*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. **8**

TITLE OF REPORT: CORPORATE BUSINESS PLANNING - 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 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 for 2016/17 is £3.316 million. This is £339,000 less than estimated.

2.2 That Cabinet
a) notes that the provisional settlement refers to the potential to agree a four year settlement with Government subject to an Efficiency plan and
b) that as details of the requirements of such a plan are not yet known, delegates the decision on whether to accept that offer or not to the Strategic Director of Finance, Policy and Governance in consultation with the Executive Member for Finance and IT when further details are known

2.3 That Cabinet notes the estimated position on the Collection Fund and the impact on the general fund for 2016/17 (Paragraph 9.1 refers).

2.4 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 £1.694million is recommended.

2.5 That Cabinet approves the changes to the 2015/16 General Fund budget identified in paragraph 9.2.8, table 5, a £245,000 decrease in net expenditure and a corresponding increase in the 2016/17 budget of £115,000.

2.6 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.

2.7 That Cabinet approves the inclusion of the efficiencies and investment proposals at Appendices 3 and 4 in the general fund budget estimates for 2016/17.

2.8 That Cabinet notes that work will continue during the next financial year on production of business cases for the items marked "tbc" in Appendices 3 and 4.

2.9 That Cabinet notes the estimated 2016/17 net expenditure of £16,533,100, as detailed in appendix 2, and recommends this budget to Council.

2.10 That Cabinet indicates that it wishes to recommend to Council a 1.9% increase in the Council Tax rate 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 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 18 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 Provisional Finance Settlement has proposed some significant changes that would directly impact on this council. Primarily these are the removal of any Revenue Support Grant after 2016/17, the introduction of an additional tariff adjustment on Business Rates (effectively a negative RSG), a reduction in the payments timescale for New Homes Bonus from six years to only four and also that NHB is only paid for houses built above a certain baseline level. However, the current assessment is that NHB changes do not commence until 2018/19, with the significant exception that NHB would not be paid from 2017/18 to any authority with no Local Plan. These changes which represent a significant change in distribution of Government support will have a detrimental impact on the council's overall funding in addition to the impacts previously modelled and reported to Cabinet last December

7.3 In anticipation of such changes to the future funding regime, NHDC increased general fund reserves to a total of £6.0million by the start of the 2015/16 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. These reserves will be partially utilised in coming years and allow the council time to plan further budget reductions in a managed way. 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. Our initial forecast in December 2015 was that £1.2 million needed to be found over the next four years to 2019/20. This is now in the region of £3 million, even after assuming a 1.9% year-on-year increase in Council Tax. A solution is needed that will address the financial reality but will restrict as much as possible the impact on essential services to residents.

7.5 The Provisional Finance Settlement confirms that the period of constrained Public Sector funding, and challenging budget balancing requirements, will continue for some years. The Chancellor has stated that "this is the most sustained period of constrained public finances for over one hundred 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, whether it should continue to deliver some services at all, 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 and the prudent use of reserves gives the council time to plan and implement service transformation effectively.

7.7 For 2016-2021, 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 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. The Chancellor has also reiterated the commitment to move to 100% Business Rates retention by the end of this Parliament, although no figures are yet available to quantify precise impacts and consultation is to begin in 2016. It has been made clear that the Government view this as the opportunity to review “the role and purpose of Local Government” and will be seeking to also pass additional funding responsibilities to the sector. 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 small stake in district growth. In 2015/16 we were members of the Hertfordshire business rates pool and will 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 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 set out in the Local Government Settlement in December 2015. Generally specific approval is required (as was the case for the capitalised pension contribution in March 2014; and this is something for the Council to explore again in the next year as mentioned in the Capital Budget report on this agenda) and such schemes, when announced, are subject to strict criteria.

7.11 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.

7.12 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 would 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 has been 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. However, the Provisional Settlement subsequently received increases this efficiencies target considerably.

7.13 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 impacts of the latest proposed changes in local government funding arrangements cannot be fully modelled yet, resulting in considerable estimation in the figures provided for future years.**

8. ISSUES

8.1 Funding Situation

8.1.1 The provisional settlement for 2016/17 to 2019/20 was announced on 17 December 2015. The announcement does significantly change our forecasts for the next four years, although reserves will be utilised to ameliorate the effect in 2016/17 and provide time for the council to plan its response for the following years. We expect the provisional figures to be confirmed in late January/early February 2016 (within the final settlement announcement).

8.1.2 The Secretary of State has said that it will be possible to sign up to the four year settlement subject to submission of an efficiency plan, the details of which are yet to be announced. He has also indicated that if authorities chose to opt for a single year settlement there can be no guarantee that funds will be available at the levels shown in future years. Information on the detailed requirements of the "efficiency plans" to enable authorities to access the offer of a four year funding settlement is awaited.

8.1.3 The provisional settlement for NHDC is £3.316 million, as reflected in table 1 below. The settlement is £339,000 less than the estimate provided in the draft budget report and is a 24% reduction on the 15/16 settlement.

Table 1: Provisional Settlement for 2016/17

	2015/16 £'000	Provisional 2016/17 £'000	Year on Year Reduction
Revenue Support Grant	1,887	821	-56.5%
Baseline Need	2,474	2,495	+0.8%
Settlement Funding Assessment (SFA)	**4,361**	**3,316**	**-24.0%**

8.1.4 The Government has also confirmed that the threshold for a Council Tax referendum remains at 2%. For authorities wishing to increase council tax by 2% or more, a local referendum will be required for 2015/16. This threshold does not apply to Parish Councils. It should also be noted that no Council Tax Freeze Grant is offered for any authorities who decide not to increase Council Tax.

8.1.5 Our best estimates of future government funding are detailed in table 2 below. Another element of the Provisional Settlement announcement was that additional Business Rate tariffs would be introduced from 2017/18 for authorities whose RSG had reached zero. This is effectively a negative RSG and has been introduced to enable government to change the distribution of government support across the sector. This will impact on NHDC and require an additional tariff of £1.6 million to be paid to DCLG over the three years commencing in 2017/18. With this additional tariff, over the next four years it is estimated funding will reduce by around 45%. The estimates in table 2 assume that the business rates baseline will grow at a rate consistent with the Government's expectations.

8.1.6 The provisional allocation of New Homes Bonus (NHB) for 2016/17 was also announced in December. The council has been awarded £2.718 million, which is £58k more than the estimate provided to Cabinet last December in the draft budget. The estimates for New Homes Bonus in table 2 reflect the government's preferred option of 'sharpening' the incentive by changing the composition of the receipt, with the bonus payment ultimately only reflecting four years of property activity within the district, rather than the current six years. The estimates in table 2 reflect the proposal within the consultation document that the NHB payment in 2017/18 be calculated on 5 years activity, with the NHB calculation from 2018/19 onwards being calculated over a four year activity period.

8.1.7 The Consultation paper on changes to the New Homes Bonus also makes it clear that only authorities with a Local Plan will be eligible to receive New Homes Bonus from 2017/18, that the bonus will be reduced where homes are allowed only on appeal and that there may be a base-line growth level set to ensure that only those authorities that actively encourage the building of new homes above the baseline will receive the bonus in future. This is referred to as removing the "deadweight" from the system. These changes have not been modelled in the estimates as insufficient detail is known.

Table 2: Estimated Government Funding for 2016/17 onwards

2015/16 £'000		**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
1,887	Revenue Support Grant	821	0	0	0
2,474	Business Rates Baseline	2,495	2,544	2,619	2,703
4,361	**Settlement Funding Assessment**	**3,316**	**2,544**	**2,619**	**2,703**
-	Tariff/Top-Up adjustment	0	(16)	(514)	(1,071)
4,361	**Adjusted Settlement Funding Assessment**	**3,316**	**2,528**	**2,105**	**1,632**
2,401	New Homes Bonus	2,718	2,342	1,944	2,050
0	Other un-ringfenced government funding	0	0	0	0
6,762	**Total**	**6,034**	**4,870**	**4,049**	**3,682**
	Change on previous year	**-10.77%**	**-19.29%**	**-16.86%**	**-9.06%**

8.1.8 The Government intends to consult in 2016 on proposals for Local Government to retain 100% of Business Rates and take on additional powers and responsibilities. The actual amount of business rates collected will ultimately determine the amount of business rates the Council is able to retain (see section 9.1).

8.1.9 Cabinet is asked in Recommendation 2.1 to note that the 2016/17 provisional finance settlement announcement is £3.316 million and that the final settlement announcement is expected late January / early February.

8.1.10 Cabinet is asked in Recommendation 2.2 to note that the provisional settlement refers to the potential to agree a four year settlement with Government subject to an Efficiency plan and that as details of the requirements of such a plan are not yet known, to delegate the decision on

whether to accept that offer or not to the Strategic Director of Finance, Policy and Governance in consultation with the Executive Member for Finance and IT when further details are known

8.1.11 Whilst the Revenue Support Grant element of the settlement funding assessment for 2016/17 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 2016/17 (required to be submitted by the 31 January 2016) 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.

8.1.12 The Government has introduced the concept of Core Spending Power to the latest settlement proposal. This is made up of RSG, Retained Business Rate income, New Homes Bonus income, Improved Better Care Fund, Rural Services Delivery Grant and Council Tax Income. This is the first time that income from Council tax has been included and as a result, authorities that are deemed to have higher Council tax bases and thus the ability to generate more of their income from that source, have seen their RSG removed and an additional tariff on Business rate income introduced to enable funds to be redistributed to authorities with lower ability. This is effectively a negative RSG. We have previously referred to the gearing effect and that due to our roughly 60:40 ratio of self generated income to government support, we were protected from the reductions in RSG. That was based on an assumption that RSG would simply be reduced to zero. No-one expected the introduction of negative RSG and the increased redistribution effect of the provisional settlement.

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 is 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 will remain in a Business Rates pool for 2016/17.

9.1.4 The total amount of business rates to be collected in 2016/17 is estimated to be £39.3million. Of this 50% is directly payable to the Government as the central share. This amount will have to be paid to Government regardless of the actual amount collected in year. Of the remaining 50%, the Council's share will be roughly £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).

9.1.5 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 this is reduced due to NHDC remaining in 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.

9.1.6 **Cabinet is asked in recommendation 2.3 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 £16.533million 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 £828k. 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 £6.155million, 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

Category	**Number**	**Value £'000**	**Allowance £'000**
High	11	822	411
Medium	24	1,819	455
Low	22	3,514	0
Total	**57**	**6,155**	**866**

9.2.4 Although the total assessment of risk is £6.155million (increased by around £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 £866k above the minimum level. This would suggest that it is advisable to maintain a minimum General Fund balance in the region of £1.694million 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. In previous years the external auditors, Grant Thornton, have recommended 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. We expect the new external auditors, EY, to take a consistent view.

9.2.6 Cabinet is asked in recommendation 2.4 to note the position relating to the General Fund balance and that due to the risks identified a minimum balance of £1.694million is recommended.

9.2.7 The second quarter 2015/16 revenue monitoring report informed Cabinet of a projected net expenditure of £16.572million and a projected general fund balance at the 31 March 2016 of £6.034million. Corporate Board subsequently approved £42,300 of additional employee costs to support the Careline Service operations although it is expected that increased income will cover the costs.

9.2.8 A high level review of the most volatile budgets has been completed with data as at 30 November 2015. The following significant variances on the working budget result in an estimated £245k reduction on the working budget in 2015/16 and also a corresponding increase in budget in 2016/17 of £100K. These figures include £262k of budget requested to be carried forward into 2016/17.

Table 5: Variances on the 2015/16 General Fund Budget

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2016/17 Budget £'000
Waste Minimisation HCC AFM Funding Contribution to reserves	 -395 +19	 -460 +84	 -65 +65	The AFM receipt received for recycling performance in 2014/15 is greater than that anticipated in the budget for 2015/16. It is requested that the surplus 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.	
Commercial Property Fees & Charges Income – Additional rental income	 -49	 +0	 +49	This budget was included to reflect expectation of uplift in rents following reviews. A business case is currently being drafted for additional specialist resource to carry out a targeted rent review of the Council's property portfolio, focussing on commercial rental arrangements. It is unlikely however this will achieve any additional income for 2015/16.	
Revenues and Benefits Employee Costs	 +1,060	 +1,020	 -40	The use of part of the saving from the introduction of the Shared Anti-Fraud Service to fund two temporary Revenue Administrator posts was approved by Corporate Board in 2015. The officers will be in post from January 2016. A carry forward of resource is therefore requested to fund the posts in 2016/17.	 +40
Land Charges Government Grant Income Contribution to reserves	 0 -140	 -119 -21	 -119 +119	Property Searches New Burdens (PSNB) grant has been received from Central Government via the DCLG to assist Local Authorities with the settlement of personal search claims. Payments to date have been covered from funds in an earmarked reserve and it is	

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2016/17 Budget £'000
				requested that this PSNB grant is added to this reserve to meet other costs arising from the litigation proceedings, which are still in negotiation.	
Area Committee budgets	+246	+132	-114	Area Committee meetings in December allocated grants which are waiting to be released. The remaining cycle of meetings are in January and in March. Subject to Council approval, remaining unallocated budgets (currently £114k) will be carried forward to the new financial year.	+114
Community Infrastructure Levy (CIL)	27	0	-27	This budget, which is requested to be carried forward, followed a successful investment bid to enable work to be undertaken on the viability of CIL. The CIL will follow the production of the Local Plan, while the time scale has been amended in accordance with the revised Local Development Scheme to be agreed by full council later this month.	+27
Extending boundary of Chiltern Area of Natural Beauty	+20	0	-20	The decision on whether this work takes place is still with Natural England. The application has been submitted by the Chilterns Conservation Board on behalf of NHDC and the Board is waiting to hear their decision on whether the application has been successful. No timeline has been given by Natural England as to when they will process the application. Officers will continue to track progress and engage positively with the Chilterns Conservation Board and Natural England on how this proposal is progressed. Should the application be successful then work on extending the boundary will commence. This budget is therefore requested to be carried forward into 2016/17.	+20

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2016/17 Budget £'000
Churchgate Legal Fees	+55	+25	-30	Total resource of £70k for Churchgate legal fees and valuation costs was approved at meetings of Full Council in February 2015 and July 2015. Proposals are now awaited from Hammersmatch following the end of the exclusivity period. The details of their proposals will determine the range and type of advice required. £30k of the resource made available is requested to be carried forward into 2016/17.	+30
Economic Development Officer	+41	+10	-31	The Economic Development strategy has now been approved, and a recruitment process for the Economic Development Officer should be complete by March 2016. £10k will be kept in the budget in 2015/16 to pay for the cost of recruitment, with the remainder requested to be carried forward to fund the costs of the post in 2016/17.	+31
Careline					
Subcontractor costs	+ 73	+ 86	+13	Increasing Careline customer numbers are resulting in higher levels of subcontracted installation work and equipment required. The adjustments to budgeted costs in 2016/17 reflect expected costs on the basis of current activity levels only.	+ 86
Equipment	+ 171	+ 171	+0		+ 154
Grants, reimbursements & contributions	- 383	- 419	-36	Growth in Careline client numbers has included an increase in those clients eligible for a contribution to the cost of their Careline service from Hertfordshire County Council.	- 333
Fees & charges income	- 796	- 796	+0	Adjustment to the fees & charges income budget in 2016/17 is based on the full year income expectation from current client numbers.	- 44
Net Total	**-935**	**-958**	**-23**		**-137**

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2016/17 Budget £'000
Other minor variances			-9		-10
Total change in General Fund expenditure			**-245**		**+115**

9.2.9 Cabinet is asked in recommendation 2.5 to approve the changes to the 2015/16 General Fund budget identified in paragraph 8.1, table 1, a £245,000 decrease in net expenditure and the corresponding increase of £115,000 in the financial year 2016/17.

9.3 Other Reserves and Provisions

9.3.1 Balances on other earmarked reserves are estimated to total £4.621million 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 2015/16

	Balance at 1 April 2015	Contributions	Payments to Fund expenditure	Balance at 31 March 2016
	£'000	**£'000**	**£'000**	**£'000**
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	119cr	140dr	164cr
Property Maintenance	58cr	10cr	15dr	53cr
S106 Monitoring	95cr	4cr	16dr	83cr
Special Reserve	1,720cr	0	0	1,720cr
Street Furniture	3cr	4cr	1dr	6cr

	Balance at 1 April 2015	Contributions	Payments to Fund expenditure	Balance at 31 March 2016
Taxi Licences Reserve	2cr	0	0	2cr
Town Centre Maintenance	37cr	8cr	7dr	38cr
Town Wide Review	169cr	45cr	0	214cr
Waste Reserve	387cr	84cr	0	406cr
Total Revenue Reserves	**4,937cr**	**1,387cr**	**1,703dr**	**4,621cr**

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 2.6 to note the position relating to the other reserves and provisions; that the Chief financial Officer considers the estimates robust and the budgeted levels of reserves adequate.

9.4 Efficiency and Investment Proposals

9.4.1 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 the proposed additional income values relating to the Parking Strategy Review (E4) until that work is complete and this is reflected in appendix 3. Items included for years 2017/18 onwards, however, will need to be revisited following the confirmation of the finance settlement, as this has significantly increased the overall level of efficiencies required. As it stands, the remaining efficiency proposals in the budget estimates that are listed in appendix 3 result in a reduction in net budget of £357,000 in 2016/17.

9.4.2 The process of seeking more efficient ways of working and scrutinizing the budget, along with some use of reserves, has allowed us to set a balanced budget for the coming year. However the challenge for the following years has more than doubled compared to our estimates provided to December Cabinet.

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

	£'000*
2009/10 Employee Budget	*14,182*
2010/11 Employee Budget	*13,668*
2011/12 Employee Budget	*12,891*
2012/13 Employee Budget	*12,397*
2013/14 Employee Budget	*12,006*
2014/15 Employee Budget	*11,852*
2015/16 Employee Budget	**11,972**
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
Net other increases during 2015/16	21
2016/17 Employee budget	**12,436**
Net increase from 2015/16 to 2016/17	**464**

* 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 £411k of new investment proposals for inclusion in the 2016/17 budget. Figures have been changed where possible to reflect the most up-to-date position e.g. Microsoft licences and, following the settlement announcement, Corporate Board has reviewed the proposals and made amendments to reflect the following general principles;

- Any necessary growth in employee establishment will be contained within existing estimates
- Use of the financial risk provision rather than a full budget provision where possible e.g.:- in respect of homelessness proposals where latest figures show use of B&B accommodation has declined

9.4.6 Cabinet is asked at recommendation 2.7 to note the inclusion of the general fund efficiency and investment proposals in the budget for 2016/17 and at recommendation 2.8 to note that work will continue during the next financial year on production of business cases for the items marked "tbc" in Appendices 3 and 4.

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 £16.533million 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 as at November 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 high level estimates in appendix 1 reflect the current reserve balances and indicate that total reserves will more than halve over the period from £7.5 million in 2016/17 to £3.6 million in 2019/20. This is before modelling the potential impacts of the introduction of a baseline to NHB payments to remove the "deadweight" and further “sharpening” of the NHB incentive. A high level update on the financial position in 2015/16 as at the end of month 8 is also included in this budget report to help inform the budget setting process.

9.5.4 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. Figures from Parishes will be included in the report to Full council when received.

9.5.5 Cabinet is asked at recommendation 2.9 to note the estimated 2016/17 net expenditure of £16,533,100, as detailed in appendix 2, and to recommend this budget to Council

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 January 2016. At this stage it is anticipated NHDC will continue to receive an amount equivalent to the budget for 2016/17. 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. The general fund estimates now anticipate that Careline will deliver a net surplus in 2016/17, including overheads, based on current levels of activity. This, however, remains a developing situation and the budgeted position will 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 four years and shows that even with that assumed increase, savings in the region of £2.8million will be required. For 2016/17 a 1.9% increase represents £3.95 on a Band D Council tax bill or just under 8p per week.

9.6.5 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. The County Council and Hertfordshire Police are yet to confirm their precepts for 2016/17, although County have indicated a preference for a 3.99% increase (including the Social Care element) and this is included in the estimate below.

Table 8 -Average Band D Council Tax *

	2016/17	**Share of bill**
	£	
District	211.96	13.7%
HCC	1,186.62	76.7%
HPA	147.82	9.6%
Total	**1,546.40**	**100.00%**

* Excluding local Parish precepts.

9.6.6 Cabinet is asked at recommendation 2.10 to indicate that it wishes to recommend to Council a 1.9% increase in the Council Tax rate for 2016/17.

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 – General Fund Summary for 2016/17
Appendix 3 – Efficiency proposals.
Appendix 4 – Revenue Investment proposals.
Appendix 5 – MTFS extract – budget assumptions.
Appendix 6 – Description of earmarked reserves
Appendix 7 – Financial Risks assessment

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18. BACKGROUND PAPERS

None.