

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

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

Note; This report will be presented to Cabinet on 27 January 2015

1. SUMMARY

- 1.1 To consider the 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 for 2015/16 is £4.361million. This is broadly in line with previous estimates. The final settlement announcement is expected late January / early February.
- 2.2 That Cabinet notes the estimated position on the Collection Fund (9.1 refers) and that:
 - a contribution of £1.2million from the general fund to the collection fund be made in respect of Business Rates to cover the share of the deficit position;
 - a contribution of £83,000 to the general fund from the collection fund be made in respect of Council Tax for the share of the surplus position
- 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 to be maintained for the known and unknown financial risks. Further to this that it is prudent to maintain reserves at a higher level to ensure continued sustainability over the medium to longer term given the current uncertainties about future funding.
- 2.4 That Cabinet approves the changes to the 2014/15 General Fund budget identified in paragraph 8.1, table 1, a £404,000 decrease in net expenditure and a corresponding increase in the 2015/16 budget of £80,000.

- 2.5 That Cabinet notes the position of the other reserves and provisions as identified in section 9.3 and that the Chief Finance Officer considers the estimates robust and the budgeted level of reserves adequate.
- 2.6 That Cabinet approves the inclusion of the efficiencies and investment proposals at Appendices 3 to 5 in the general fund budget estimates for 2015/16.
- 2.7 That Cabinet notes the estimated 2015/16 net expenditure of £16.060million, as detailed in appendix 2 and recommends this budget to Council.
- 2.8 That Cabinet indicates that it wishes to recommend to Council a 1.9% increase on the Council Tax rate 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 were attached to the Draft Budget report in December.
- 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, although there is still no update on potential changes to NHB. 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 our 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. This risk will be mitigated in 2015/16 by joining a Business Rates pool with four other Hertfordshire District/Boroughs and the County Council;

- 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 1st 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 final budget proposals based on information available to date. **It must be stressed that a budget is always an estimate of what will actually happen and that the new local government funding arrangements have resulted in more estimation than in previous years.**

8. ISSUES

8.1 Funding Announcements

- 8.1.1 The provisional local government finance settlement for 2015/16 was announced by the Local Government Minister on the 18 December 2014. This followed the indicative settlement for 2015/16 announced in February 2014 as part of the 2014/15 final settlement announcement. The announcement does not change significantly our forecasts for 2015/16 and so does not require further changes to the proposed budget considered by Cabinet on 16 December 2014.
- 8.1.2 The 2015/16 provisional figures are expected to be confirmed in late January/ early February 2015 (within the final settlement announcement) after the period of consultation.
- 8.1.3 The provisional settlement for North Hertfordshire District Council is £4.361million and is provided in table 1 below. The provisional settlement is £7,000 less than the estimate provided in the Draft Budget Report in December and is a 15.5% reduction on the 2014/15 settlement.

Table 1: Provisional Settlement for 2015/16

| | Adjusted 2014/15 £'000 | Provisional 2015/16 £'000 | Year on Year Reduction |
|--|---------------------------------------|--|---------------------------------------|
| Revenue Support Grant | 2,734 | 1,887 | -31% |
| Baseline Need | 2,428 | 2,474 | +2% |
| Settlement Funding Assessment (SFA) | 5,162 | 4,361 | -15.5% |

- 8.1.4 In addition to the above funding the background tables to the announcement also suggest the Authority will receive £36k as a “Settlement funding assessment adjustment” and £8k as the share of the unspent New Homes Bonus allocation.

- 8.1.5 The provisional allocation of New Homes Bonus (NHB) for 2015/16 was also announced in December. The Authority has been awarded £2.393million, which is just £38k less than the estimate provided to Cabinet on the 16 December in the draft budget.
- 8.1.6 Our best estimates of future government funding are detailed in table 1 below. Over the next 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 2: 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 | 1,887 | 1,442 | 1,068 | 705 | 356 |
| 2,428 | Business Rates Baseline | 2,474 | 2,577 | 2,670 | 2,771 | 2,877 |
| 5,162 | Settlement Funding Assessment* | 4,361 | 4,019 | 3,738 | 3,476 | 3,233 |
| 1,982 | New Homes Bonus | 2,393 | 2,843 | 2,741 | 2,741 | 2,741 |
| | Other un-ringfenced government funding** | | | | | |
| 7,621 | Total | 6,754 | 6,862 | 6,479 | 6,217 | 5,974 |
| | Change on previous year | -11.38% | +1.6% | -5.58% | -4.04% | -3.91% |

* The settlement 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 £86k for 2015/16.

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

- 8.1.7 Cabinet is asked in Recommendation 2.1 to note that the 2015/16 provisional finance settlement announcement is £4.361million and that the final settlement announcement is expected late January / early February.**
- 8.1.8 The Minister announced there will be a Council Tax Freeze Grant equivalent to a 1% increase in council tax to authorities that freeze or lower their council tax levels in 2015/16. The Minister confirmed that the freeze grant and a referendum limit applies to all local authorities, including the Greater London Authority, fire authorities and police and crime commissioners. For authorities wishing to increase council tax by 2% or more, a local referendum will be required for 2015/16.
- 8.1.9 Whilst the Revenue Support Grant element of the settlement funding assessment will be guaranteed, the Baseline Need is funded through the retained business rates. All factors being equal if the Authority collects Business Rates inline with the NDR Baseline the retained amount should be comparable with the Baseline Need Amount. The NNDR 1 for 2015/16 (required to be submitted by the 31 January

2015) will provide the estimate of whether the Council can be expected to earn a surplus or incur a deficit on the retained business rates. At the time of writing the draft NNDR 1 suggests that income from business rates should be in line with the Baseline Need.

- 8.1.10 In a similar manner to the previous four years the Government headlines have focused on an assessment of local authority “revenue spending power”. This includes the council tax requirement, settlement funding assessment, new homes bonus and other specific grants. The provisional settlement announced a reduction in the North Herts spending power from 2014/15 to 2015/16 of 2% (compared to a reduction from 2013/14 to 2014/15 of 1.1%).

Table 3: Spending Power

| | Final 2014/15 £'000 | Provisional 2015/16 £'000 | Year on Year Change |
|--|------------------------------------|--|------------------------------------|
| Settlement Funding Assessment | 5,162 | 4,361 | -15.5% |
| Settlement Funding Assessment Adjustment | 26 | 36 | +38.5% |
| New Homes Bonus | 1,982 | 2,393 | +20.7% |
| Community Right to Challenge | 9 | 0 | -100% |
| Community Right to Bid | 8 | 0 | -100% |
| Less: Council Tax Support funding to Parishes ¹ | (91) | (91) | 0 |
| New Homes Bonus returned funding | 8 | 8 | 0 |
| Housing Benefit and Ctax Admin Subsidy | 728 | 641 | -12% |
| Council Tax Support New Burdens Funding | 82 | 25 | -69.5% |
| Council Tax Precept | 9,589 | 9,670 | +0.8% |
| Council Tax Freeze Grant | 0 | 106 | +100% |
| Total Spending Power | 17,503 | 17,149 | -2% |

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. Since 1 April 2013 and the introduction of the retention of Business Rates Scheme, the Council has been required to monitor the surplus/deficit position of Council Tax separately from the surplus/deficit position with regard to Business Rates. Should a surplus/deficit develop with regard to Council Tax, this must be shared with the County Council and Police and Crime Commissioner in proportion to their share of the overall Council Tax bill and returned/repaid to/from the Council Taxpayers. Should a surplus/deficit develop with regard to Business Rates this will be shared with the County Council and Central Government.
- 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 £3million. NHDC must fund its share of an estimated deficit in the following financial year (2015/16). The general fund will, therefore, be charged £1.2million to fund the share of deficit in collected Business Rates but will receive £83,000 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 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 The total amount of business rates to be collected in 2015/16 is estimated to be £38.1million. 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. Any surplus/deficit will be resolved in the following financial year. Of the remaining 50%, the Council's share will be roughly £15.3million. 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 (£2.474million in 2015/16).

9.1.5 Because the collection of business rates in 2015/16 is estimated to be higher than the baseline need it would ordinarily also be necessary to pay a levy of 50% to Government for every additional £1 collected. This levy would equate to approximately £540,000. The application to be part of a Hertfordshire Business Rate Pool was successful which will mean the amount of levy NHDC will actually pay should be much lower. The levy rate will become known when each Authority has submitted their estimates for 2015/16.

9.1.6 Councillors were asked in December 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.

9.1.7 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.

9.1.8 Cabinet is asked in recommendation 2.2 to note the estimated position on the Collection Fund (9.1 refers) and that:

9.1.9

- **a contribution of £1.2million from the general fund to the collection fund be made in respect of Business Rates to cover the share of the deficit position;**
- **a contribution of £83,000 to the general fund from the collection fund be made in respect of Council Tax for the share of the surplus position.**

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 £5.7million, 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 4 summarises the identified risks over the high, medium and low assessment:

Table 4 –Budget risks 2015/16

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

9.2.4 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.

9.2.7 The second quarter 2014/15 revenue monitoring report informed Cabinet of a projected net expenditure of £15.996million and a projected general fund balance at the 31 March 2015 of £4.7million.

9.2.8 A high level review of the most volatile budgets has been completed with data as at 30 November 2014. The following significant variances on the working budget result in an estimated £404,000 reduction on the working budget in 2014/15 and also a corresponding increase in budget in 2015/16 of £80,000.

Table 5: Variances on the 2014/15 General Fund Budget

| Expenditure/ Income | Working Budget £'000 | Revised Estimate £'000 | Increase / Decrease(-) £'000 | Comment | Effect on 2015/16 Budget £'000 |
|-------------------------------|----------------------------|------------------------------|------------------------------------|--|---|
| Apprenticeships | +182 | +82 | -100 | The unspent £100k of the scheme budget will be used for the continuation of the scheme (as detailed in the investment proposal R6 in appendix 5) | |
| Trade Waste Waste contract | +313 | +288 | -25 | This reduction reflects the level of | -25 |

| Expenditure/ Income | Working Budget £'000 | Revised Estimate £'000 | Increase / Decrease(-) £'000 | Comment | Effect on 2015/16 Budget £'000 |
|---|-------------------------------------|---------------------------------------|---|--|---|
| Miscellaneous Income | 0 | -81 | -81 | activity in 2014/15. Income receipt from HMRC relates to the return of prior years VAT payments following a change in the VAT treatment of income from Trade Waste services. It is requested that this one-off income is transferred to the Waste Reserve to augment the existing contingency in the light of strategic risks facing Waste and Recycling services in the coming years. | |
| Contribution to reserves | 0 | +81 | +81 | | |
| Commercial Property Income | -1,046 | -1,018 | +28 | The budget includes an expectation of uplift in rents following reviews. There are very few rent reviews or lease renewals due in the remainder of this financial year. Typically rent reviews are on a 5 year or longer cycle. Therefore significant rental increases are not expected to materialise before March 15. | |
| Recoupment of identified Benefit Overpayments (net of bad debt provision) | -388 | -538 | -150 | Activity in the year to date is up on the same period in 2013/14 and so an increase on the full year projection would seem appropriate. | |
| Area Committee budgets | +246 | +129 | -117 | Area Committee meetings in December allocated grants which are waiting to be released. The remaining cycle of meetings are in March. Remaining unspent committed budgets will be ring fenced for projects and carried forward to the new financial year. | +117 |
| Extending boundary of Chiltern Area of Natural Beauty | 20 | 0 | -20 | The decision on whether this work takes place is with Natural England. The application has been submitted by the Chilterns Conservation Board on behalf of North Hertfordshire and the Board is waiting to hear their decision on whether the application has been successful. Officers will continue to track progress and engage positively with the Chilterns Conservation Board and Natural England on how this proposal is progressed. This budget is requested to be carried forward | +20 |

| Expenditure/ Income | Working Budget £'000 | Revised Estimate £'000 | Increase / Decrease(-) £'000 | Comment | Effect on 2015/16 Budget £'000 |
|---|----------------------------|------------------------------|------------------------------------|---|---|
| | | | | again into 2015/16. | |
| Contaminated Land consultancy budget | +25 | 0 | -25 | Annual budget is not required as there has not been any contaminated land to treat. | |
| Other minor variances | | | +5 | | -32 |
| Total change in General Fund expenditure | | | -404 | | +80 |

9.2.9 Cabinet is asked in recommendation 2.4 to approve the changes to the 2014/15 General Fund budget identified in paragraph 8.1, table 1, a £404,000 decrease in net expenditure and the corresponding increase of £80,000 in the 2015/16 budget.

9.3 Other Reserves and Provisions

9.3.1 Balances on other earmarked reserves are estimated to total £4.584million at the 31 March 2015. The expected movement on these accounts for 2014/15 is shown in table 6 and a description of each reserve is provided in Appendix 7.

Table 6 –Other Reserves & Provisions 2014/15

| | Balance at 1 April 2014 £'000 | Projected Contributions £'000 | Payments to Fund expenditure £'000 | Balance at 31 March 2015 £'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 |
| Community Right to Bid | 29cr | 16cr | 0 | 45cr |
| Street Furniture | 4cr | 0 | 4dr | 0 |

| | Balance at 1 April 2014 | Projected Contributions | Payments to Fund expenditure | Balance at 31 March 2015 |
|---------------------------------|--|------------------------------------|---|---|
| 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 | 228dr | 1,116cr |
| 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 | 292cr | 0 | 292cr |
| Total Revenue Reserves | 4,002cr | 1,303cr | 721dr | 4,584cr |

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 The Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates and the adequacy of reserves. In order to assess the adequacy of unallocated general reserves when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority. In addition to the factors considered in paragraphs 9.2.1 to 9.3.2, other external factors, such as future funding levels expected to be included in Spending Reviews and expected referenda principles and limits, will influence an authority's ability to replenish reserves once they have been used. Any plans for using reserves will need to consider the need and ability of the authority to replenish the reserves, and the risks to which the authority will be exposed whilst replenishing the reserves. In the current era of funding uncertainty the Chief Finance Officer considers the budgeted level of reserves appropriate and adequate for the Authority to take a planned approach to setting an annual balanced budget over the medium term.

9.3.4 Cabinet is asked at recommendation 2.5 to note the position relating to the other reserves and provisions and that the Chief Finance Officer considers the estimates robust and the budgeted level of reserves adequate.

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 7 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 7 – 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 At the December meeting Cabinet was asked to note the inclusion of efficiency and investment proposals in the draft budget. Cabinet resolved at the meeting to remove efficiency proposals with regard to Area Committees, the fountain in Letchworth and dog bins (E6, E7 and E8) and appendix 3 now shows that these proposals have been removed from the budget estimates. The remaining efficiency proposals in the budget estimates that are listed in appendix 3 result in a reduction in budget of £147,000 in 2015/16.
- 9.5.2 The income generation proposals in appendix 4 total an estimated increase in income in 2015/16 of £38,000. The parking tariff proposal (14) has been updated to reflect the November RPI figure of 2%.
- 9.5.3 The process of seeking more efficient ways of working and scrutinizing the budget has resulted in a £256k reduction in the base budget without having a 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 £70k of other minor savings.
- 9.5.4 Together all the efficiencies and income generation proposals total £441k and more than achieve the budget gap for 2015/16. Achieving more efficiencies will help to reduce the efficiency targets in the following years.
- 9.5.5 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. 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.
- 9.5.6 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. Overall there is an increase in estimated employee spend from 2014/15 to 2015/16. This includes the nationally agreed pay increase of 2.2% and a revision to the vacancy control target. The budget assumes there will always be some vacant posts as a result of natural turnover of staff (2%) and as a result the full establishment is not 100% funded.

Table 8: Estimated Employee budget from 2009/10 to 2015/16

| | £'000* |
|--|---------------|
| <i>2009/10 Employee Budget</i> | 14,182 |
| <i>2010/11 Employee Budget</i> | 13,668 |
| <i>2011/12 Employee budget</i> | 12,891 |
| <i>2012/13 Employee budget</i> | 12,397 |
| <i>2013/14 Employee budget</i> | 12,006 |
| 2014/15 Employee budget *assumed 1% pay award | 11,852 |
| Add: | |
| Increments | 80 |
| Pay Award (1.2% increase) | 113 |
| Superannuation (staff opting in/out) | 24 |
| Reduction in vacancy control target (turnover) | 70 |
| Less: | |
| Reduction in annual allowance for apprentices | (72) |
| Net other reductions during 2014/15 | (95) |
| 2015/16 Employee budget | 11,972 |
| Net increase from 2014/15 to 2015/16 | 120 |

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

Growth Pressures and Investment Proposals

9.5.7 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.

9.5.8 Cabinet is asked at recommendation 2.6 to note the inclusion of the general fund efficiency and investment proposals in the budget for 2015/16.

9.6 Estimates 2015/2016

9.6.1 Detailed estimates at cost centre level have been prepared and a full budget book will be made available for all Members. The high level summary general fund estimates are attached as appendix 2 and include the investment and efficiency options mentioned above and any base budget adjustments approved through the budget monitoring reports. The estimates show a total net district expenditure of £16.060million 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 of £606,800 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 amount of new burials has reduced during 2014/15 (as reported in the second quarter monitoring report) to such an extent that the cemetery service is expected to be provided at a net cost of around £50,000. It is not considered appropriate to increase burial fees and charges by more than inflation for 2015/16 and so the service will not be budgeted to be delivered at a net nil subsidy in 2015/16.
- 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.
- 9.6.6 Cabinet is asked in recommendation 2.7 to note the estimated 2015/16 net expenditure of £16.060million, as detailed in appendix 2 and to recommend this budget to Council.**

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 for anticipation in the budget.
- 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. In December Cabinet resolved that a 1.9% increase be recommended to Council as an appropriate level of Council Tax. Since the December meeting the Council has received the provisional settlement for 2015/16 and the announcement that the government will provide a council tax freeze grant equivalent to a 1% increase in council tax to those authorities that freeze or lower their council tax levels in 2015/16. It has also been confirmed that an increase of 2% or more will be subject to a local referendum. 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.
- 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 9 -Average Band D Council Tax *

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

* 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 – High Level General Fund forecasts
- Appendix 2 – General Fund Summary for 2015/16
- Appendix 3 – Expenditure reduction proposals
- Appendix 4 – Income generation proposals
- Appendix 5 – Revenue Investment proposals
- Appendix 6 – MTFS extract – budget assumptions
- Appendix 7 – Description of earmarked reserves
- Appendix 8 – Financial Risks assessment

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18. BACKGROUND PAPERS

None