 2017/18

Category	Number of risks	Forecast value of impact £000	Risk Allowance £000
High	8	610	305
Medium	25	1,992	490
Low	35	3,529	0
Total	68	6,131	795

8.3.6 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £1.6 million should be maintained.

8.3.7 Cabinet is asked in recommendation 2.4 to note the position relating to the General Fund balance and that due to the risks identified a minimum balance of £1.6 million is recommended.

8.4 Month 8 (November) Budget Review

8.4.1 A high level review of budgets as at the end of November has been carried out. This has identified £469k of underspends against the working budget. Of this there are requests for £191k of this to be carried forward into 2017/18. This gives a net increase in the General Fund balance of £278k. Table 8 below details the significant variances and carry-forward requests.

Table 8- Summary of forecast variances

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Carry-forward requested £k	2017/18 Impact £k
Commercialisation-cost of consultants for Property Company set-up	100	5	(95)	Legal and financial advice has been jointly procured with other Hertfordshire Districts. Further more detailed consultant advice is likely to be required as the project develops.	95	0
Bank Charges	100	50	(50)	Card processing charges are lower than forecast. The 2017/18 budget had been reduced, but the ongoing impact will not be as high as previously expected.	0	20
Apprenticeships	225	169	(56)	Budget is based on apprentices all being recruited at the start of the year. They have actually been recruited during the year.	0	0
District Elections	89	66	(23)	The combined District and Police and Crime Commissioner election meant that costs could be shared.	0	0
Trade Waste Tipping Charges	342	326	(16)	Lower volume of trade waste being disposed of than budgeted. Expected to continue. Trade waste income not affected.	0	(16)

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Carry- forward requested £k	2017/18 Impact £k
Co-mingled recycling credits-income from HCC	(383)	(413)	(30)	Higher volumes of waste diverted from landfill.	0	0
Telephone call charges	33	9	(24)	Change to the phone system so that calls now go via the internet leading to reduced call charges.	0	(24)
Rates for Car Parks	160	120	(40)	Specialist property consultants were appointed to negotiate on the rateable value of the Council's 11 car parks. The rebate is net of commission.	0	0
Car Park rents	33	44	11	Bancroft Car Park is leased. A rent review has increased the rent from £4,800 to £10,300 per year, backdated to April 2015.	0	6
Bancroft Hall- rates and rental income	(9)	(15)	(6)	The demolition of the Hall a rates rebate has been received. Ongoing the budgets need to be removed.	0	9
Commercial rental income for Burymead Road	(56)	(75)	(19)	Rent review, including back-dated increase.	0	(5)
Area Committee Grants	167	118	(49)	It is expected that the value of grants awarded will be less than forecast. This is due to the number of applications and the time period for applicants to meet the criteria of any grants that are awarded.	49	0
Community Building Refurbishment and Playground Fund	33	0	(33)	These budgets have been replaced by the Community Facilities Capital Project Fund.	0	0
Environmental Health new IT system	15	55	40	Capital funding was allocated for this new system. As the project developed it became clear that it would actually be a revenue cost.	0	0
Planning Policy Consultants	107	60	(47)	The unspent budget relates to the Chiltern Area of Outstanding Natural Beauty (AONB) and Community Infrastructure Levy (CIL). The work on the AONB (£20k) is dependent on when and if the decision is made Natural England. The CIL work will follow the production of the Local Plan. Therefore carry-forward requested.	47	0
Premises License annual fee income	(103)	(83)	20	Annual budget includes Kilimanjaro large event licence fee. This event was not held in 15/16 and 16/17, and expecting that this will continue.	0	20
Total of explained variances	853	436	(417)		191	10

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Carry-forward requested £k	2017/18 Impact £k
Other minor variances	16,614	16,562	(52)		0	(5)
Overall total	17,467	16,998	(469)		191	5

8.4.2 The final column of the table above details the forecast impact on 2017/18. Overall there is not a significant ongoing impact of the variances identified.

8.4.3 Cabinet is asked in recommendation 2.5 to approve the reduction in the 2016/17 working budget of £469k, and to note the expected impact in 2017/18 of £5k.

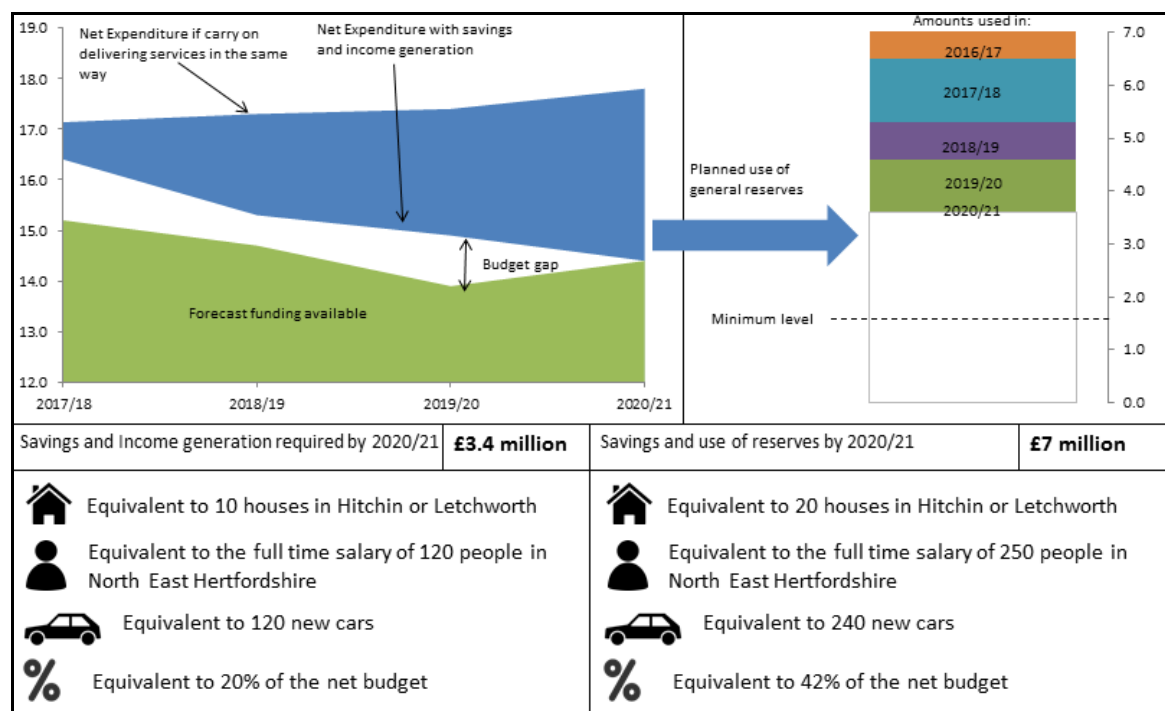
8.4.4 Cabinet is asked in recommendation 2.6 to note and comment on the requests for carry-forward that total £191k.

8.5 Savings and Investment Proposals

8.5.1 The Medium Term Financial Strategy highlighted the need to find at least £2.75 million of savings within 4 years. Furthermore with the expected phasing of these savings, there would be a need to use £3.4 million of reserves. The changes to the way that New Homes Bonus is funded has increased the level of savings that need to be delivered. Now **£3.4 million** of savings need to be found and the phasing of these is likely to mean that around **£3.6 million** of reserves will be used. This means that the effective funding shortfall up to 2020/21 is around **£7 million**.

Figure 9 provides some context as to the level of savings that need to be found.

Figure 9: Level of savings to be identified and delivered



8.5.2 Budget proposals were considered by Cabinet at the December meeting. To give the full context, these proposals included both savings and investment proposals. Those being taken forward are detailed in appendix 3. The remaining savings to be found are summarised in table 10 below. The phasing of these savings is deliberately skewed towards later years to give time for them to be implemented. If any savings can be identified and delivered earlier then this will reduce the use of reserves.

**Table 10: Savings and investments presented against target
(All amounts in £000 and are cumulative)**

	2017/18	2018/19	2019/20	2020/21
Target Savings	800	1,500	2,150	2,750
Add: Investments adopted	69	7	7	7
Less: Savings adopted	(955)	(1,792)	(1,782)	(1,934)
Add: additional savings target	0	0	248	607
Remaining Savings to be identified (positive total means more savings need to be found)	(86)	(285)	623	1,430

8.5.3 The pension fund triennial valuation report has now been received and the funding position is in line with what was expected. An application has now been made to the Department for Communities and Local Government (DCLG) for the capitalisation of a lump sum payment. Full Council in setting the budget for 2016/17 agreed that this application could be made. If the DCLG agree to this request, then it would reduce the funding gap over the next three years. This is not currently included in the above totals.

8.5.4 There is a forthcoming review of the National Joint Council (NJC) Local Government pay scales. Pay increases that are applied to NJC pay scales are translated to our own Hay pay scales. The review is taking place because of the impact of pay freezes, the increases for the new National Living Wage and that salaries are no longer in line with the general market. The employers are expecting the review to be completed during 2017. The Council is also already carrying out a review of its own pay scales as set out in the People Strategy and the Annual Pay Policy statement. An analysis of the councils pay scales carried out by Hay comparing the Council's median pay rates to the public sector comparators showed an average gap of 6.7%. Every 1% increase in salaries as a result of the review of national pay scales would cost around £125k per year. The potential impact of this is not currently included in the above totals.

8.5.5 The capital programme includes an allocation for the purchase of the vehicles to deliver the waste contract from 2018/19. This would generate savings on the revenue costs of the contract. The option will only be taken up if there is a good revenue return from the capital outlay, which will be dependent on the offer made by the successful tenderer. Even if the offer is not taken up, it is likely that there would be a requirement to capitalise an element of the contract cost, which would reduce revenue costs compared to the current arrangement. An annual saving of £500k is currently assumed from 2018/19.

8.5.6 Cabinet is asked at recommendation 2.7 to approve the inclusion of the efficiencies and investment proposals at Appendix 3 in the General Fund budget estimates for 2017/18.

8.5.7 Cabinet is asked at recommendation 2.8 to note the savings targets for future years.

8.6 Capital receipts direction

8.6.1 As referenced in paragraph 7.6, the “flexible use of Capital Receipts direction” is now available. This flexibility only applies to capital receipts received since the 1st April 2016. NHDC have not yet had any capital receipts since that date, but it is expected that there will be receipts by or during 2017/18. The direction allows capital receipts to be used to fund the revenue costs of service change which will lead to ongoing revenue savings. Whilst there is some detailed guidance, it is for each Council to determine whether they meet the requirements that it contains. The main requirement is that any proposed use of the direction is agreed as part of the budget setting process agreed by Full Council.

8.6.2 There are three potential revenue costs identified that could be funded by the direction. These would be subject to a detailed business case and availability of funding, but in summary they are:

- **Decommissioning of pavilions and play areas** as part of the green space strategy. The strategy itself is subject to consultation, but if it is adopted there would be up-front costs of removing the specified pavilions and play areas. These costs do not add to the asset and therefore would be revenue. However they do help to deliver service change that leads to ongoing cost reductions, and therefore would be expected to meet the conditions for using the Capital Receipts direction.
- **Buy-out of lease terms in the District Council Offices ground lease.** As part of the lease terms for the District Council Offices, Letchworth Garden City Heritage Foundation (LGCHF) is entitled to an annual payment of 20% of the lettings value of the office space. This term was included in the original lease as it was assumed that the building would be leased by an entity that would then sub-let the office space. Whilst this is now not the case (i.e. NHDC have the head lease and use the building), the term is still enforceable. This leads to a lot of time spent negotiating a notional lettings value. LGCHF are going to make a proposal of what it would cost to buy out this clause. This will be subject to a business case as it will involve swapping an up-front cost for an ongoing saving. It is expected that the up-front cost would meet the terms of the Capital Receipts direction.
- **Pension Fund lump sum contribution** will be added if the DCLG capitalisation request is unsuccessful. See paragraph 8.5.3 for further detail.

8.6.3 Cabinet is asked at recommendation 2.9 to confirm the inclusion of the Capital Receipts direction proposals in the budget report that will be provided to Council.

8.7 Efficiency/ Sustainability plan

8.7.1 As referenced in paragraph 7.5, NHDC submitted an efficiency plan to the DCLG. This means that there is now greater certainty over Central Government funding for the next 3 years (2017/18 to 2019/20). As allowed by the guidance, the efficiency plan that was submitted was actually called a sustainability plan. This was to make the distinction that the level of savings required could not be met through efficiencies alone. The sustainability plan is published on the NHDC website (see background papers for the website link).

8.7.2 The sustainability plan should be a summary the Council's objectives and financial position. As it was written following the September Full Council meeting, it already incorporates the agreed Corporate Plan and Medium Term Financial

Strategy. The revised version at appendix 4 therefore only incorporates the funding changes referenced in this report.

8.7.3 Cabinet is asked at recommendation 2.10 to note the NHDC Sustainability Plan attached at Appendix 4.

8.8 Overall summary

8.8.1 Appendices 1 and 2 provide a summary of the forecast General Fund impact of the factors referenced in the previous sections of this report. Appendix 1 provides a summary based on increasing Council Tax by 1.9%. Appendix 2 provides a summary based on increasing Council Tax by £5.

8.8.2 Cabinet is asked at recommendation 2.11 to note the estimated 2017/18 net expenditure of £16.5m, as detailed in appendix 2, and recommends this budget to Council.

9. LEGAL IMPLICATIONS

9.1 The Cabinet has a responsibility to keep under review the budget of NHDC and any other matter having substantial implications for the financial resources of NHDC.

9.2 Cabinet's terms of reference include at 5.6.35, recommending to Council the annual budget, including the capital and revenue budgets (such a budget includes and the level of council tax and the council tax base). Council's terms of reference include at 4.4.1(b) approving or adopting the budget.

9.3 Members are reminded of the duty to set a balanced budget and to maintain a prudent general fund and reserve balances.

10. FINANCIAL IMPLICATIONS

10.1 As outlined in the body of the report.

11. RISK IMPLICATIONS

11.1 As outlined in the body of the report.

11.2 There are significant uncertainties and risks with regard to the funding of NHDC over the medium term.

12. EQUALITIES IMPLICATIONS

12.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 8.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.

12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.3 The proposals for efficiencies within this report do not unduly disadvantage one individual group within our local community more than another, although proposals relating to the staff, their terms and conditions or future employment

will need to be subject to individual equality analysis in due course, as for any organisational or service restructure.

- 12.4 For any individual proposal comprising either £50k growth or efficiency, or affecting more than two wards, an equality analysis is required to be carried out; this will take place following agreement of efficiencies or growth.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 There are no social value implications arising from the adoption of the Budget.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 A number of efficiency proposals will directly affect staff. It is important that all affected staff are consulted at the earliest opportunity and council policies and procedures are followed.

15. APPENDICES

- 15.1 Appendix 1 - General Fund estimates (1.9% Council Tax increase).
Appendix 2 - General Fund estimates (£5 Council Tax increase).
Appendix 3 – Revenue Efficiency and Investment proposals.
Appendix 4 – Revised NHDC Sustainability Plan
Appendix 5 – Budget Risks for 2017/18

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17. BACKGROUND PAPERS

- 17.1 Medium Term Financial Strategy 2017-22
- 17.2 Current Sustainability Plan <http://www.north-herts.gov.uk/home/council-performance-and-data/budgets-and-spending/sustainability-plan-2016-20>