

**TITLE OF REPORT: CORPORATE BUSINESS PLANNING - DRAFT BUDGET 2016/17**

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

**1. SUMMARY**

- 1.1 To consider the draft budget for 2016/17 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Tax level and to recommend the appropriate level to the meeting of the Council on the 11 February 2016.
- 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 (2016 – 2021).

**2. RECOMMENDATIONS**

- 2.1 That Cabinet notes that the provisional finance settlement announcement is expected on the 17 December 2015, following the Autumn Statement on 25 November 2015.
- 2.2 That Cabinet notes the estimated position on the Collection Fund and the impact on the general fund for 2016/17, paragraph 9.1.6 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 £1.669million 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 2 and 3 in the general fund budget estimates for 2016/17.
- 2.6 That Cabinet notes that work will continue during the next financial year on production of business cases for the items marked “tbc” in Appendices 2 and 3.
- 2.7 That Cabinet notes the intended inclusion of the capital investment proposals at appendix 4 in the capital programme and the subsequent implications on the general fund budget estimates.

- 2.8 That Cabinet refers this report to all Councillors via 'Members Information Service' for comment.
- 2.9 That Cabinet notes the comments from the November budget workshops provided in Appendix 5a to 5c.
- 2.10 That Cabinet notes that the budget estimates and hence the provisional Council Tax requirement may be subject to change before the final Cabinet budget meeting on 26 January 2016.
- 2.11 That Cabinet provides a view on the appropriate level of Council Tax for 2016/17.

### **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 2016/17.
- 3.2 To ensure that the Cabinet recommends a balanced budget to Council on 11 February 2016.

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

- 4.1 All Councillors were asked for their early input into defining the budget options at the first set of Group 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 4/5 November 2015. Notes of the comments raised at the workshops are attached as appendix 5.
- 5.2 The Cabinet will consult on the proposals in this report with the Business Rate Payers Group in January 2016.

### **6. FORWARD PLAN**

- 6.1 This Report contains a recommendation on a key decision to be taken by Council on 11 February 2016 that was first notified to the public in the Forward Plan in June 2015.

### **7. BACKGROUND**

- 7.1 The Medium Term Financial Strategy (MTFS), which provides the financial background to the Corporate Business Planning process for 2016-2021, was adopted by Full Council on the 3 September 2015 following recommendation by Cabinet.
- 7.2 In recent years the MTFS has been caveated that it may be necessary to revisit the budget forecasts once there is greater clarity with regards to the treatment of a

number of key Government funding sources, including New Homes Bonus (NHB) and business rates income. For 2016/17 this remains the case and the Autumn statement referred to consultation that will be carried out in the near future.

- 7.3 In anticipation of the uncertainty surrounding the future funding regime, NHDC increased general fund reserves to a total of £5.1million by the start of the financial year, including a special reserve of £1.7million. This was achieved partly as a result of the early delivery of some of the planned efficiencies. The council's policy on reserves forms part of the MTFS.
- 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 that the Autumn statement confirmed 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 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. The MTFS provides the framework within which this can be done.
- 7.7 For 2016-2020, the MTFS makes further explicit proposals to continue advancing the themes from previous years:
- That discretionary fees & charges are increased by CPI plus 2%
  - The Council will set the level of Council Tax increase year on year at no more than 0.1% below the Referendum threshold imposed by Government. If no Referendum threshold is imposed, the council will ordinarily set the level of Council Tax increase year on year at no more than 2%
  - Introduction of specific policy papers for Reserves and Fees & Charges
  - Introduction of a specific Asset Management section
  - That, as part of the annual budgetary process, Full Council may approve that unallocated Area Committee budgets can be carried forward from one year to the next and not be subject to the normal rules for carry forward budgets.
  - The potential to utilise social media for budget consultation and/or an externally facilitated participatory budget exercise.

The extract from the MTFS of all the assumptions is provided in appendix 6 for easy reference.

- 7.8 The MTFs is an integral part of the Corporate Business Planning process. It complements the Priorities for the District 2015/16 and sets out a clear framework for our financial decision making. The high level priorities for 2016/17 onwards are:
- To work with our partners to provide an attractive and safe environment for our residents, where diversity is welcomed and the disadvantaged are supported;
  - To promote sustainable growth within our district to ensure economic and social opportunities exist for our communities, whilst remaining mindful of our cultural and physical heritage; and
  - To ensure that the Council delivers cost effective and necessary services to our residents that are responsive to developing need and financial constraints.
- 7.9 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. In 2015/16 we were also members of the Hertfordshire business rates pool and wish to continue our membership into 2016/17. This fundamentally supports the Priority of “Promoting Sustainable Growth”. Responsibility for cost of council tax support also encourages Authorities to promote economic prosperity. The MTFs highlighted the key risks in the assumptions and the draft budget provides updated information on these risks where possible.
- 7.10 Due to the budget balancing measures taken in previous years, NHDC 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 is being given to transformation projects which may require some initial investment before delivering benefits in future years. These include work on the council’s future office accommodation needs, leisure centre development, further channel shift work where that is more cost effective, new income generation and development opportunities and continuing work on sharing services with other authorities
- 7.11 Government funding cuts and consequent budgetary constraints are specifically concerned with Revenue expenditure which funds the running costs of the Council: provision of day to day services such as refuse collection, leisure centres, grass cutting, staff salaries and so on.. 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. It is important to note that currently, although the Council is able to utilise revenue funding for capital purposes if it so chooses, capital funding cannot be used for revenue costs unless a special capitalisation scheme is announced by Government. In his Autumn Statement the Chancellor announced that Local Authorities will have the flexibility to spend capital receipts (excluding Right to Buy receipts) from asset sales on the revenue costs of reform projects, subject to conditions to be set out in the Local

Government Settlement in December 2015. Generally specific approval is required (as was the case for the pension contribution in March 2014) and such schemes, when announced, are subject to strict criteria.

- 7.12 In some instances initial capital expenditure on service provision can reduce ongoing revenue costs, and therefore reduce pressure on revenue budgets (invest to save), and these opportunities are given serious consideration wherever possible. The Council is also exploring opportunities to utilise Capital funds to generate additional revenue income streams that will also relieve some of the pressure on services.
- 7.13 The MTFS calculated that if a 0% Council Tax increase were maintained over the review period and no efficiency measures were put in place, the special reserve and balances will erode from £8.2 million in 2016/17 (£6.5m in balances and £1.7m in special reserve), to a debit of £290k in 2020/21. Balances are maintained for a number of reasons, including to provide some protection against the cost impacts of the major risks the council faces, and to fund invest to save projects and address unavoidable fluctuations in contract prices when contracts are renewed. A balance of under £300k would leave the Council in an extremely 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 £2.6million over the period 2016/17 to 2020/21.
- 7.14 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 2016, not least due to the requirement to reflect the precise impacts of the Autumn Statement, and the Local Government Finance Settlement expected to be received by local authorities a few days before Christmas.**

## **8. ISSUES**

### **8.1 Funding Situation**

- 8.1.1 On the 25 November, the Chancellor made his Autumn Statement. This key announcement provided an update on the current state of public finances and the latest economic forecasts from the Office of Budget Responsibility. It is anticipated that the Council will receive a provisional settlement announcement for 2016/17 (and at least one year beyond that) from the Department of Communities and Local Government a few days before Christmas. This will mark the start of a period of consultation on the proposal before the final 2016/17 settlement can be approved by Parliament. An update will be provided to Councillors as soon as possible after the announcement.
- 8.1.2 Our best estimates of future government funding are detailed in table 1 below. Over the five years it is estimated Government funding sources will reduce by around 25%, based on figures reported in the media, although this cannot just represent RSG for this authority as this is already projected to reach zero by 2019/20. These

estimates reflect Government announcements of the intention for further reductions in Revenue Support Grant post 2016/17 and assume the New Homes Bonus Scheme will remain unchanged. It is clear, however, that further information on changes to New Homes Bonus can be expected in the Local Government Finance Settlement announcement in December. The Chancellor announced in his Autumn Statement 2015 that the Government will consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from six years to four years. Details of the changes will be set out as part of the local government finance settlement consultation. The estimates in table 1 assume that the business rates baseline will grow at a rate consistent with the Government's expectations. The Autumn statement revealed the Government's intention to consult on proposals for Local government to retain 100% of Business rates and take on additional powers and responsibilities during 2016. 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**

<b>2015/16 £'000</b>		<b>2016/17 £'000</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
1,931	Revenue Support Grant	1,154	692	415	0	0
2,474	Business Rates Baseline	2,501	2,559	2,636	2,717	2,802
<b>4,405</b>	<b>Start-up Funding Assessment*</b>	<b>3,655</b>	<b>3,251</b>	<b>3,051</b>	<b>2,717</b>	<b>2,802</b>
2,393	New Homes Bonus	2,660	2,700	2,702	2,649	2,418
	<b>Other un-ringfenced government funding**</b>					
	<b>Total</b>	<b>6,315</b>	<b>5,951</b>	<b>5,753</b>	<b>5,366</b>	<b>5,220</b>
	<b>Change on previous Year</b>	<b>-7.11%</b>	<b>-5.76%</b>	<b>-3.33%</b>	<b>-6.73%</b>	<b>-2.72%</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 2015.**

8.1.6 The Government may also announce its intention with regard to the threshold for a Council Tax referendum on the 17<sup>th</sup> December. The Autumn statement made provision for an additional 2% Council tax increase above the referendum limit to fund social care. It is expected the Council Tax freeze grant will be offered to an Authority who freezes their Council Tax in 2016/17 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 £100k in 2016/17.

- 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, £448k in 2014/15 and £410k in 2015/16, with the amount awarded in each year then payable for six years. The autumn statement announcements may mean that NHB is payable for 4 years in future and these figures may be subject to further change when further details are made available in December. The New Homes Bonus has provided the opportunity to have a £150k annual allowance for growth with the remaining funds initially held in reserve in the year received and then released in subsequent years to fund the strain on existing general services which additional development brings. However, significant risks have been flagged with regard to the future of New Homes Bonus nationally.
- 8.1.8 In 2015/16 NHDC will receive in total some £40.844million 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 2016/17 is not yet known for certain but the anticipated funding is shown in table 2.

**TABLE 2: ANALYSIS OF SPECIFIC GOVERNMENT GRANTS:**

	2015/16 £'000	Expectation for 2016/17
Housing Benefit Subsidy	38,210	Estimate available late Jan 16, so current budget forecast is based on 2015/16 actuals..
Discretionary Housing Payments	181	Announcement expected in December 2015.
Benefits Administration and Fraud Initiative	640	The admin grant has now been disaggregated between housing benefit administration (via the DWP and £513k for 2015/16) and the Council Tax Reduction Scheme administration (via DCLG and £127k for 2015/16). The Government had announced that there will be a further reduction to reflect the transfer of the function of benefit fraud investigation to the DWP and this was to reduce the HB grant by a further £58k. However this would be funded from savings from the investigations team budget. An announcement to confirm the funding for 2016/17 is expected in December 2015.
Council Tax and Housing Benefit new burdens funding	53	Funding for new burdens is announced on an ad hoc basis during the year. There is no assumption that funding will continue in 2016/17.
Section 31 Grants to reimburse the impact of Business Rate reliefs and caps.	854	This grant is to compensate for the cost of changes to the business rates system announced in the 2014 Autumn Statement. Similar payments could be received in 2016/17 if similar announcements are made in the 2015 Autumn Statement.
Waste minimisation – HCC contribution via the Alternate Financial Model.	470	Funding over the next 4 years is less certain, but should receive some clarity on funding in December 2015.
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 £76k remaining to continue to fund this scheme for 2016/17.

	2015/16 £'000	Expectation for 2016/17
Public Health Fund	33	Expected to get £100k in 2015/16, however due to spending cuts in the public health budget announced from the government, North Herts will receive £33.3k in 2015/16, £33.3k in 2016/17 and £33.3k in 2017/18. So the £100k will be received over 3 years.
NNDR Administration Grant	181	This will become known as the NNDR 1 for 2016/17 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.
Sports Activate	27	Funding for 2016/17 is expected to be at least as much as 2015/16.
Get Active	53	Grant received from Sport England for the get active programme. Will receive another grant in 2016/17 and 2017/18 but waiting to confirm the amount.
Individual Electoral Registration	40	Not expecting to receive any grant for 2016/17.
<b>Total Revenue Grants</b>	<b>40,844</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 Council had a £1.3million share of the Collection Fund deficit position at the 31 March 2015 and so there has been a contribution of £1.3million from the General Fund to the Collection Fund in 2015/16 to make good this deficit. This was funded through S31 grants that the council receives from the DCLG to pay for the impact of the 2014 Autumn Statement measures. 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 Collection Fund is anticipated to move further into deficit in relation to Business Rates in 2015/16, mainly as a result of successful appeals. However, the Collection Fund is anticipated to move further into surplus in relation to Council Tax. NHDC must fund its share of any estimated deficit in the following financial year and currently it's estimated that the NHDC share of the Business Rates deficit will be £0.291million as at 31 March 2016, however the share of the Council Tax surplus



will be £0.160million. In 2015/16 North Herts joined a Business Rates Pool, along with four other Herts District and Borough councils and Herts County Council. This will have a positive impact on the amount of levy payment North Herts would be required to pay to the DCLG. The latest estimate by Herts County Council, as pool lead, of the pooling gain to North Herts in 2015/16 is £200k. Unsurprisingly, NHDC are seeking to remain in a Business Rates pool for 2016/17.

- 9.1.4 On a separate agenda item Councillors will be asked to consider revisions to the Council Tax Reduction Scheme for 2016/17 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 2016/17 will be £38.2million. 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 £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 (£2.501million in 2016/17). Because the collection of business rates in 2016/17 is estimated to be higher than this baseline need NHDC would ordinarily have to pay a levy of 50% for every additional £1 collected. However in 2015/16 North Herts has joined the Hertfordshire Business Rates Pool, so the amount of levy that needs to be paid has reduced to approximately 23% for every additional £1 collected. North Herts will seek to remain in the pool for 2016/17 so the reduced levy will continue in 2016/17.
- 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 2016/17.**

## **9.2 Balances**

- 9.2.1 Before setting a draft Council Tax precept for 2016/17, 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. The Medium Term financial strategy (Reserves policy) also provides background to this topic. Net expenditure on the General Fund is anticipated to be approximately £16.494million for 2016/17. 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 £825k. 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 NHDC 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 £6.2million, 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 2016/17**

<b>Category</b>	<b>Number</b>	<b>Value £'000</b>	<b>Allowance £'000</b>
High	10	687	344
Medium	25	1,999	500
Low	22	3,514	0
<b>Total</b>	<b>57</b>	<b>6,200</b>	<b>844</b>

9.2.4 Although the total assessment of risk is £6.2million (increased by £0.5million compared to 2015/16), 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 £844k above the minimum level. This would suggest that it is advisable to maintain a minimum General Fund balance in the region of £1.669million for 2016/17 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 annual 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 £1.669million is recommended.**

**9.3 Other Reserves and Provisions**

9.3.1 Balances on other earmarked reserves are estimated to total £4.437million at the 31 March 2016. The expected movement on these accounts for 2015/16 is shown below in table 4.

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

	<b>Balance at 1 April 2015</b>	<b>Contributions</b>	<b>Payments to Fund expenditure</b>	<b>Balance at 31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cemetery Mausoleum	103cr	16cr	0	119cr
Children's Services	13cr	0	7dr	6cr
Climate Change Grant	49cr	0	20dr	29cr
Community Development	1cr	0	0	1cr
Community Right to Bid	45cr	0	0	45cr
DCLG Grants	1,045cr	879cr	1,302dr	622cr
DWP Additional Grants	42cr	29cr	61dr	10cr
Environmental Warranty Reserve	209cr	0	0	209cr
Growth Area Fund	53cr	0	0	53cr
Homelessness	22cr	0	22dr	0
Housing Planning Delivery Reserve	259cr	129cr	0	388cr
Information Technology Reserve	152cr	0	70dr	82cr
Insurance Reserve	38cr	0	0	38cr
Leisure Management Reserve	69cr	20cr	0	89cr
Local Authority Mortgage Scheme	56cr	25cr	0	81cr
Museum Exhibits Reserve	13cr	0	0	13cr
Neighbourhood Plan Reserve	40cr	15cr	0	55cr
Office Move IT Works	7cr	0	0	7cr
Paintings Conservation	15cr	0	0	15cr
Performance Reward Grant Reserve	50cr	0	42dr	8cr
Personal Search Fees	185cr	0	140dr	45cr
Property Maintenance	58cr	10cr	15dr	53cr
S106 Monitoring	95cr	4cr	16cr	83cr
Special Reserve	1,720cr	0	0	1,720cr
Street Furniture	3cr	4cr	1dr	6cr
Taxi Licences Reserve	2cr	0	0	2cr
Town Centre Maintenance	37cr	8cr	7dr	38cr
Town Wide Review	169cr	45cr	0	214cr
Waste Reserve	387cr	19cr	0	406cr
<b>Total Revenue Reserves</b>	<b>4,937cr</b>	<b>1,203cr</b>	<b>1,703dr</b>	<b>4,437cr</b>

### 9.3.2 Provisions

As at the 31 March 2015 there was a total of £1.01million held as provisions. These comprised of:

- An amount of £952k for the repayment of backdated Business Rates following successful claims. 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 £2.38million. This liability is split between Central Government (50%), Herts County Council (10%) and North Hertfordshire (40%).
- An Insurance Fund of £40k. This balance is to cover the uninsured aspect of outstanding insurance claims (the amount of our policy excess and any self-insured losses to be covered by the Insurance Fund). This varies throughout the year and the provision amount is adjusted at the end of each quarter on receipt of revised estimates from insurers. 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 allowed for in the budget. 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 2.4 to note the position relating to the other reserves and provisions.**

### 9.4 Efficiency and Investment Proposals

9.4.1 Detailed budget proposals were put forward for discussion at Group workshops in November, also attended by Officers. Appendix 2 details a total of £347k of efficiency proposals for inclusion in the 2016/17 budget. These proposals were discussed by Councillors at the budget workshops held in November and summaries of the outcomes are provided in appendices 5a to 5c for consideration.

9.4.2 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 £10k has been identified to be taken from the budget without having any detrimental impact on services, with a combined efficiency total of £357k included in the budget for 2016/17.

- 9.4.3 Councillors are reminded of the requirement under section 30 of the Local Government Finance Act 1992 to set a balanced budget by March 2016. 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 2016/17 and for NHDC to demonstrate it has a clear strategy in place that satisfies the Chief Finance Officer.
- 9.4.4 Employee expenditure remains one of the key areas of gross expenditure (approximately 44% 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 5 demonstrates the effect of the proposed changes on the employee budget from 2009/10 to 2016/17. Overall there is an increase in estimated employee spend from 2015/16 to 2016/17. This includes the nationally agreed pay increase of 1%, increased employer national insurance contributions following the introduction of a single state pension from April 2016, 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 5: Estimated Employee budget from 2009/10 to 2016/17**

	<b>£'000*</b>
<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
<i>2014/15 Employee Budget</i>	11,852
<b>2015/16 Employee Budget</b>	<b>11,972</b>
Add:	
Chief Officer Pay Award (15/16)	15
Increments	86
Pay Award 16/17 (1% increase)	94
Change in Employer NI contributions from introduction of Single Tier Pension from April 2016	217
Reduction in vacancy control target (turnover)	30
16/17 Staffing Investments (exc. Apprenticeship Scheme)	138
Less:	
Net other reductions during 2015/16	(1)
<b>2016/17 Employee budget</b>	<b>12,551</b>
<b>Net increase from 2015/16 to 2016/17</b>	<b>579</b>

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

## **Growth Pressures and Investment Proposals**

- 9.4.5 Appendix 4 details a total of £590k of new investment proposals for inclusion in the 2016/17 budget.
- 9.4.6 There are a total of 32 capital investment proposals detailed in appendix 5. These proposals total an estimated investment of £13.175million over the four years and it is anticipated £800k of external funding can be obtained to help fund it.
- 9.4.7 Cabinet is asked at recommendation 2.5 to note the inclusion of the general fund efficiency and investment proposals in the draft budget for 2016/17 and at recommendation 2.7 to note the inclusion of the capital investment proposals.**

## **9.5 Estimates 2016/2017**

- 9.5.1 Detailed estimates are currently being prepared and will be available in February. High level estimates attached in Appendix 1 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 £16.494million for 2016/17.
- 9.5.2 In arriving at the above net district expenditure it is assumed discretionary fees and charges for services will be increased by CPI plus 2% (as per MTFs approved by Full Council in September 2015), unless a separate decision has been taken with regard to a specific service.
- 9.5.3 The detailed estimates reflect the current reserve balances as forecast at the 2015/16 second quarter monitoring report. A high level update on the financial position in 2015/16 as at the end of month 8 will be provided in the January budget report to help inform the budget setting process.
- 9.5.5 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 11 February when all Parish precepts are known.

## **9.6 Other Considerations**

- 9.6.1 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, although, according to HCC, more clarity should be available in December 2015. 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.
- 9.6.2 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

mechanisms for market housing development; working with other Authorities, such as with regard to Waste Services, and also working with our contractors to investigate opportunities to save on revenue costs by releasing capital investment e.g. North Hertfordshire Leisure Centre 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 and details will be brought forward during 2016/17.

- 9.6.3 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 2016/17, including overheads. This is a developing situation and the budgeted position will need to remain under review.
- 9.6.4 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 2016/17. Appendix 1 demonstrates the financial position with a 1.9% increase in each of the next five years.
- 9.6.5 If the Council does choose to increase council tax in 2016/17 by 1.9% (£3.95 on a Band D Council tax bill or just under 8p per week) it would not receive a government grant for a council tax freeze but it would receive more income in future years.
- 9.6.6 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>2015/16</b>	<b>Share of bill</b>
	<b>£</b>	
District	208.01	13.90%
HCC	1,141.09	76.23%
HPA	147.82	9.87%
<b>Total</b>	<b>1,496.92</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. More detail may be available prior to finalising the budget in early 2016.

## **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 (1.9% Council Tax increase).  
Appendix 2 – Efficiency proposals.  
Appendix 3 – Revenue Investment proposals.



Appendix 4 – Capital Investment proposals.  
Appendix 5a to 5c – Notes of November Member Workshops.  
Appendix 6 – MTFS extract – budget assumptions.

## **17. CONTACT OFFICERS**

Author:

17.1 Andy Cavanagh, Head of Finance, Performance and Asset Management, Tel 474243, email, [Andrew.cavanagh@north-herts.gov.uk](mailto:Andrew.cavanagh@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 Antonio Ciampa, Accountancy Manager, Tel 474566, email, [Antonio.ciampa@north-herts.gov.uk](mailto:Antonio.ciampa@north-herts.gov.uk)

## **18. BACKGROUND PAPERS**

18.1 Financial Risks estimate working paper 2016/17.