

<b>*PART 1 – PUBLIC DOCUMENT</b>	<b>AGENDA ITEM No.</b> <b>8</b>
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**TITLE OF REPORT: CORPORATE BUSINESS PLANNING - DRAFT BUDGET 2014/15**

**REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE**

The Draft Budget Report attached was presented to Cabinet on 10 December 2013 and is now before the Royston and District Area Committee for consultation with Royston Members, prior to Cabinet's final consideration of the budget at the end of January.

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## **TITLE OF REPORT: CORPORATE BUSINESS PLANNING - DRAFT BUDGET 2014/15**

### **REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE**

#### **1. SUMMARY**

- 1.1 To consider the draft budget for 2014/15 and the factors which contribute to the determination of the District Council Tax level and to recommend the appropriate level to Council on the 13 February 2014.
- 1.2 To consider the known and unknown key factors which could impact on Council finances within the period of the medium term financial strategy (2014 – 2019).

#### **2. RECOMMENDATIONS**

- 2.1 That Cabinet notes that the Government's response to the consultation on the local government finance settlement is not yet available (an update may be available at the meeting).
- 2.2 That Cabinet notes the position relating to the Council's General Fund balance and that due to the risks identified in paragraph 9.2.3, a minimum balance of £2million is recommended.
- 2.3 That Cabinet notes the position of the Council's other reserves and provisions as identified in section 9.2.
- 2.4 That Cabinet notes the inclusion of the efficiencies and investment proposals at Appendices 3 to 6 in the budget estimates for 2014/15.
- 2.5 That Cabinet notes the estimated position on the Collection Fund, 9.3 refers.
- 2.6 That Cabinet refers this report to all Members via 'Members Information Service' for comment.
- 2.7 That Cabinet notes the comments from the November Member budget workshops on the proposals.
- 2.8 That Cabinet notes that the budget estimates and hence the provisional Council Tax requirement may be subject to change before the final budget meeting on 28 January 2014.
- 2.9 That Cabinet provides a view on the appropriate level of Council Tax for 2014/15.

### **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 2014/15.
- 3.2 To ensure that the Cabinet recommends a balanced budget to Council on 13 February 2014.

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

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

### **5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS**

- 5.1 All Members were given opportunity to comment on the efficiency and investment proposals at Member Budget Workshops held on the 6/7 November 2013. Notes of the comments raised at the workshops are attached as appendix 7.
- 5.2 The Cabinet will consult on the proposals in this report with the Business Rate Payers Group on the 9 January 2014 and will consult with Area Committees at the scheduled meetings in January if the Chair of the Committees requests opportunity for the Committee to comment on particular proposals.

### **6. FORWARD PLAN**

- 6.1 This Report contains a recommendation on a key decision to be taken by Council on 13 February 2014 that was first notified to the public in the Forward Plan on the 6 September 2013.

### **7. BACKGROUND**

- 7.1 The Council's Medium Term Financial Strategy (MTFS) was adopted by Full Council on the 5 September 2013 following recommendation by Cabinet.
- 7.2 The MTFS provides the financial background to the Corporate Business Planning process for 2014-19. It reflected new requirements, the impact of the current economic situation, initial effects of both Business Rates localisation and the Council Tax Reduction Scheme and the first modelling of the outcomes of the Spending Review announced on 26<sup>th</sup> June 2013 (SR13).
- 7.3 The MTFS acknowledged there were a number of significant unknowns in terms of the SR13 and that it would, therefore, be necessary to update the MTFS later in the year as things become clearer.
- 7.4 A number of changes to the MTFS have been implemented in recent years to further improve our financial management strategy, namely:

- Identify how much the Council spends against each strategic priority.
- Identify the areas that are lower or non priority for allocation of resources including review of statutory and discretionary services.
- Review the level of income generated by services that charge compared to the costs of provision.
- Reduce future reliance on interest rate income.
- Allocating all agreed savings to the relevant directorate budgets prior to distribution at the beginning of the new financial year in order to mitigate against the risk of non delivery of the approved savings.
- Amending the Council Tax “rule” to reflect the possibility of negative RPI figures.

The latest MTFS added the following measures:

- Option to capitalise staff costs in accordance with FRS 15.
- Further emphasis on invest to save opportunities, and proposals that can generate better rates of return than investments, with regard to capital expenditure.
- Developing more financially self-sustaining arrangements where possible for Council properties.

7.5 In identifying the likely Council Tax requirement, the MTFS focussed on the national economic situation and the pressures on expenditure and income streams. The financial strategy was based on a number of assumptions in the knowledge that these would be subject to further refinement during the budget process. The extract of the MTFS of all the assumptions is provided in appendix 8 for easy reference.

7.6 The MTFS is an integral part of the Council’s Corporate Business Planning process. It complements the Council’s Priorities for the District 2014/15 and sets out a clear framework for our financial decision making. Council have confirmed that the high level Council priorities for 2014/15 onwards are:

- Promoting Sustainable Growth
- Working with local communities
- Living within our means

7.7 The key funding risks identified in the MTFS as reported in September were as follows:

- Business Rates were localised from April 2013. Growth above Government forecasts would lead to additional income to the Council, as long as this did not achieve disproportionate growth (classed as more than 10% of NNDR Base), whereas collectable amounts could fall by over 7.5% (£170k) before the “safety net” applies.
- Implications of the Welfare Reform Bill and the introduction of the Universal Credit. A 10% cut in funding was passed on to Local Authorities. Council Tax benefits for the District currently total approximately £8.2million, so this reduction of 10% meant approximately £820k (shared by the main precepting bodies in proportion to their share of the Council Tax bill) had to be found from a

review of the benefit scheme so there was no impact on funding for other services. The scheme was implemented from 1<sup>st</sup> April 2013 and initial indications are for no significant adverse impacts on collection rates, however this will be monitored closely.

- The 2013 Triennial Pension Fund Valuation will set employer contribution rates for three years effective from 1 April 2014 to 31 March 2017. Expectations are that contributions towards the deficit reduction element will need to increase by the equivalent of at least another 1% of pay per annum, but for some councils up to 2% of pay per annum will be required, especially as payrolls may have reduced. The detailed work to calculate contribution rates begins in July 2013 and results will be available for all employers in November/December 2013. The interim valuation exercise suggests that the deficit on the NHDC element of the Superannuation fund will require an annual increase of £200k above the existing contribution level over the next three years in order to meet the liability in the pension fund, which would need to be found from additional revenue savings, and so the Council may wish to apply to make a capital contribution to the fund which would reduce the contribution rate in the future.
- Modelling is underway to identify the full impacts of SR13 and the picture will be clearer by the time of the first Member workshops in September, although it should be noted that the net impact on the Council's funding from central government could be different to the assumptions in the MTFS.

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

- 7.8 In order to balance the budget and not have an increase in Council Tax, the MTFS suggested it would be necessary to find efficiencies of between £500k and £600k in 2014/15 to balance the budget. Over the period of the MTFS (five years) it was suggested between £2.6million and £3.6million of efficiencies would need to be found.
- 7.9 The Council has already identified over £10million of savings over the last nine years in the drive to become more efficient and enable investment in Council priorities. Much of this has been achieved without having a serious impact on front line services but it is clear that to achieve further significant savings the Council will need to continue to implement and look for alternative ways of working.
- 7.10 Any major change to the way services are delivered is likely to require a lead in time to fully implement and similarly any reduction in service is likely to need a phased approach.
- 7.11 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 2014.** Further government announcements are expected which will have an impact on Council finances.

## **8. EXECUTIVE SUMMARY SECTION OF REPORT - KEY MESSAGES**

### **8.1 Funding**

Government Funding is expected to reduce by around 25% or £1.6million over the next four years. Provisional settlement for 2014/15 and 2015/16 expected in December 2013.

### **8.2 General Fund and Other Reserve Balances**

A minimum general fund balance of £2million is recommended. Other earmarked reserves are expected to total around £3.5million at the 31 March 2014.

### **8.3 Collection Fund**

The Collection Fund is, at this stage, anticipated to remain in a surplus position by the 31 March 2014. Continued monitoring for the first year of the Council Tax Reduction Scheme and the retained business rates scheme is important.

### **8.4 Strategic Priorities**

A system of priority led budgeting is being operated. Any investment proposals put forward must be linked directly to the strategic priorities or be an "invest to save" option

### **8.5 Efficiency and Investment Proposals**

Expenditure reduction and income generation proposals for 2014/15 of £1.036million.

Growth pressures of £150k for 2014/15 and an investment proposal for the provision of an Economic Development Officer.

39 capital investment proposals total an estimated investment of £5.2million over four years.

### **8.6 Budget Estimates 2014/15**

Estimated net budget for 2014/15 of £16.4million. This is a net reduction of £400k on the working budget for 2013/14.

### **8.7 Other Considerations**

Income from the Hertfordshire Waste Partnership (HWP) via the Alternate Financial Model (AFM) could increase in 2014/15 but is less certain for future years.

Results of the Letchworth Leisure Contract tender could have budgeting implications.

A lump sum payment to the pension fund could ease the future burden on the general fund.

A Council tax increase would help to protect the base for the future.

## **9. ISSUES**

### **9.1 Funding Announcements**

- 9.1.1 The 2013/14 Local Government Finance Settlement announcement included a provisional settlement for 2014/15. In March 2013 the Chancellor announced a further 1% reduction in local government funding for 2014/15. The Chancellor then

published the Coalition Government's Spending Round 2013 (SR13) on 26 June 2013, setting out their public expenditure plans for 2015/16.

- 9.1.2 The government consulted on the 2015/16 local government finance settlement plans over the summer and the Council responded on each of the individual consultations. DCLG has not yet made any announcements in response to the consultation.
- 9.1.3 On the 5 December 2013, the Chancellor will make his Autumn Statement. This key announcement will provide an update on the current state of public finances and the latest economic forecasts from the Office of Budget Responsibility. It is anticipated the Council will receive a provisional settlement announcement for 2014/15 and 2015/16 from the Department of Communities and Local Government sometime before Christmas. This will mark the start of a period of consultation on the proposal before the final 2014/15 settlement can be approved by Parliament. An update will be provided to Members as soon as possible after the announcement.
- 9.1.4 Based on the consultation documents on the local government finance settlement our best estimates of future government funding are detailed in table 1 below. Over the four years it is estimated funding will reduce by around 25%. These estimates reflect Government announcements of the intention for further reductions in Revenue Support Grant post 2015/16 and the top-slicing of the New Homes Bonus to fund the Single Local Growth Fund. The consultation papers included two potential mechanisms for the top-slice of the New Homes Bonus. The estimates here assume a 35% reduction in the 2015/16 New Homes Bonus followed by a 29% reduction in the new allocation in 2016/17 and a 28% reduction of the new allocation for 2017/18. The estimates also assume that the amount of business rates collected will grow at a rate consistent with the Government's expectations. If the business rate base were to fall then the Council would need to fund the shortfall up to the safety net level (around £180k).

**Table 1: Estimated Government Funding for 2014/15 onwards**

2013/14 £'000		2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
3,600	Revenue Support Grant	2,737	1,919	1,367	904	904
2,487	Retained Business Rates	2,568	2,640	2,722	2,814	2,814
<b>6,087</b>	<b>Start-up Funding Assessment*</b>	<b>5,305</b>	<b>4,559</b>	<b>4,089</b>	<b>3,718</b>	<b>3,718</b>
1,534	New Homes Bonus	1,984	1,581	2,047	1,995	1,995
<b>7,621</b>	<b>Total un-ringfenced Government Funding</b>	<b>7,289</b>	<b>6,140</b>	<b>6,136</b>	<b>5,713</b>	<b>5,713</b>
	<b>Reduction on previous year</b>	<b>4.36%</b>	<b>15.76%</b>	<b>0.07%</b>	<b>6.9%</b>	<b>0</b>

\* The Start-up funding assessment includes funding for the Council Tax Reduction Scheme but this can no longer be identified separately.

- 9.1.5 **Cabinet is asked in Recommendation 2.1 to note that the Government's response to the consultation on the local government finance settlement is not yet available (an update may be available at the meeting).**



- 9.1.6 The Government plans to set the Council Tax referendum threshold at 2% for 2014/15 and 2015/16. The Spending Round report also stated that the government will make “funding available in 2014/15 and 2015/16 for local authorities who choose to freeze their council tax”. It is expected this will be equivalent to 1% of the District precept with the 2014/15 grant payable for two years. It is not entirely clear yet how freeze grants will be incorporated in the finance settlements going forward. Should the Council choose to accept the grant this would be equivalent to approximately £94k in 2014/15 and £189k in 2015/16. A 1% increase in Council Tax in 2014/15 would provide the Council with the same income over the next two years, but a total of £500k over the five year period. 1% on Council Tax is equivalent to a £2 per annum increase for a Band D property, or just under 4p per week. This is further considered in section 9.4.
- 9.1.7 The NNDR 1 for 2014/15 will provide the estimate of whether the Council can be expected to earn a surplus or incur a deficit on the retained business rates. The NNDR 1 mid year estimate for 2013/14 suggests there should be a small surplus on the Collection Fund for business rates by the end of 2013/14. The government assumes the collection of business rates will increase with inflation. Paragraph 9.3.6 explains further.
- 9.1.8 The New Homes Bonus Scheme was announced in 2011/12 and is now considered part of the Council’s spending power. The Council was awarded £552k in 2011/12, £489k in 2012/13 and £493k in 2013/14, with the amount awarded in each year then payable for six years. It is anticipated the number of new homes in the District will generate a similar new payment in each year of the MTFs. However, as explained in 9.1.4 it is not yet known how much of the New Homes Bonus will be top-sliced to fund the Single Local Growth Fund. The New Homes Bonus has provided the opportunity to have a £150k annual allowance for growth with the remaining funds being used to fund the strain on existing general services which additional development brings. However, there is a risk of further reductions to Revenue Support Grant if the amount of New Homes Bonus nationally exceeds the amount government has set aside for this funding stream.
- 9.1.9 In 2013/14 the Council will receive in total some £42.618million as specific revenue grant or subsidy funding. Often the announcements of this type of funding are made after the Council has set its annual budget, making it difficult for Councils to plan ahead. The total expected revenue and capital grant funding for 2014/15 is not yet known for certain but the anticipated funding is shown in table 2.

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

	2013/14 £'000	Expectation for 2014/15
Housing Benefit Subsidy	38,210	Estimate available late Jan 14, so current budget forecast is based on the 2013/14 mid-year estimate.
Council Tax Reduction Scheme	1,065	Funding of this scheme was detailed in the overall finance settlement for 2013/14 and £91k was passed onto the Parish and Town Councils. This scheme will not be itemised in the 2014/15 finance settlement.
Discretionary Housing Payments	61	Estimated at £20k. Announcement expected in December 13.
Benefits Administration and Fraud Initiative	816	The admin grant has now been disaggregated. The DWP have announcement a grant of £592k for Housing Benefit administration and DCLG have announced a grant of £136k for the administration of the Council Tax Reduction Scheme. This totals a 3% reduction on the 2012/13 grant.
Waste minimisation – HCC contribution via the Alternate Financial Model.	395	This funding is expected to increase for 2014/15 as a result of the service changes introduced in 2013/14. Funding beyond 2014/15 is less certain.
Waste Weekly Collection Grant	100	The Council will receive a total of £853k for the capital and revenue cost of the weekly collection of waste from flats. The revenue costs in 2014/15 are expected to be £100k.
NNDR Administration Grant	183	This will become known as the NNDR 1 for 2014/15 is completed in January.
New Homes Bonus	1,534	Anticipate a new allocation in 2014/15 of around £450k. However, it is expected a top-slice will be applied to all the New Homes Bonus allocation to fund the Single Local Growth Fund. Announcement expected in December.
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.
Homelessness Prevention Grant	88	It was announced within the provisional settlement that funding will be maintained at £88k but is subject to the December announcements.
Election Administration Grant	139	Announcement to be confirmed. No effect on general fund as will receive a grant to cover cost of non District elections.
<b>Total Revenue Grants</b>	<b>42,618</b>	

9.1.10 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.

## 9.2 Balances

9.2.1 Before setting a draft Council Tax precept for 2014/15, 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 Council knows with reasonable precision the likely actual costs).

- 9.2.2 The Council operates with a reserve balance for General Fund activities in order to provide a cushion against unexpected increases in costs, reductions in revenues and expenditure requirements. To achieve a balanced budget net expenditure on the General Fund is anticipated to be approximately £16.4million for 2014/15. 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 £820k. 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 the Council will be criticised for poor financial management by the External Auditor if, having considered the risks it does not budget for a higher balances figure.
- 9.2.3 An assessment of the risks has been compiled for the coming year based on risks identified by each Head of Service/Corporate Manager and where possible, cross-referenced to the risk register. The identified areas are where the financial impact is not wholly known and prudence would therefore indicate the need to set the General Fund balance slightly higher than the minimum. The increase in balances is based on percentage proportion of the risks identified. The total risks identified have a total value of over £6million, however only a proportion of the risk value is taken in to account. For high risk items 50%, medium risk 25% and low risk 0%. The following table 3 summarises the identified risks over the high, medium and low assessment:

**Table 3 – Budget risks 2014/15**

<b>Category</b>	<b>Number</b>	<b>Value £,000</b>	<b>Allowance £,000</b>
High	12	758	379
Medium	33	3,280	820
Low	15	1,994	0
<b>Total</b>	<b>60</b>	<b>6,032</b>	<b>1,199</b>

- 9.2.4 Although the total assessment of risk is roughly £6million, 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 £1.2million (estimated until all the assessments have been completed) above the minimum level. This would seem to suggest that it is advisable to maintain a minimum General Fund balance in the region of £2million for 2014/15.
- 9.2.5 This is a well established approach for assessing Financial Risks. It demonstrates the Council 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 Council's external auditors, Grant Thornton, recommend in their review of the Council's financial resilience (reported to the Finance Audit and Risk Committee) that the Council should continue to maintain an appropriate level of reserves to ensure financial resilience is maintained.
- 9.2.6 Cabinet is asked in recommendation 2.2 to note the position relating to the Council's General Fund balance and that due to the risks identified a minimum balance of £2million is recommended.**

## Other Reserves and Provisions

9.2.7 Balances on other earmarked reserves are estimated to total £3.457million at the 31 March 2014. The expected movement on these accounts for 2013/14 is shown in table 4.

**Table 4 – Other Reserves & Provisions 2013/14**

	Balance at 1 April 2013	Projected Contributions	Payments to Fund expenditure	Balance at 31 March 2014
	£'000	£'000	£'000	£'000
Special Reserve	967cr	800cr	0	1,767cr
Housing Planning Delivery Reserve	346cr	0	17dr	329cr
Information Technology Reserve	316cr	0	93dr	223cr
Environmental Warranty Reserve	209cr	0	0	209cr
Performance Reward Grant Reserve	64cr	0	64dr	0
Insurance Reserve	17cr	7cr	0	24cr
Cemetery Mausoleum	96cr	0	0	96cr
S106 Monitoring	71cr	17cr	18dr	70cr
Homelessness	43cr	88cr	43dr	88cr
Building Control Reserve	46cr	0	43dr	3cr
DWP Additional Grants	33cr	0	0	33cr
Climate Change Grant	25cr	0	3dr	22cr
Museum Exhibits Reserve	13cr	0	0	13cr
Property Maintenance	18cr	10cr	0	28cr
Paintings Conservation	10cr	0	0	10cr
Children's Services	8cr	0	8dr	0cr
Hitchin Museum Donations	2cr	0	0	2cr
Leisure Management Reserve	32cr	20cr	0	52cr
Town Wide Review	178cr	0	0	178cr
Town Centre Maintenance	24cr	0	2dr	22cr
Community Right to Bid	13cr		16cr 0	29cr
Street Furniture	2cr	4cr	2dr	4cr
Office Move IT Works	7cr	0	0	7cr
Local Authority Mortgage Scheme	6cr	25cr	0	31cr
DCLG Grants	10cr	0	0	10cr
Growth Area Fund	53cr	0	0	53cr
Community Development	7cr	0	0	7cr
Personal Search Fees	97cr	50cr	0	147cr
<b>Total Revenue Reserves</b>	<b>2,713cr</b>	<b>1,037cr</b>	<b>293dr</b>	<b>3,457cr</b>

### 9.2.8 Special Reserve

As at 31 March 2013 the balance of the reserve was £0.967million and a contribution of £800k from the general fund is anticipated by the end of 2013/14. This contribution is possible, in part, as a result of in year underspends and will help ensure there are sufficient funds available to help fund "invest to save" investment that might be required to achieve longer term efficiencies such as the ideas mentioned at the September Member Workshops. Use of the special reserve will happen on a phased basis to prevent erratic movements in Council Tax increase. Members have agreed to maintain a balance in this reserve to fund invest to save projects and to support unavoidable fluctuations in contract prices as contracts are renewed.

#### **9.2.9 Housing & Planning Delivery Reserve**

In previous years the Council has received Planning Delivery Grant (PDG) towards meeting the then Government's Communities Plan objectives. The original time period of the Planning Delivery Grant ceased and the Housing and Planning Delivery Grant (HPDG) which replaced it has also finished. In order to match the Council's expenditure to the grant received for the approved work programme a reserve was set up to be drawn on over the forthcoming years. The balance on the reserve at the 31st March 2013 was £346k and is projected to be £329k as at 31 March 2014. This remaining balance has been allocated to projects.

#### **9.2.10 I.T Reserve**

The projected balance on the fund is estimated to be £223k at the 31 March 2014. The IT reserve was set up to ensure funding was available for IT capital projects as it was required. In the current economic climate, when there is less scope for any form of new investment, any new capital IT investment will need to be considered alongside other Council priorities. It is not thought appropriate to maintain a reserve specifically for IT investment. Therefore, no further contributions will be made into the reserve and the remaining balance will be used on a phased basis. The special reserve is available for invest to save projects.

#### **9.2.11 Environmental Warranty Reserve**

As part of the Stock Transfer agreement, the Authority was required to provide environmental warranties to North Hertfordshire Homes. A desktop environmental study indicated that the risk to the Council of the warranty being used was low and the Council took the decision to self insure the warranties from the post stock transfer reserve. In 2003/04 the Council agreed to transfer funds from the post stock transfer reserve to an earmarked Environmental Warranty, which under the agreement will be held for 30 years. At the commencement of this year the balance stood at £209k.

#### **9.2.12 Performance Reward Grant Reserve**

The Performance Reward Grant was awarded for success against targets in the Local Area Agreement; the grant is administered by the Authority, on behalf of its 'owner' the North Herts Local Strategic Partnership. This earmarked reserve represents the revenue element of the grant and is allocated to schemes in the District identified by the LSP partners. Spending of the final portion will take place by the end of the financial year 2013/14.

#### **9.2.13 Insurance Reserve**

As at 31 March 2013 the Council's Insurance Fund stood at £17k. The original purpose of the Reserve was to protect the Council against the possibility of the Municipal Mutual Scheme of arrangement being triggered which would entitle them to 'clawback' claims costs. The Council was notified in 2012/13 that it is liable for 15% of the levy under the MMI scheme. The amount on which the levy is based is yet to be confirmed. Based on the position of claims paid and outstanding liabilities as at the end of Sep 2012, the amount of the levy is likely to be £70,141. Funds have been transferred from this reserve to the Insurance Provision to cover this levy and the reserve will need to be maintained for any potential future claims. In addition the Reserve has been maintained to cover the probability of a loss on self-insured assets.

#### 9.2.14 **Mausoleum Reserve**

As part of the new extension to Wilbury Hills cemetery, Members agreed that receipts from the purchase of mausoleum spaces would be used to fund the extension of the number of mausoleum blocks. To date the Council has received deposits totalling £96k.

#### 9.2.15 **S106 Monitoring**

In 2007/08 a reserve was created to cover the cost of monitoring S106 obligations in future years. The reserve is funded by S106 monitoring fees payable by Developers when they enter a S106 agreement. The balance on the reserve at the end of the year will be used to fund the cost of monitoring in future years. As at 31 March 2013 the balance on the reserve was £71K.

#### 9.2.16 **Homelessness**

The £43k at 1 April 2013 is the unspent amount of Homelessness and Preventing Repossessions Grant, received from the DCLG, which is earmarked for homelessness prevention work.

#### 9.2.17 **Building Control**

A new charging regime was implemented in October 2010. According to CIPFA guidance the Building Control Service should break even so there is no significant surplus or deficit at year end. However, the use of earmarked reserves is encouraged for the use of surpluses and funding of deficits if they occur, i.e. offsetting surpluses or deficits against future fees and charges or reinvesting surpluses in improving the quality of the Building Control Service.

#### 9.2.18 **DWP Additional Grants**

This reserve is for unspent Discretionary Housing Payments and various additional Housing Benefit Administration grants to help meet the additional burden of implementing changes to the Housing Benefit process from the Department of Work of Pensions (a total of £33k remained unspent at the 1 April 2013).

#### 9.2.19 **Climate Change Grant / Other DCLG grants**

Relatively minor grants have been awarded by the DCLG over the last couple of years. A total of £35k remains unspent at 1 April 2013 but it is committed to projects; the fund is used where there is evidence that its use will reduce ongoing expenditure, i.e. energy or water saving measures, including both council buildings and open spaces.

#### 9.2.20 **Museums Exhibits and Hitchin Museum Donations**

The Council has previously received donations towards the purchase of exhibits. These donations are put into the reserve until an item for purchase is identified. The Council did not receive any donations in 2011/12 or 2012/13.

#### 9.2.21 **Property Maintenance & Leisure Management Maintenance**

Both of these reserves have been created in order to provide an ability to offset future unexpected maintenance costs which cannot be funded from regular general fund budgets. The total expected balance at a 31 March 2014 is £80k.

#### **9.2.22 Paintings Conservation**

The paintings conservation reserve consists of receipts from the sale of the Radcliffe Book and other monies which have been earmarked for future art conservation.

#### **9.2.23 Children's Services**

This reserve is for play schemes and sports development grants from County Councillor's locality budgets. The £8k brought forward from 2012/13 is expected to be fully spent in 2013/14.

#### **9.2.24 Town Wide Review / Town Centre Maintenance / Street Furniture / Office Move**

These reserves are to reflect the fact that budgets were continually being carried forward from one year to the next. By maintaining an earmarked reserve, funds can be drawn down as required.

#### **9.2.25 Community Right to BID**

Represents the one-off grant funding received to recognize the additional burden of the new legislation.

#### **9.2.26 Local Authority Mortgage Scheme**

This scheme was launched in 2012 in conjunction with Lloyds Bank and Leeds Building Society. The interest payable on the £1million investment in the scheme is transferred to this reserve to help provide a cushion should mortgage defaults result in the Council receiving less than the full £1million back at the end of the five years.

#### **9.2.27 Personal Search Fees**

A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not yet been issued. The Council has been informed that the value of those claims at present is £192,685 plus interest and costs. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present. The Council has put aside funds of £97,000 as at 31 March 2013 in an earmarked reserve and has also made allowance in the general fund balance by identifying this issue as a financial risk.

#### **9.2.28 Provisions**

As at the 31 March 2013 the Council had a total of £163k held as provisions. These comprised of:

- An Insurance Fund of £142k which is money held to cover outstanding claims from previous years including the 15% levy due under the MMI scheme.
- 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.
- Maintenance of Graves, a provision of £4k for graves that the Council has responsibility for maintaining.

#### **9.2.29 Cabinet is asked at recommendation 2.3 to note the position relating to the Council's other reserves and provisions.**

### **9.3 Collection Fund**

- 9.3.1 The Council 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 Council Taxpayers. Any surplus/deficit must be shared with the County Council and Police authority in proportion to their share of the overall Council Tax bill.
- 9.3.2 The balance on the Collection Fund as at 1 April 2013 was a surplus of £157k, however, within this the proportion relating to North Hertfordshire was a surplus of £25k. The monitoring during the first and second quarters of 2013/14 would suggest the collection fund should remain in a surplus position by the end of 2013/14. However, this is the first year of the council tax reduction scheme and the retained business rate scheme and it will be important to closely monitor the collection rates and the amount of successful business rate appeals over the coming months.
- 9.3.3 Should the Council trigger the referendum limit set by Government the Council Tax increase before application of any collection fund reduction is the figure used to determine whether an authority is subject to a referendum.
- 9.3.4 On a separate agenda item Members will be asked to consider the Council Tax Reduction Scheme for 2014/15 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.
- 9.3.5 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.
- 9.3.6. The NNDR mid year estimate suggests the total amount of Business Rates to be collected in 2013/14 will be £37.2million. 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 £14.9million. This represents 80% of the 50% of total business rates that are kept locally. The remaining 20% of the 50% local share is paid to the County Council. However, the government has determined that this Council has a relative need lower than the remaining share of the Business Rates. As a result the Council will have to pay a tariff equivalent to approximately 83.75% of the business rates baseline to the Government and will keep an amount equivalent to the Baseline Need (£2.381million in 2013/14).



## 9.4 Strategic Priorities

- 9.4.1 The Council operates a system of priority led budgeting and the Corporate Business Planning process describes an annual cycle which begins with the identification of our strategic priorities and the short and medium term actions we will take to achieve them. Having identified our strategic priorities and actions through the “Priorities for the District”, the MTFS then considers the financial implications of the priorities and other external pressures and ensures we have a clear policy framework to enable us to allocate funds in accordance with our priorities as we go through the budget setting and service planning stages of the process. To assist in the prioritisation of the limited financial resources a scoring system is used. Any investment proposals put forward must be linked directly to the strategic priorities or be an “invest to save” option.
- 9.4.2 Our allocation of resources to these priority areas will mean that some areas are not prioritised but these can be looked at in future years as appropriate. The Council is absolutely committed to achieving maximum Value for Money in the use of our limited resources to meet our strategic priorities.
- 9.4.3 The Council's Revenue & Capital Strategies require that revenue investment options and capital projects submitted by services are classified against ten key factors, as outlined in table 5 below. The scoring has been applied to all considerations of both revenue and capital investment in order to determine the risk and effect of growth, reduction or complete removal of a service.

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

	Revenue & Capital	Points Score Range
1	Contractual Obligation	0 but noted as obligation*
2	Statutory/Discretionary/Core or Non-Core	0-10
3	Priorities	5 per main action
4	Continuous Improvement	0-5
5	Social Inclusion	1-3
6	Income generation	4-7
7	District Wide Survey	1-6
8	Health & Safety	0-5
9	Invest to Save	0-10

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

## 9.5 Efficiency and Investment Proposals

- 9.5.1 The strategic direction and key principles of the delivery of council services were discussed at a first round of Member Workshops in September and the steer provided by Members is being used by service areas to continue the work on development of future efficiency proposals to help meet the forecasted longer term efficiency target.

9.5.2 The process of seeking more efficient ways of working and scrutinizing the budget is continuous and for 2014/15 a number of decisions have already been taken to result in an estimated reduction in the base budget of £793k. These are summarised in table 6.

**Table 6: Efficiencies arising from decisions already taken**

<b>Description</b>	<b>Service</b>	<b>Amount £'000</b>
Staff structure changes	Various	62
Reduction in Hitchin Leisure Management Contract following investment to develop the facilities	Leisure	156
Re-negotiation of Hitchin and Royston Market contracts	Markets	57
Reduction in amount of new investment required for Area Wide Parking Reviews	Parking	65
Acquisition of the District Council Offices (gross saving)	Property	208
Collection of income for penalty charge notices	Parking	100
Temporary closure of Museums and Hitchin Town Hall	Museums and Halls	55
New contracts / agreements	Property	50
Other		40
<b>Total</b>		<b>793</b>

9.5.3 The efficiencies of £793k more than achieve the budget gap for 2014/15. However, achieving more efficiencies next year will help to reduce the efficiency targets required in the following years. With this in mind there are further expenditure reduction proposals detailed in appendix 3 and income generation proposals detailed in appendix 4. Members had opportunity to discuss these proposals at the budget workshops held in November and the notes from the workshops are provided in appendix 7 for consideration.

9.5.4 Members are reminded of the requirement under section 30 of the Local Government Finance Act 1992 to set a balanced budget by March 2014. 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 the anticipated budget gap for 2014/15 for the Council to demonstrate it has a clear strategy in place that satisfies the Chief Finance Officer there is a balanced budget.

9.5.5 The income generation proposals include two proposals for an increase in parking charges (I2 and I3). At the time of writing further work is being undertaken to develop these proposals following the discussion at the Member Workshops. The proposed increase in income achievable from these proposals may therefore change before the final proposed budget is presented to Members in January.

- 9.5.6 Overall there is potential expenditure reduction and income generation of £1.036million included in these papers for the draft budget for 2014/15. These comprise of the £793k of efficiencies identified in table 6, the expenditure reduction proposals of £33k detailed in appendix 3 and the income generation proposals of £210k identified in appendix 4.
- 9.5.7 Employee expenditure remains one of the key areas of the Council's 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. While the Council has already made savings by restructuring it is again proposed that further savings can be made from this budget in 2014/15 through more efficient ways of working. The special reserve balance will be used to fund any payments that are necessary for unavoidable redundancies. Table 7 demonstrates the effect of the proposed changes on the employee budget from 2009/10 to 2014/15. There is an estimated net increase of £283k in the employee budget between the original 2013/14 staff establishment and 2014/15 which is largely due to the increase in the annual lump sum payment to the pension fund to cover the fund liability.

**Table 7: Estimated Employee budget from 2009/10 to 2014/15**

	£'000*
<i>2009/10 Employee Budget</i>	14,482
<i>2010/11 Employee Budget</i>	13,966
<i>2011/12 Employee budget</i>	13,191
<i>2012/13 Employee budget</i>	12,697
<b>2013/14 Employee budget</b>	<b>12,306</b>
Add:	
Increments	65
Pay Award (1% increase)	94
Superannuation (lump sum increase)	186
Less:	
Staff Reductions	(62)
<b>2014/15 Employee budget</b>	<b>12,589</b>
<b>Net increase from 2013/14 to 2014/15</b>	<b>283</b>

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

- Growth Pressures and Investment Proposals**
- 9.5.8 Members observed at the workshops that three of the four proposals listed as revenue investment proposals had to be done and these were actually pressures on the budget rather than options for investment in priorities. As a result appendix 5 has been split into two sections. The top section details the growth pressures of £150k on the revenue budget and the bottom section details the one investment proposal for the provision of an Economic Development Officer.
- 9.5.9 There are a total of 39 capital investment proposals detailed in appendix 6 which are grouped under the headings of green space strategy, parking related and other asset management. These proposals total an estimated investment of £5.2million over the four years and it is anticipated £3.1million of external funding can be obtained to help fund it. The IT proposals are provided towards the end of appendix

6 for Members to be aware of the investment required in IT, although all of these will be subject to a suitable business case.

**9.5.10 Cabinet is asked at recommendation 2.4 to note the inclusion of all the efficiency and investment proposals in the draft budget for 2014/15.**

**9.6 Estimates 2014/2015**

9.6.1 Detailed estimates are currently being prepared and will be available in February. High level estimates attached as Appendix 1 & 2 include the investment and efficiency options mentioned above and any base budget adjustments approved by Members through the budget monitoring reports or other Committee reports. The high level estimates show a total net district expenditure of £16.4million for 2014/15 compared to the working budget for 2013/14 of £16.8million. This is a net decrease of £400k.

9.6.2 It is estimated that there will be a net surplus on the general fund in 2014/15 and a contribution will be made to reserves. This is the result of identifying efficiencies above and beyond the budget gap level for 2014/15. However, it is estimated that contributions will be required from the reserves in each of the following four years because there will be a deficit on the general fund. This reflects the anticipation of using the special reserve for investment in changing services and delivering new ways of working.

9.6.3 In arriving at the above net district expenditure it is assumed discretionary fees and charges for services will be increased by RPI unless a separate decision has been taken with regard to a specific service. For example, decisions have been made that cemetery services and allotment services should be delivered at a net nil subsidy.

9.6.4 The detailed estimates reflect the current reserve balances as forecast at the 2013/14 second quarter monitoring report. A high level update on the financial position in 2013/14 as at the end of month 8 will be provided in the January budget report to help inform the budget setting process.

9.6.5 The council tax requirement for the District, as defined for statutory purposes (previously the budget requirement prior to the Localism Act 2011) and which includes Parish precepts, is required to be approved by Full Council and will be provided before 13 February when all Parish precepts are known.

**9.7 Other Considerations**

9.7.1 Discussions at the Hertfordshire Waste Partnership suggest the funding the Council receives from the Alternative Financial Model (AFM) is less certain over the next 4 years. At this stage it is anticipated the Council will see an increase in the payment received in 2014/15 if recycling levels continue for the remainder of the year. Should the Council be awarded an amount in excess of the amount budgeted it is recommended the surplus is transferred into an earmarked reserve to help cushion the impact of any reduction in the following years and also to be used for expenditure incurred in the development of a northern transfer station.

- 9.7.2 The award of the Letchworth Leisure contract is a separate item on the agenda for this meeting. The results of that tender will have financial implications and will need to be reflected in the budget estimates.
- 9.7.3 The budget estimates anticipate annual contributions to the pension fund will increase by £186k in each of the next three years. The Council has applied to DCLG for a directive to allow the capitalisation of a lump sum payment into the pension fund. If this is granted Members may wish to consider such a payment to ease the burden on the general fund. If it is not granted then Members may still wish to consider whether it would be worthwhile making a smaller lump sum payment from the general fund. The Actuary will be consulted for their advice on such a proposal.
- 9.7.4 Having considered all the implications in this report on the demand for Council resources, Cabinet must consider its recommendation to Council on the level of Council Tax for 2014/15. Appendix 1 demonstrates the funding position with a zero increase in council tax (and the receipt of the council tax freeze grant) in each of the next five years, appendix 2 demonstrates a 1.9% increase in each of the next five years. Members should be aware that acceptance of the Council Tax freeze grant for a further year leads to further erosion of the base for future years and from a longer term financial planning perspective it would be more advantageous to have a modest 1 to 2% increase each year to help mitigate the impact of inflationary increases which the Council faces. Members could, therefore, decide to protect the base going forward and choose to increase Council Tax within an acceptable level. An increase of 2% or more would be subject to a local referendum. Members will have to justify the level of increase to the Council Taxpayers and have to balance the costs of providing services to the public with the implications of non-provision or variation to the level of provision.
- 9.7.5 If the Council did choose to increase council tax in 2014/15 by 1.9% (£3.80 on a Band D Council tax bill or just over 7p per week) it would not receive the government grant but it would receive more income in future years.
- 9.7.6 Members 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**

	2013/14	Share of bill
	£	
District	200.32	13.66%
HCC	1,118.83	76.27%
HPA	147.82	10.07%
<b>Total</b>	<b>1,466.97</b>	<b>100.00%</b>

## **10. LEGAL IMPLICATIONS**

- 10.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.
- 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.

## **13. EQUALITIES IMPLICATIONS**

- 13.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 8.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 13.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 13.3 The proposals for efficiencies within this report do not unduly disadvantage one Individual group within our local community more than another, although proposals relating to the staff, their terms and conditions or future employment will need to be subject to individual equality analysis in due course, as for any organisational or service restructure.
- 13.4 For any individual proposal comprising either £50k growth or efficiency, or affecting more than two wards, an equality analysis is required to be carried out; this will take place following agreement of efficiencies or growth.

## **14. SOCIAL VALUE IMPLICATIONS**

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

## **15. HUMAN RESOURCE IMPLICATIONS**

15.1 A number of efficiency proposals will directly affect staff. It is important that all affected staff are consulted at the earliest opportunity and council policies and procedures are followed.

## **16. APPENDICES**

16.1 Appendix 1 - General Fund estimates (Council Tax freeze).  
Appendix 2 - General Fund estimates (1.9% Council Tax increase).  
Appendix 3 – Expenditure reduction proposals.  
Appendix 4 – Income generation proposals.  
Appendix 5 – Revenue Investment proposals.  
Appendix 6 – Capital Investment proposals.  
Appendix 7 – Notes of November Member Workshops.  
Appendix 8 – MTFS extract – budget assumptions.

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## **18. BACKGROUND PAPERS**

18.1 Financial Risks estimate working paper 2014/15.

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