

**TITLE OF REPORT: CORPORATE BUSINESS PLANNING - DRAFT BUDGET 2015/16**

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE

***This report is in draft format and will be presented to Cabinet on 16 December 2014***

**1. SUMMARY**

- 1.1 To consider the draft budget for 2015/16 and the 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 12 February 2015.
- 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 (2015 – 2020).

**2. RECOMMENDATIONS**

- 2.1 **That Cabinet notes that the provisional finance settlement announcement is expected on the 17 December 2014.**
- 2.2 **That Cabinet notes the estimated position on the Collection Fund and the impact on the general fund for 2015/16, 9.1.7 refers.**
- 2.3 **That Cabinet notes the position relating to the General Fund balance and that due to the risks identified in paragraph 9.2.3, a minimum balance of £1.673million is recommended.**
- 2.4 **That Cabinet notes the position of the other reserves and provisions as identified in section 9.3.**
- 2.5 **That Cabinet notes the inclusion of the efficiencies and investment proposals at Appendices 3 to 6 in the budget estimates for 2015/16.**
- 2.6 **That Cabinet refers this report to all Councillors via 'Members Information Service' for comment.**
- 2.7 **That Cabinet notes the comments from the November budget workshops provided in Appendix 7a to 7d.**

**2.8 That Cabinet notes that the budget estimates and hence the provisional Council Tax requirement may be subject to change before the final budget meeting on 27 January 2015.**

**2.9 That Cabinet provides a view on the appropriate level of Council Tax for 2015/16.**

### **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 2015/16.

3.2 To ensure that the Cabinet recommends a balanced budget to Council on 12 February 2015.

### **4. ALTERNATIVE OPTIONS CONSIDERED**

4.1 All Councillors were asked for their early input into defining the budget options at the first set of budget workshops in September.

### **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 held on the 5/6 November 2014. Notes of the comments raised at the workshops are attached as Appendix 7.

5.2 The Cabinet will consult on the proposals in this report with the Business Rate Payers Group on the 21 January 2015.

### **6. FORWARD PLAN**

6.1 This Report contains a recommendation on a key decision to be taken by Council on 12 February 2015 that was first notified to the public in the Forward Plan on the 30 June 2014.

### **7. BACKGROUND**

7.1 The Medium Term Financial Strategy (MTFS) was adopted by Full Council on the 4 September 2014 following recommendation by Cabinet.

7.2 The MTFS provides the financial background to the Corporate Business Planning process for 2015-20 and notes that the decision to make a contribution to the Pension fund in 2013/14, along with the other decisions taken for the 2014/15 budget, has provided the opportunity to undertake some multi-year planning. In common with recent years, the MTFS is caveated that it may be necessary to revisit

the forecasts once there is greater clarity with regards to the treatment of New Homes Bonus (NHB) funds. It is also noted that longer-term projections will be impacted by the re-baselining of Business rates within the five-year timeframe of the MTFS.

- 7.3 NHDC over-achieved the target for efficiencies needed to balance the budget in the 2014/15 Corporate Business Planning Process. A total of £1.514million of efficiencies was approved in the 2014/15 base budget against an original target of £600k. In addition, NHDC increased general fund reserves to a total of £3.9million by the start of the financial year and had also increased the special reserve to £1.7million. This was achieved partly as a result of the early delivery of some of the planned efficiencies.
- 7.4 Having already reduced our size and capacity over recent years in response to reductions in resource levels, our ability to continue to make efficiencies without impacting on services, or affecting our performance, is now extremely limited. However, the need to address the on-going and widening budget gap and maintain a sustainable financial position is unavoidable. A solution is needed that will address the financial reality but will continue to protect residents.
- 7.5 It has been widely publicised that the period of constrained Public Sector funding, and challenging budget balancing requirements, will continue for some years. Under these conditions the alternative (i.e. non Government) sources of income are particularly important in achieving our statutory duty to set a balanced budget each year.
- 7.6 The MTFS builds on the existing strategy and updates the assumptions to reflect the general economic position. The outlook for NHDC's funding continues to point to a very difficult financial position in future years, with reducing resources and rising demand. NHDC will remain under pressure to adjust how it delivers services, how it generates income and to review the things it does in order to deal with the on-going demands and this will continue for several years.
- 7.7 A number of changes to the MTFS have been implemented in recent years to further improve our financial management strategy, namely:
- Identify how much is spent against each strategic priority.
  - Identify the areas that are lower or non priority for allocation of resources including review of statutory and discretionary services.
  - Review the level of income generated by charging services compared to the costs of provision.
  - Reduce future reliance on interest rate income.
  - Allocating all agreed savings to the relevant directorate budgets prior to distribution at the beginning of the new financial year in order to militate against the risk of non delivery of the approved savings.
  - Amending the Council Tax "rule" to reflect the possibility of negative RPI figures.
  - Option to capitalise staff costs in accordance with FRS 15.
  - Further emphasis on invest to save opportunities, and proposals that can generate better rates of return than investments, with regard to capital expenditure.

- Developing more financially self-sustaining arrangements where possible for NHDC properties.
- 7.8 This year the MTFS (in response to the steer provided by Councillors in previous workshops) makes further explicit proposals to continue advancing the following themes:
- generating income from services and assets
  - exploring new income generation opportunities
  - using capital funds to acquire land and property for development and/or investment purposes with such land used for economic, commercial and business development, or other income generation purposes
- 7.9 In identifying the likely Council Tax requirement, the MTFS focussed on the national economic situation and the pressures on expenditure and income streams. The financial strategy was based on a number of assumptions in the knowledge that these would be subject to further refinement during the budget process. The extract of the MTFS of all the assumptions is provided in appendix 8 for easy reference.
- 7.10 The MTFS is an integral part of the Corporate Business Planning process. It complements the Priorities for the District 2014/15 and sets out a clear framework for our financial decision making. The high level priorities for 2015/16 onwards are:
- Promoting Sustainable Growth
  - Working with local communities
  - Living within our means
- 7.11 Locally retained business rates give us a financial incentive to promote growth in the business base of the district. Similarly, the New Homes Bonus in its current guise rewards Authorities for increasing housing numbers in their area. Whilst the Business Rates retention scheme presents additional risks to us in terms of losses and appeals, we now have a stake in district growth. This fundamentally supports the Priority of “Promoting Sustainable Growth”. Responsibility for cost of council tax support also encourages Authorities to promote economic prosperity.
- 7.12 There are a number of key risks in the assumptions after 2014/15 due to uncertainty around the overall impacts of on-going Government funding reductions. These are:
- Business Rates were localised from April 2013. Growth above Government forecasts would lead to additional income to the Council, as long as this did not achieve disproportionate growth (classed as more than 10% of NNDR Base), whereas collectable amounts could fall by over 7.5% (£170k) before the “safety net” applies. The impacts from unresolved appeals before April 2013 have yet to be felt and it is also noted that a re-baselining of business rates is due within the five-year time horizon of the MTFS.
  - Implications of the Welfare Reform Bill and the introduction of the Universal Credit. A 10% cut in funding was passed on to Local Authorities. The Council Tax Reduction Scheme payments for the District currently total

approximately £8.2million, so this reduction of 10% meant approximately £820k (shared by the main precepting bodies in proportion to their share of the Council Tax bill) had to be found from a review of the benefit scheme if impact on funding for other services were to be avoided. The scheme was implemented from 1<sup>st</sup> April 2013 and indications in the first full year of operation were of no significant adverse impacts on collection rates, however this will be monitored closely. In terms of welfare reform the Local Government Association comment that in two-tier areas the cost implications are expected to fall mainly on District Councils however this cannot currently be modelled.

- Possible changes to the New Homes Bonus system were the subject of government consultation in the autumn of 2013. The results of the consultation feedback led to the government re-thinking their proposed revisions and a new proposal was scheduled to be publicised by Easter 2014. No new proposal has yet emerged.
- There also remain a number of other unknowns with regard to changes to existing funding streams. For example the Better Care Fund is not 'new funding' but an amalgamation of money top sliced from a range of schemes, including the Disabled Facilities Grant scheme, and thus whilst there may appear a benefit in terms of receipt of one fund, it could be at the detriment of the existing source. Such changes will be kept under review, and appropriate action taken to readjust forecasts, estimates, budgets etc. should this be necessary.

(The draft budget provides updated information on these risks where possible).

- 7.13 Due to the budget balancing measures taken in 2013/14, NHDC now has the opportunity to put in place plans to achieve a balanced budget over a longer timescale than just the coming year. By planning for the medium to longer term, consideration can be given to transformation projects which may require some initial investment before delivering benefits from 2016/17 onwards. These include work on the council's future office accommodation needs, future car-parking policies, further channel shift work to deliver more of our services electronically where that is more cost effective, new income generation and development opportunities and continuing work on sharing services with other authorities
- 7.14 Government funding cuts and consequent budgetary constraints are specifically concerned with Revenue expenditure. It is therefore important to note that, although it is possible to utilise revenue funding for capital purposes, capital funding cannot be used for revenue costs unless a special capitalisation scheme is announced by Government and specific approval is obtained (as was the case for the pension contribution in March 2014). Such schemes, when announced, are subject to strict criteria.
- 7.15 Revenue expenditure funds the running costs of NHDC: provision of day to day services such as refuse collection, leisure centres, grass cutting, staff salaries and so on. Some examples of revenue costs are salaries, stationery, energy charges, telephone bills, rents and business rates. On the other hand capital expenditure is incurred on items that have a useful life of more than one year and

is therefore regarded as investment. Some examples are IT servers, building improvements and major equipment. In some instances initial capital expenditure can reduce on-going revenue costs, and therefore reduce pressure on revenue budgets (invest to save), and these opportunities are given serious consideration wherever possible.

- 7.16 The government has argued that when other measures are taken into account, such as powers to raise additional local income and other central government funding, local government spending reduces by only a small percentage. However all of these measures are contingent upon factors outside of local government control to varying degrees. The ability to increase revenue from localised business rates is dependent on a growing economy, and individual central government funding streams are neither guaranteed in the long term, nor distributed evenly across the country. Some, such as New Homes Bonus are also dependent on developments being completed and the income level may be reduced due to changes Government make to the scheme. In terms of other options to raise additional local income, this necessitates a wider public understanding of the impacts of funding cuts and the requirement to levy new charges to help fund essential services.
- 7.17 The MTFs calculates that if a 0% Council Tax increase is maintained over the review period and no efficiency measures are put in place, the special reserve and balances will erode from almost £7 million in 2014/15 (£5.2m in balances and £1.8m in special reserve), to only £2.1m in 2019/20 (just over £2m in balances and only £0.045m in special reserve). These reserves are maintained to firstly provide some protection against the cost impacts of the major risks the council faces, and secondly to fund invest to save projects and address unavoidable fluctuations in contract prices when contracts are renewed. A balance of only £2m would leave NHDC in an exposed position. However, by combining continued efficiency savings with modest Council Tax increases, NHDC is able to deliver services and maintain relative stability and resilience. The MTFs went on to show that to maintain a reasonable use of reserves the Council would need to find on-going efficiencies of around £1.7million over the period 2016/17 to 2019/20.
- 7.18 Rob Whiteman, Chief Executive of the Chartered Institute of Public Finance and Accountancy (CIPFA), recently reaffirmed CIPFA's advice to councillors and chief finance officers:  
*"The prudent use of reserves is essential to good financial management by councils. Reserves are used for a host of things from providing crucial capacity to invest in future service transformation to protecting against unforeseen events, or earmarked against future uses as with Transport for London and Crossrail..... Crucially, councils should be very wary about using one-off reserves to deal with shortfalls in recurring funding. Responsible councils know that this would be a recipe for significant financial problems in the future."*
- 7.19 This report outlines the draft budget proposals based on information available to date. **It must be stressed that these are provisional figures and further work remains to be done to refine the estimates before the final budget**

**recommendation in January/February 2015.** Further government announcements are expected which will have an impact on NHDC finances.

## 8. ISSUES

### 8.1 Funding Announcements

- 8.1.1 In February 2014 the government provided an illustrative finance settlement for 2015/16. This suggested an overall 15% reduction in the Start Up Funding Assessment (SUFA). Retained Business Rates is anticipated to increase by an amount equivalent to forecast inflation (assumes Government will increase the multiplier nationally) and so the effect of the 15% overall reduction would be a larger reduction in the Revenue Support Grant of 31%.
- 8.1.2 The government consulted on the 2015/16 local government finance settlement plans over the summer and the Council responded. DCLG has not yet made any announcements in response to the consultation.
- 8.1.3 On the 3 December 2014, the Chancellor will make his Autumn Statement. This key announcement will provide an update on the current state of public finances and the latest economic forecasts from the Office of Budget Responsibility. It is anticipated the Council will receive a provisional settlement announcement for 2015/16 from the Department of Communities and Local Government on the 17 December. This will mark the start of a period of consultation on the proposal before the final 2015/16 settlement can be approved by Parliament. An update will be provided to Councillors as soon as possible after the announcement.
- 8.1.4 Our best estimates of future government funding are detailed in Table 1 below. Over the five years it is estimated funding will reduce by around 12%. These estimates reflect Government announcements of the intention for further reductions in Revenue Support Grant post 2015/16 and assume the New Homes Bonus Scheme will remain unchanged. The estimates assume that the business rates baseline will grow at a rate consistent with the Government's expectations. The actual amount of business rates collected will determine the ultimate amount of business rates the Council is able to retain (see section 9.1).

**Table 1: Estimated Government Funding for 2015/16 onwards**

2014/15 £'000		2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
2,735	Revenue Support Grant	1,874	1,442	1,068	705	356
2,428	Business Rates Baseline	2,495	2,577	2,670	2,771	2,877
<b>5,162</b>	<b>Start-up Funding Assessment*</b>	<b>4,369</b>	<b>4,019</b>	<b>3,738</b>	<b>3,476</b>	<b>3,233</b>
1,982	New Homes Bonus	2,431	2,884	2,782	2,782	2,782
	<b>Other un-ringfenced government funding**</b>					
<b>7,621</b>	<b>Total</b>	<b>6,800</b>	<b>6,903</b>	<b>6,520</b>	<b>6,258</b>	<b>6,015</b>
	<b>Change on previous year</b>	<b>-10.77%</b>	<b>+1.5%</b>	<b>-5.55%</b>	<b>-4.02%</b>	<b>-3.88%</b>

\* The Start-up funding assessment includes funding for the Council Tax Reduction Scheme but this can no longer be identified separately. Funding for Homelessness prevention is also included and is illustrated at £86k for 2015/16.

\*\* Should NHDC qualify for a Council Tax freeze grant this would be an additional grant.

**8.1.5 Cabinet is asked in Recommendation 2.1 to note that the provisional finance settlement announcement is expected on the 17 December 2014.**

8.1.6 The Government may announce its intention with regard to the threshold for a Council Tax referendum on the 17 December although the threshold of 2% for 2014/15 was not announced until 5 February 2014. It is expected the Council Tax freeze grant will be offered to an Authority who freezes their Council Tax in 2015/16 and will be equivalent to 1% of the District precept and will be incorporated into the finance settlements in the following year. A grant of 1% would be equivalent to approximately £97k in 2015/16.

8.1.7 The New Homes Bonus Scheme was announced in 2011/12 and is now considered part of the spending power. NHDC was awarded £552k in 2011/12, £489k in 2012/13, £493k in 2013/14 and £448k in 2014/15, with the amount awarded in each year then payable for six years. It is anticipated the number of new homes in the District will generate a similar new payment in each year of the MTFs. The New Homes Bonus has provided the opportunity to have a £150k annual allowance for growth with the remaining funds being used to fund the strain on existing general services which additional development brings. However, there is a risk of further reductions to Revenue Support Grant if the amount of New Homes Bonus nationally exceeds the amount government has set aside for this funding stream.

8.1.8 In 2014/15 NHDC will receive in total some £41.680million as specific revenue grant or subsidy funding. Often the announcements of this type of funding are made after the annual budget has been set, making it difficult to plan ahead. The total expected revenue and capital grant funding for 2015/16 is not yet known for certain but the anticipated funding is shown in Table 2.

**Table 2: Analysis of specific government grants:**

	2014/15 £'000	Expectation for 2015/16
Housing Benefit Subsidy	38,829	Estimate available late Jan 15, so current budget forecast is based on the 2014/15 mid-year estimate.
Discretionary Housing Payments	160	Announcement expected in December 2014.
Benefits Administration and Fraud Initiative	728	The admin grant has now been disaggregated between housing benefit administration (via the DWP and £592k for 2014/15) and the Council Tax Reduction Scheme administration (via DCLG and £136k for 2014/15). The Government has announced that there will be a 10% reduction to reflect the transfer of the function of benefit fraud investigation to the DWP in 2015 and a consultation is underway on proposals for a further reduction in

	2014/15 £'000	Expectation for 2015/16
		grant. An announcement to confirm the funding for 2015/16 is expected in December 2014 but is currently estimated at £640k.
Council Tax and Housing Benefit new burdens funding	115	Funding for new burdens is announced on an ad hoc basis during the year. There is no assumption that funding will continue in 2015/16.
Section 31 Grants to reimburse the impact of Business Rate reliefs and caps.	770	This grant is to compensate for the cost of changes to the business rates system announced in the 2013 Autumn Statement. Similar payments could be received in 2015/16 if similar announcements are made in the 2014 Autumn Statement.
Waste minimisation – HCC contribution via the Alternate Financial Model.	605	Funding beyond 2014/15 is less certain.
Waste Weekly Collection Grant	75	NHDC received a total of £853k for the capital and revenue cost of the weekly collection of waste from flats. There will be around £75k remaining to continue to fund this scheme for 2015/16.
Public Health Fund	100	Subject to the approval of the spending plan £100k will be receivable from the County Council in 2014/15 and 2015/16.
NNDR Administration Grant	183	This will become known as the NNDR 1 for 2015/16 is completed in January.
Community Safety Grant	27	Assume same level. Funding is now with the Police Commissioner not HCC. Will not know if funding has been awarded until the New Year.
Assets of Community Value and Community Right to Challenge	15	Grant funding to reflect the new burden placed on local authorities. Funding not expected to continue.
Sports Activate	27	Funding for 2015/16 is expected to be at least as much as 2014/15.
Individual Electoral Registration	46	Announcement to be confirmed but a reduction is expected.
<b>Total Revenue Grants</b>	<b>41,680</b>	

8.1.9 Often grants are time-limited. Because of this grant funding lifecycles are monitored throughout the year so that consideration can be given to the impact of those grants coming to an end when setting the budget for the following year.

## 9.1 Collection Fund

9.1.1 NHDC is required to maintain a Collection Fund to account for the costs of collecting the Council Tax and Business Rates. The Fund is required to break even over time and should a surplus/deficit develop, this must be returned/repaid to/from the Taxpayers by a transfer to the general fund. Any surplus/deficit must be shared with the County Council and Police authority in proportion to their share of the overall Council Tax bill.

- 9.1.2 The overall balance on the Collection Fund as at 1 April 2014 was a deficit of £1.644million. The NHDC share of this deficit was £743k and this was made up of a deficit on business rate collection of £797k and a surplus on council tax collection of £53k. The deficit in business rate collection was largely a reflection of two issues:
- the new requirement to set up a provision for the backdating of outstanding appeals which are found to be successful
  - the 2013 Autumn Statement measures such as the extension of the small business rate relief.
- 9.1.3 The monitoring during the first and second quarters of 2014/15 would suggest the collection fund deficit will increase by the end of the year to £2.4million. NHDC must fund its share of an estimated deficit in the following financial year. The general fund will, therefore, be charged £1million to fund the share of deficit in collected Business Rates but will receive £80k for the surplus in the collection of Council Tax. There is a government grant set aside in an earmarked reserve that can be used to largely offset the cost on the general fund of this deficit. The grant was received to pay for the impact of the 2013 Autumn Statement measures such as the extension of the small business rate relief initiative.
- 9.1.4 On a separate agenda item Councillors will be asked to consider the Council Tax Reduction Scheme for 2015/16 and to make a recommendation to Council. Larger council tax reductions, resulting from the increases in council tax each year, will directly impact upon the amount of revenue that a local authority raises through its council tax each year. The proportion of council tax revenue that is subject to a discount as part of a localised scheme of council tax support will lead to a commensurate reduction in the amount of additional income raised through increasing council tax. The approval of the council tax rate, the reduction scheme and the tax base are now intrinsically linked.
- 9.1.5 If claims for council tax support are higher than expected this would be translated into an increase in the value of discounts awarded and a reduction in the level of council tax collected that would be credited to the collection fund. This will either reduce the surplus in the collection fund that is distributed at the end of a financial year or increase the deficit that has to be funded. If there is likely to be a deficit, then the billing authority will be able to alter the instalments paid out to major preceptors and to itself during the financial year in which a deficit might arise.
- 9.1.6 The business rate mid year estimate suggests the total amount of business rates to be collected in 2015/16 will be £37.3million. Of this 50% is directly payable to the Government as the central share. This amount will have to be paid to Government regardless of the actual amount collected in year. Of the remaining 50%, the Council's share will be roughly £14.9million. This represents 80% of the 50% of total business rates that are kept locally. The remaining 20% of the 50% local share is paid to the County Council. However, the government has determined that NHDC has a relative need lower than the remaining share of the Business Rates. As a result NHDC will have to pay a tariff equivalent to approximately 83.75% of the business rates baseline (nominally 40% of total business rates collected) to the Government and will keep an amount equivalent to the Baseline Need (£2.495million in 2015/16). Because the collection of business rates in 2015/16 is

estimated to be higher than this baseline need NHDC would ordinarily have to pay a levy of 50% for every additional £1 collected. This would mean NHDC retained a larger share of this growth (50%) than of the baseline amount, however, if the application to DCLG to be part of a Hertfordshire Business Rate Pool is successful this levy rate will be reduced even further and NHDC will be able to retain a larger proportion of the business rate growth.

**9.1.7 Cabinet is asked in recommendation 2.2 to note the estimated position on the Collection Fund and the impact on the general fund for 2015/16.**

**9.2 Balances**

9.2.1 Before setting a draft Council Tax precept for 2015/16, it is necessary to review the position of balances and reserves. In addition to the General Fund balance, the Council keeps specific reserves and provisions for known areas of exposure to potential additional costs (provisions are sums set aside when the likely actual cost is known with reasonable precision).

9.2.2 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. To achieve a balanced budget net expenditure on the General Fund is anticipated to be approximately £16million for 2015/16. 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. For NHDC this would mean a minimum balance of about £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, and we will be criticised for poor financial management by the External Auditor if, having considered the risks it does not budget for a higher balances figure.

9.2.3 An assessment of the risks has been compiled for the coming year based on risks identified by each Head of Service/Corporate Manager and where possible, cross-referenced to the risk register. The identified areas are where the financial impact is not wholly known and prudence would therefore indicate the need to set the General Fund balance slightly higher than the minimum. The increase in balances is based on percentage proportion of the risks identified. The total risks identified have a total value of over £6million, however only a proportion of the risk value is taken in to account. For high risk items 50%, medium risk 25% and low risk 0%. The following Table 3 summarises the identified risks over the high, medium and low assessment:

**Table 3: Budget risks 2015/16**

<b>Category</b>	<b>Number</b>	<b>Value £,000</b>	<b>Allowance £,000</b>
High	8	488	244
Medium	30	2,516	629
Low	26	2,669	0
<b>Total</b>	<b>64</b>	<b>5,673</b>	<b>873</b>

- 9.2.4 Although the total assessment of risk is £5.7million, the level of risk varies from high/medium to low. Taking a proportion of the risks, as outlined above, would mean it would be prudent to increase balances by £873k above the minimum level. This would seem to suggest that it is advisable to maintain a minimum General Fund balance in the region of £1.673million for 2015/16 in order to provide an adequate cushion for both known and unknown financial risks.
- 9.2.5 This is a well established approach for assessing Financial Risks. It demonstrates NHDC has robust systems in place to manage its financial risks and opportunities and to secure a stable financial position that enables it to operate for the foreseeable future. The external auditors, Grant Thornton, recommend in their review of financial resilience (reported to the Finance Audit and Risk Committee) that NHDC should continue to maintain an appropriate level of reserves to ensure financial resilience is maintained.
- 9.2.6 Cabinet is asked in recommendation 2.3 to note the position relating to the General Fund balance and that due to the risks identified a minimum balance of £1.673million is recommended.**

### 9.3 Other Reserves and Provisions

- 9.3.1 Balances on other earmarked reserves are estimated to total £4.286million at the 31 March 2015. The expected movement on these accounts for 2014/15 is shown in Table 4 and a description of each reserve is provided in Appendix 9.

**Table 4: Other Reserves & Provisions 2014/15**

	Balance at 1 April 2014	Projected Contributions	Payments to Fund expenditure	Balance at 31 March 2015
	£'000	£'000	£'000	£'000
Special Reserve	1,767cr	0	25dr	1,742cr
Housing Planning Delivery Reserve	243cr	34cr	116dr	161cr
Information Technology Reserve	293cr	0	146dr	147cr
Environmental Warranty Reserve	209cr	0	0	209cr
Performance Reward Grant Reserve	50cr	0	50dr	0
Insurance Reserve	28cr	0	0	28cr
Cemetery Mausoleum	96cr	4cr	0	100cr
S106 Monitoring	88cr	15cr	15dr	88cr
Homelessness	28cr	0	28dr	0
Building Control Reserve	0	0	0	0
DWP Additional Grants	27cr	27cr	53dr	1cr
Climate Change Grant	53cr	0	0	53cr
Museum Exhibits Reserve	13cr	0	0	13cr
Property Maintenance	28cr	10cr	0	38cr
Paintings Conservation	13cr	0	0	13cr
Children's Services	7cr	0	7dr	0
Hitchin Museum Donations	0	0	0	0
Leisure Management Reserve	49cr	20cr	0	69cr
Town Wide Review	180cr	0	28dr	152cr
Town Centre Maintenance	31cr	8cr	0	39cr

	Balance at 1 April 2014	Projected Contributions	Payments to Fund expenditure	Balance at 31 March 2015
Community Right to Bid	29cr	16cr	0	45cr
Street Furniture	4cr	0	4dr	0
Street Name Plates	4cr	0	4dr	0
Office Move IT Works	7cr	0	7dr	0
Local Authority Mortgage Scheme	31cr	25cr	0	56cr
DCLG Grants	492cr	852cr	445dr	899cr
Growth Area Fund	53cr	0	0	53cr
Community Development	1cr	0	1dr	0
Personal Search Fees	152cr	0	0	152cr
Electoral Services	9cr	0	9dr	0
Taxi Licences Reserve	17cr	0	0	17cr
Waste & Recycling Reserve	0	211cr	0	211cr
<b>Total Revenue Reserves</b>	<b>4,002cr</b>	<b>1,222cr</b>	<b>938dr</b>	<b>4,286cr</b>

### 9.3.2 Provisions

As at the 31 March 2014 there was a total of £569k held as provisions. These comprised of:

- An amount of £527k for the repayment of backdated Business Rates following a successful claim. When the new arrangements for the retention of business rates came into effect on 1 April 2013, local authorities assumed the liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list, including all backdated appeals. The amount of outstanding appeals that will ultimately be successful has been estimated at £1.34million. This liability is split between Central Government (50%), Herts County Council (10%) and North Hertfordshire (40%).
- An Insurance Fund of £25k. This balance is to cover either the insurance policy excess of known claims or the amount of any outstanding claim against self-insurance. The provision does not cover any further claw-back under the Municipal Mutual Insurance Ltd (MMI) Scheme of Arrangement. NHDC has paid 15% of the cost of successful claims and allowance has been made in the financial risks.
- A Baldock Road pavilion provision of £17k. This provision is for rebuilding the pavilion which was burnt down. The monies were generated as a result of an insurance claim.

### 9.3.3 Cabinet is asked at recommendation 2.4 to note the position relating to the other reserves and provisions.

## 9.4 Strategic Priorities

9.4.1 NHDC operates a system of priority led budgeting and the Corporate Business Planning process describes an annual cycle which begins with the confirmation of our strategic priorities and the short and medium term actions we will take to achieve them. Having identified our strategic priorities and actions through the "Priorities for the District", the MTFs then considers the financial implications of the priorities and other external pressures and ensures we have a clear policy framework to enable us to allocate funds in accordance with our priorities as we go

through the budget setting and service planning stages of the process. To assist in the prioritisation of the limited financial resources a scoring system is used. Any investment proposals put forward must be linked directly to the strategic priorities or be an “invest to save” option.

- 9.4.2 Our allocation of resources to these priority areas will mean that some areas are not prioritised but these can be looked at in future years as appropriate. NHDC is absolutely committed to achieving maximum Value for Money in the use of our limited resources to meet our strategic priorities.
- 9.4.3 The revenue & capital strategies require that revenue investment options and capital projects submitted by services are classified against ten key factors, as outlined in Table 5 below. The scoring has been applied to all considerations of both revenue and capital investment in order to determine the risk and effect of growth, reduction or complete removal of a service. Councillors were offered an opportunity to comment on the scoring mechanism at the September workshops.

**Table 5 – Capital & Revenue Investment Key Factors**

Revenue & Capital	Points Score Range
Contractual Obligation	0 but noted as obligation*
Statutory/Discretionary/Core or Non-Core	0-10
Priorities	5 per main action
Continuous Improvement	0-5
Social Inclusion	1-3
Income generation	7-10
District Wide Survey	1-6
Health & Safety	0-5
Invest to Save	0-10

\*No score is given on the basis that a contractual commitment should not be seen as a barrier to change. It may be possible to negotiate a change in contract terms, albeit often at a price, and clauses to reflect this possibility should be included in standard contract terms.

## **9.5 Efficiency and Investment Proposals**

- 9.5.1 The strategic direction and key principles of the delivery of council services were discussed at a first round of workshops in September. Detailed budget proposals were put forward for discussion at the second round of workshops in November. Notes taken of the discussion at these workshops is provided in Appendix 7a to 7d.
- 9.5.2 The process of seeking more efficient ways of working and scrutinizing the budget is continuous to ensure the base budget is still fit for purpose. As a result of this exercise a further £230k has been identified to be taken from the budget without having any detrimental impact on services. This includes; £144k for discretionary rate relief which was charged to the general fund until the implementation of the Business Rate Retention Scheme; £30k for the lease of waste bins which has now

to come an end; £12k for on-going IT maintenance following the extension to a contract and £44k of other minor savings.

- 9.5.3 The efficiencies of £230k more than achieve the budget gap for 2015/16. However, achieving more efficiencies next year will help to reduce the efficiency targets in the following years. With this in mind there are further expenditure reduction proposals of £244k detailed in appendix 3 and income generation proposals of £42k detailed in appendix 4. Councillors had opportunity to discuss these proposals at the budget workshops held in November and the notes from the workshops are provided in appendix 7a to 7d for consideration.
- 9.5.4 Councillors are reminded of the requirement under section 30 of the Local Government Finance Act 1992 to set a balanced budget by March 2015. This requires that the Council Tax level be set at a level which bridges the gap between budget requirements and the expected income from local taxes. The Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates and the adequacy of reserves allowed for in the budget. At this stage in the process there are adequate proposals to meet a balanced budget for 2015/16 for NHDC to demonstrate it has a clear strategy in place that satisfies the Chief Finance Officer.
- 9.5.5 Employee expenditure remains one of the key areas of gross expenditure (approximately 47% of gross expenditure when Housing Benefit payments are excluded) and as such it is an area of spend which must be considered when looking for efficiencies. The special reserve balance will be used to fund any payments that are necessary for unavoidable redundancies. Table 7 demonstrates the effect of the proposed changes on the employee budget from 2009/10 to 2015/16.

**Table 7: Estimated Employee budget from 2009/10 to 2015/16**

	£'000*
<i>2009/10 Employee Budget</i>	14,482
<i>2010/11 Employee Budget</i>	13,966
<i>2011/12 Employee budget</i>	13,191
<i>2012/13 Employee budget</i>	12,697
<b>2013/14 Employee budget</b>	<b>12,306</b>
<b>2014/15 Employee budget</b> *assumed 1% pay award	<b>12,152</b>
Add:	
Increments	76
Pay Award (1.2% increase)	111
Superannuation (lump sum increase)	0
Less:	
Net Reductions during 2014/15	(170)
<b>2015/16 Employee budget</b>	<b>12,169</b>
<b>Net increase from 2014/15 to 2015/16</b>	<b>17</b>

\* all figures include on costs for employer national insurance and superannuation

## **Growth Pressures and Investment Proposals**

- 9.5.6 Appendix 5 details a total of £239k of new investment proposals for inclusion in the 2015/16 budget. The shaded rows in this appendix represent growth of £165k in the budget that has previously been agreed, bringing the total of investment/growth in the 2015/16 budget to £404k.
- 9.5.7 There are a total of 57 capital investment proposals detailed in appendix 6 which are grouped under the headings of; invest to save, North Hertfordshire leisure centre, other asset management, grants to third parties, green space strategy, parking related and IT investment. These proposals total an estimated investment of £18.5million over the four years and it is anticipated £788k of external funding can be obtained to help fund it.
- 9.5.8 Cabinet is asked at recommendation 2.5 to note the inclusion of all the efficiency and investment proposals in the draft budget for 2015/16.**

## **9.6 Estimates 2015/2016**

- 9.6.1 Detailed estimates are currently being prepared and will be available in February. High level estimates attached as Appendices 1 & 2 include the investment and efficiency options mentioned above and any base budget adjustments approved by Cabinet through the budget monitoring reports or other Committee reports. The high level estimates show a total net district expenditure of £15.963million for 2015/16.
- 9.6.2 It is estimated that there will be a net surplus on the general fund in 2015/16 and a contribution will be made to reserves. This is the result of identifying efficiencies above and beyond the budget gap level for 2015/16. However, it is estimated that contributions will be required from the reserves in the following years because there will be a deficit on the general fund. This reflects the anticipation of using the special reserve for investment in changing services and delivering new ways of working.
- 9.6.3 In arriving at the above net district expenditure it is assumed discretionary fees and charges for services will be increased by RPI unless a separate decision has been taken with regard to a specific service. For example, decisions have been made that cemetery services and allotment services should be delivered at a net nil subsidy.
- 9.6.4 The detailed estimates reflect the current reserve balances as forecast at the 2014/15 second quarter monitoring report. A high level update on the financial position in 2014/15 as at the end of month 8 will be provided in the January budget report to help inform the budget setting process.
- 9.6.5 The council tax requirement for the District, as defined for statutory purposes (previously the budget requirement prior to the Localism Act 2011) and which includes Parish precepts, is required to be approved by Full Council and will be provided before 12 February when all Parish precepts are known.

## **9.7 Other Considerations**

- 9.7.1 Discussions at the Hertfordshire Waste Partnership suggest the funding NHDC receives from the Alternative Financial Model (AFM) is less certain over the next 4 years. At this stage it is anticipated NHDC will continue to receive an amount equivalent to the budget. Should NHDC be awarded an amount in excess of the amount budgeted it is recommended the surplus is transferred into an earmarked reserve to help cushion the impact of any reduction in the following years and also to be used for expenditure incurred in the development of a northern transfer station.
- 9.7.2 The appendices refer to a number of projects NHDC has embarked upon with the aim of achieving budget savings and business resilience. This includes looking into working with other Authorities, such as with regard to Building Control and the Shared Anti Fraud Service, and also working with our contractors to investigate opportunities to save on revenue costs by releasing capital investment e.g. North Hertfordshire Leisure Centre and Waste and Recycling Services. The business cases for these projects are in various stages of development. Estimates have been incorporated into the expenditure forecasts where possible but in some cases the projects are at too early a stage.
- 9.7.3 The strategy to develop the Careline service and improve the budgeted position has progressed and implementation is underway. In line with previous reports to Cabinet the general fund estimates currently anticipate that Careline is likely to cover all costs in 2015/16, including overheads. This is a developing situation and the budgeted position will need to remain under review.
- 9.7.4 Having considered all the implications in this report on the demand for resources, Cabinet must consider its recommendation to Council on the level of Council Tax for 2015/16. Appendix 1 demonstrates the funding position with a zero increase in council tax (and the receipt of an assumed council tax freeze grant) in each of the next five years; appendix 2 demonstrates a 1.9% increase in each of the next five years. Councillors should be aware that acceptance of the Council Tax freeze grant leads to erosion of the base for future years and from a longer term financial planning perspective it would be more advantageous to have a modest 1 to 2% increase each year to help mitigate the impact of inflationary increases which the Council faces. Councillors could, therefore, decide to protect the base going forward and choose to increase Council Tax within an acceptable level. An increase of 2% or more is likely to be subject to a local referendum. Members will have to justify the level of increase to the Council Taxpayers and have to balance the costs of providing services to the public with the implications of non-provision or variation to the level of provision.
- 9.7.5 If the Council did choose to increase council tax in 2015/16 by 1.9% (£3.88 on a Band D Council tax bill or just over 7p per week) it would not receive a government grant for a council tax freeze but it would receive more income in future years.
- 9.7.6 Councillors will recall that the North Herts proportion of the overall bill is relatively small and our ability to influence the overall perception of the Council Tax increase is marginal. The County Council increase is the determining factor in the overall level of increase experienced by the Council Tax payer.

**Table 8: Average Band D Council Tax \***

	<b>2014/15</b>	<b>Share of bill</b>
	<b>£</b>	
District	204.13	13.88%
HCC	1,118.83	76.07%
HPA	147.82	10.05%
<b>Total</b>	<b>1,470.78</b>	<b>100.00%</b>

\* Excluding local Parish precepts.

## **10. LEGAL IMPLICATIONS**

- 10.1 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.
- 10.2 Cabinet's terms of reference include recommending to Council the annual budget, including the capital and revenue budgets and the level of council tax and the council tax base. Council's terms of reference include approving or adopting the budget.
- 10.3 Members are reminded of the duty to set a balanced budget and to maintain a prudent balance.

## **11. FINANCIAL IMPLICATIONS**

- 11.1 As outlined in the body of the report.

## **12. RISK IMPLICATIONS**

- 12.1 As outlined in the body of the report.
- 12.2 There are significant uncertainties and risks with regard to the funding of NHDC over the medium term. In particular with regard to the possibility of future changes to both the New Homes Bonus Scheme and the Business Rates Retention Scheme.

## **13. EQUALITIES IMPLICATIONS**

- 13.1 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.
- 13.2 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.

13.3 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.

13.4 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.

## **14. SOCIAL VALUE IMPLICATIONS**

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

## **15. HUMAN RESOURCE IMPLICATIONS**

15.1 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.

## **16. APPENDICES**

16.1 Appendix 1 - General Fund estimates (Council Tax freeze)  
Appendix 2 - General Fund estimates (1.9% Council Tax increase)  
Appendix 3 – Expenditure reduction proposals  
Appendix 4 – Income generation proposals  
Appendix 5 – Revenue Investment proposals  
Appendix 6 – Capital Investment proposals  
Appendix 7a to 7d – Notes of November Member Workshops  
Appendix 8 – MTFs extract – budget assumptions  
Appendix 9 – Description of earmarked reserves

## **17. CONTACT OFFICERS**

Author:

17.1 Tim Neill, Accountancy Manager, Tel 474461, email, [tim.neill@north-herts.gov.uk](mailto:tim.neill@north-herts.gov.uk).

Contributors:

17.2 Norma Atlay, Strategic Director of Finance, Policy and Governance, Tel 474297, email, [norma.atlay@north-herts.gov.uk](mailto:norma.atlay@north-herts.gov.uk) .

17.3 Andrew Cavanagh, Head of Finance, Performance and Asset Management, Tel 474243, email, [Andrew.cavanagh@north-herts.gov.uk](mailto:Andrew.cavanagh@north-herts.gov.uk)

**18. BACKGROUND PAPERS**

18.1 Financial Risks estimate working paper 2015/16