STATEMENT BY FINANCE PORTFOLIO HOLDER ON COUNCIL TAX ESTIMATES 2017/2018

COUNCIL MEETING – 9 FEBRUARY 2017

THE CURRENT YEAR FINANCIAL STATEMENT

When Full Council approved the budget for this financial year, it was based on the Council needing to use its general fund reserves to make up for the shortfall in funding from the reduction in Government funding. The expectation was that these reserves would reduce down to £6 million by the 31 March 2017.

As at the end of November, the estimated use of these reserves at the end of the financial year 2016/17 has decreased by £0.4 million, due to both favourable variances reported during the year and the request to carry budgets forward into 2017/18 and delay the spending on specific projects.

As expected the general fund balance has therefore been at a level greater than the budgeted minimum of £1.7m approved by Members at the time of setting the 2016/17 budget.

The Council has also maintained a General Fund Special Reserve balance of £1.7million. The special reserve will be needed to help ensure there are sufficient funds available to help fund “invest to save” investment, which will deliver longer term efficiencies and service change.

All the various funds and other earmarked reserves held in the General Fund are estimated to total £10.6million at 31 March 2017 and comprise of the general fund balance of £6.4million and other earmarked reserves of £4.2million. 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 funding uncertainties.

CAPITAL ACCOUNTS

The Council continues to have a negative Capital Financing Requirement (CFR), due to the set-aside receipts it received from the housing stock transfer. This is forecast to be at least negative £7.6 million at 31st March 2017, although may be higher depending on the rate of spend in delivering capital projects towards the end of the year. Cabinet have confirmed that the use of these receipts is the most affordable and prudent way of investing in North Herts, but will keep this under regular review.

It is estimated that at 31 March 2017 the Council will have a capital receipts balance of £0.9million. 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. 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 during 2017/18 and, as detailed in the budget report, potential revenue costs have been identified that could be funded under the direction.

CORPORATE BUSINESS PLANNING AND GENERAL FUND ESTIMATES 2017/2018

The priority-led budgeting principle continues to be used. This approach seeks to ensure that policy drives financial planning and gives members choices on their budget priorities. However at the same time policy also has to consider the available resources of the Council. The Corporate Business Planning process began early in the year, due to the extent of the efficiencies required to balance the budget over the medium term. The planning also had to consider the future funding uncertainties, particularly in relation to New Homes Bonus and longer-term funding beyond the current national parliament term.

The Council's medium term financial strategy, published in July 2016 and adopted by Full Council on 1st September 2016, indicated that to maintain a reasonable level of reserves the Council would need to find on-going efficiencies of around £2.75million over the period 2017/18 to 2020/21 (now £3.4 million as a result of reductions in New Homes Bonus funding). The phasing of these savings, which allowed time for development and implementation of initiatives, meant there would be a need to use £3.4 million of reserves. The strategy recognised that the ability to be more efficient by reducing resources and staffing levels is now extremely limited, hence the Council's financial strategy going forward would focus on:

- Transformation of services so that they can be delivered at lower cost. This may involve up-front investment to allow the transformation to take place. This could include sharing of services with other organisations to make best use of resources from economies of scale. There may be some changes to the way that residents receive services.

- Looking at ways to make use of our assets (e.g. capital resources) to generate revenue income (or reduce revenue costs). This would include increasing investment returns from our assets.

The Corporate Business Planning process allowed for initial high level proposals to be put forward for consideration by each Political group, followed by Member workshops on detailed options in November. The General Fund estimates for 2017/18 include the results of those proposals, with total planned efficiencies of £955k and revenue investments totalling £69k incorporated in the proposed budget of £16.5million for financial year 2017/18.

The most significant individual pressure from next year is the increase in the amount the Council is required to pay to the pension fund as a lump sum to fund previously accrued employee benefits, with the aim of getting the fund 100% funded. The council mitigated the impact of this previously by making an additional capital payment of £2,447k to the pension fund in March 2014. This required Government (Department for Communities and Local Government- DCLG) approval. This reduced the annual revenue payments towards the fund deficit for the next three years, but the impact of this capital payment comes to an end this financial year. The annual lump sum would therefore increase for 2017/18 and this pressure has been built into the budget accordingly. The Council is currently seeking permission to be allowed to make another capital pension fund contribution which would again defer this revenue cost pressure. This again would require approval from the DCLG.

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 to the DCLG and an acceptance letter was received. This confirmed the Central Government four year settlement funding allocations for 2016/17 to 2019/20, previously announced in February 2016, subject to any transfer of responsibilities or exceptional circumstances. The settlement funding allocation for the Council for 2017/18 represents a reduction of more than 20% on central government settlement funding received for the current financial year. However this 4 year deal excluded New Homes Bonus funding.

New Homes Bonus is also a significant element of the Council's funding. The provisional Local Government Finance settlement, announced on 15 December 2016, introduced a baseline growth in New Homes of 0.4%, with New Homes Bonus only to be paid on growth in dwellings 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. As a result, the published allocation for 2017/18 is nearly £0.2million less than previously anticipated and this increases each year, with total income expected to be received over the four years to 2020/21 reduced by approximately £1.6million from £7.2million to £5.6million. Positive progress with the Local Plan remains imperative to ensure that the Council is eligible to receive New Homes Bonus payments from 2018/19, when any payment could be dependent on having an adopted Local Plan. This change means that the Council now needs to identify at least £3.4 million of savings and, forecasting the use of £3.6 million of reserves, around £7 million in total.

The draft Council Tax referendum principles for 2017/18, published on 15 December 2016, retained the option for Local Authorities to increase Council Tax by up to 2% or £5 (for Band D properties) without the requirement for a referendum. Cabinet resolved at its meeting on the 24th January 2017 to recommend to Council a £5 increase in the District Council Tax. This £5 increase applies to Band D properties and other increases will be pro-rata for other bands.

CAPITAL PROGRAMME 2017/18 – 2020/21

Total capital expenditure proposals for 2017/18 amounts to £8.5million, and £16.1million for the four year period to 2020/21.

The Cabinet at their meeting on 24 January 2017 considered the capital programme and resolved to recommend approval of the programme subject to adequate resources being available. The budget allocations for each capital scheme are provided as an appendix to the capital report, alongside the forecast funding arrangements.

BUSINESS RATES

Locally retained business rates give Local Authorities some financial incentive to promote growth in the business base of the district. 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.

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 around 80% to Central Government to reflect the fact that our anticipated income from Business Rates is higher than our assessed need. The outcome is that for every £1 collected in Business rates, NHDC keeps approximately 7p.

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. However it should be noted that the revaluation process itself still introduces significant uncertainty around the rates that can be collected.

In 2016 Central Government launched a consultation on the full localisation of Business Rates. This does not mean that the Council would get to keep all the Business Rates that it collects, or even that they would all remain in Hertfordshire. The tariff and top-ups system and the link to assessed need will remain. The underlying principle in the consultation is that any new funding should be matched to local authorities taking on new responsibilities, both initially and in the medium term. There is also a principle that the new responsibilities make sense in being delivered by local government i.e. they build on local government strengths, support improved outcomes for citizens and support economic growth.

As in previous years, and in accordance with the Local Government Finance Act 1992, I arranged a consultation meeting with representatives of Business Ratepayers on 11 January 2017.

DISTRICT COUNCIL REQUIREMENTS 2017/2018

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 24 January 2017, indicate a net expenditure for the Council's own requirements in 2017/18 of £16.5million. In response to feedback and consultation, the Cabinet made a number of changes to the proposed budget. The proposal to withdraw concessions for allotment owners was removed. The expected savings for the replacement of Area Committees was reduced to half a year. In relation to the Green Space Strategy, one play area was retained as it received medium usage, and the decommissioning of the low usage play areas was deferred for a year to give any local community groups a chance to bid to run these facilities. It was also confirmed that any changes to the parking strategy would be widely consulted on prior to implementation, which would include Area Committees and Town Centre Managers.

While the projected net expenditure is very similar to the 2016/17 original budget, as the planned implementation of efficiencies identified for next year mitigate the growth pressures facing the Council in the year ahead, the reduction in Central Government funding means that the Council is anticipating to draw upon £1.3million of reserves in financing the cost of the day to day services delivered in 2017/18.

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 0.5% of net expenditure. 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 £6.1million, 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 maintain balances that are £795k 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 £1.6million for 2017/18 is necessary.

Cabinet recommend that a £5 increase on Council Tax (average band D of £216.96) be levied upon the Collection Fund for 2017/18. The make-up of funding for a band D property is shown below:

DISTRICT COUNCIL TAX AT BAND D

		Change from 2016/2017
	£	%
NHDC Budget	339.57	-1.6
Less:-		
Contribution from reserves	27.37	+418.8
Government Grant & Business Rates	54.42	-23.4
New Homes Bonus	40.82	-27.9
NHDC (All Areas)	216.96	+2.4

The Council Tax requirement for the Council's own purposes (excluding Parish precepts) is £10,554,822. Parish Precepts, as listed in the addendum report tonight, total £1,067,851. Therefore, the total District Council Tax requirement including Parish Precepts is £11,622,673.

The Hertfordshire Police and Crime Commissioner gave formal notification of their precept requirement on Monday, 6 February 2017 and Hertfordshire County Council will give formal notification of their precept requirement on Tuesday, 21 February 2017. The NHDC formal Council Tax Resolution will be presented to the Council Tax Setting Committee for approval on 23 February 2017.

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 Portfolio Holder