

Public Document Pack

NORTH HERTFORDSHIRE DISTRICT COUNCIL

CABINET

TUESDAY, 28TH JANUARY, 2020

SUPPLEMENTARY AGENDA

Please find attached supplementary papers relating to the above meeting, as follows:

Agenda No	Item
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- | | |
|-----|---|
| 17. | <u>REVENUE BUDGET 2020/21</u> (Pages 3 - 22) |
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REPORT OF THE SERVICE DIRECTOR – RESOURCES

To consider the draft budget for 2020/21 and the appropriate level of Council Tax that will be recommended to the meeting of the Council on the 6 February 2020.

Please find attached an addendum report and addendum Appendix C

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CABINET
28 January 2020

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: REVENUE BUDGET 2020/21 (ADDENDUM)

REPORT OF: *Service Director- Resources*

EXECUTIVE MEMBER: *Finance and IT*

CURRENT COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

NEW COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

This addendum report reflects an update to table 6 to reflect ongoing additional costs in relation to reduced paper recycling income. This has consequential impacts on the budget for 2020/21 and beyond, and the savings that are forecast as needing to be delivered in future years. All the changes are highlighted in yellow. This report replaces the original version. There is also an updated Appendix C.

To consider the draft budget for 2020/21 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level. To consider the appropriate level of Council Tax that will be recommended to the meeting of the Council on the 6 February 2020.

2. RECOMMENDATIONS

That Cabinet:

- 2.1. Approves the decrease in the 2019/20 working budget of £187k, as detailed in table 6.
- 2.2. Approves the carry-forward of £88k of budget in to 2020/21, as detailed in table 6.

That Cabinet recommends to Council:

- 2.3. Approves the transfers from reserves to the General Fund as detailed in 8.4.3 to 8.4.4.
- 2.4. Notes the forecast savings target for future years and confirms the approach to balancing the budget, as detailed in paragraph 8.9.4.
- 2.5. Notes the position on the Collection Fund and how it will be funded.
- 2.6. Notes the position relating to the General Fund balance and that due to the risks

identified a minimum balance of £2.45 million is recommended.

- 2.7. Approves the savings and investments as detailed in Appendix B.
- 2.8. Approves a net expenditure budget of £15.124m, as detailed in Appendix C.
- 2.9. Approves a Council Tax increase of £5 for 2020/21 for a band D property, with other increases pro-rata to this (as per the Medium Term Financial Strategy)

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that all the relevant factors are taken in to consideration when arriving at the proposed Council Tax precept for 2020/21.
- 3.2. To ensure that Cabinet recommends a balanced budget to Full Council on 6 February 2020.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 During the Autumn Political Groups were asked for savings ideas that they wanted Officers to investigate further. These have been combined with ideas generated by Officers. The total value of the ideas presented is less than the forecast funding gap that needs to be met. This means that currently there are no alternative options available.
- 4.2 In considering the draft budget in December, the Joint Administration made a commitment to continue with a number of new investments, even though these were not required to deliver statutory services. These investments are aligned to the priorities of the Joint Administration. As referred to later in this report, the Joint Administration have committed to a full review of the Council's budget during 2020/21 to ensure that in the medium term a balanced budget will be set.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 All Councillors were given opportunity to comment on the efficiency and investment proposals at the Budget Workshops.
- 5.2 Business Rate Payers will be consulted via e-mail and via the website before the budget is discussed at Full Council on 6 February. Any feedback will be made available at that meeting. This is the only statutory consultation that is required.
- 5.3 Savings that have an impact on a specific area (or areas) will be referred to that Area Committee(s) during January. This is not considered to be the case for any savings included within the proposals.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key Executive decision (recommendations 2.1 and 2.2) that was first notified to the public in the Forward Plan on the 11 October 2019.

7. BACKGROUND

- 7.1. The Medium Term Financial Strategy (MTFS), which provides the financial background to the Corporate Business Planning process for 2020-2025, was adopted by Full Council on the 12 September 2019 following recommendation by Cabinet.
- 7.2 The MTFS included a number of assumptions, which have been updated as better information has become available. The final budget still contains some assumptions and this is why monitoring reports are provided to Cabinet on a quarterly basis.
- 7.3 In anticipation of the decline in future funding, the Council has increased the level of general fund reserves. This allows for some cushioning in the delivery of savings.
- 7.4 Significant savings have been delivered in recent years. This means that the opportunity for savings from being more efficient have now generally all been taken. Instead the focus is now on income generation, service transformation, joint working, making best use of capital assets and justifying delivery of services above statutory levels.

8. RELEVANT CONSIDERATIONS

8.1 General Funding

- 8.1.1 The provisional Local Government Settlement was announced on 20 December 2019. This provided the following information on the funding for the Council in 2020/21, subject to there being no changes in the final settlement.
- 8.1.2 As expected, the Settlement confirmed that Negative Revenue Support Grant (RSG) will not be applied in 2020/21. This increases the funding available to the Council in 2020/21 by around £1.1m compared to the original MTFS forecast, which had assumed this reduction in funding. As highlighted in 8.1.4 below, this increase is assumed to be for one year only.
- 8.1.3 It was also announced in the Settlement that the New Homes Bonus (NHB) baseline will be retained at 0.4%. It also confirmed how New Homes Bonus will be phased out over the next three years. In 2020/21, the Council will receive the total of 4 years of bonus payments relating to 2020/21, 2019/20 2018/19 and 2017/18. In 2021/22, however, the Council will receive the total of 2 years of payments (2019/20 and 2018/19) and in 2022/23, the Council will receive the 2019/20 bonus payment only. From 2023/24, there will be no New Homes Bonus received. During the Spring there will be a consultation on a replacement for New Homes Bonus. Given the uncertainty over a funding stream that looks to reward housing growth, over which the Council does not have much control, it is not considered prudent to rely on any replacement for funding core expenditure. The published allocation for 2020/21 of £713k represents a reduction of £271k on funding received for 2019/20. This is due to a combination of fewer properties being built and an extra year of funding where a baseline of 0.4% has been applied. As all future allocations are now based on historic data the Council now knows that it will receive £350k in 2021/22 and £131k in 2022/23.

- 8.1.4 From 2021/22 it is expected that 75% Business Rates Retention and a new Fair Funding Formula will be introduced. In the absence of notification from government, estimates for 2021/22 and beyond assume that the new fair funding formula will build in a reduction equivalent to the amount that the Council was due to lose through the introduction of the negative RSG, as both are essentially a formula that tries to calculate assessed need. Estimates also assume that the Business Rates Baseline total and negative RSG will increase by 2% per year, in line with inflation estimates. Previous estimates have been based on inflation of 3%, but latest information is that 2% is a better estimate of future inflation.
- 8.1.5 The Settlement detailed that District Councils would be able to increase Council Tax up to 2% or £5 for a band D equivalent property (whichever was the higher), without the need for a local referendum. The MTFS sets out that the Council will look to increase Council Tax by the maximum amount possible without the need for a local referendum. In terms of future forecasts it is assumed that the 2% (or £5 for a band D equivalent) will continue to be the maximum increase allowed. The Council Tax income that the Council retains is also affected by the Council Tax base (see 8.2.2 below). It is assumed that the growth in base will be around 1% per year. For 2020/21 (compared to 2019/20) the growth is estimated at 0.97%.
- 8.1.5 Based on the above this gives the following estimates of total general funding:

Table 1- Estimated general funding

2019/20	£000 Funding	2020/21	2021/22	2022/23	2023/24
11,391	Council Tax	11,752	12,122	12,498	12,880
0	Negative RSG (or equivalent)	0	(1,136)	(1,159)	(1,182)
2,682	Business Rates baseline	2,726	2,780	2,836	2,893
984	New Homes Bonus	713	350	131	0
15,057		15,191	14,116	14,306	14,591

- 8.1.6 NHDC also receives grants for specific purposes. These grants are built in to service budgets and have therefore already been taken in to account when determining spend forecasts, so can not be used towards funding the base budget. However, as detailed in table 2 below, some of the grant amounts are uncertain. Therefore any reductions in the amounts received are likely to create a spending pressure that would need to be met from the General Fund.

Table 2 - Forecasts in relation to Grant Income

	2019/20 amount £'000	Expectation for 2020/21
Housing Benefit Subsidy	26,898	Initial estimate will be available late January 2020, so budget expectation for 2020/21 is based on the 2019/20 mid year estimate - £26.898million.
Discretionary Housing Payments	209	An announcement is expected in January 2020. Expectation is that the grant level will be similar to 2018/19 - £209k.
Benefits Administration and	430	The announcement of these grants for 2020/21 has been delayed by MHCLG. Annual grant values

	2019/20 amount £'000	Expectation for 2020/21
Fraud Initiative		have been subject to reductions in recent years.
Section 31 Grants	1,922	These grants compensate the Council for the impact of Business Rate reliefs and caps. Values have not yet been confirmed by MHCLG and will be influenced by the NNDR1 form submitted at the end of January.
Waste minimisation – HCC contribution via the Alternate Financial Model.	571	As explained in the description of the corresponding efficiency proposal (E11 in Appendix B), a similar total (£551k) is currently anticipated to be received in 2020/21 for recycling performance in 2019/20.
NNDR Administration Grant	176	The cost of collection will not be known until the central government return for business rates (NNDR 1 form) is finalised in January 2020 Assuming a similar level to the 2019/20 level of £176k.
Flexible homelessness support grant	173	MHCLG has confirmed at least the same level of funding for 2020/21 as 2019/20, rather than an exact figure.
Syrian refugee resettlement grant	328	Approximately £310k is anticipated in 2020/21 however the exact amount is dependant on when the two new refugee households actually arrive.
Homelessness Reduction Act - New Burdens Funding.	32	MHCLG has confirmed at least the same level of funding for 2020/21 as 2019/20, rather than an exact figure.
Healthy Hub Grant	18	HCC are funding a two year Healthy Hub project. It is anticipated that around £50k will be drawn down in 2020/21.
Total Revenue Grants	30,757	

8.2 Business Rates and Council Tax Collection Funds

- 8.2.1 NHDC is required to maintain a Collection Fund to account for the income received and costs of collection for Council Tax and Business Rates. Estimates of the net income are made at the start of the year and based on this money is transferred out of the Collection fund to the NHDC General Fund and other precepting bodies. The Fund is required to break even over time and any surplus or deficit is transferred to the NHDC General Fund and other precepting bodies.
- 8.2.2 The total amount of Council Tax that is collected is dependent on the actual number of properties, eligibility for paying a reduced amount (Council Tax Reduction Scheme) and the success in collecting what is owed. An estimate is made of the cumulative impact of this and converted in to an equivalent number of band D

properties. This is known as the Council Tax Base. The amount of Business Rates that are collected is dependent on the number and type of business premises in the area, the success in collecting what is owed, eligibility for relief and the number and value of successful appeals. Assumptions on these factors are made in forecasting the level of income from Council Tax and Business Rates in future years.

- 8.2.3 Current forecasts are that the Business Rates collection fund will have a deficit at the end of the year. This is due to the level of appeals and rate reliefs. NHDC will need to fund its share of the deficit in the following financial year. The section 31 grant that NHDC receives from Central Government for business rate reliefs and caps will be used for this purpose.
- 8.2.4 It is currently forecast (at the end of month 8) that the Council Tax collection fund will have a marginal deficit at the end of the year, due to an increase in the amount of Council Tax reduction awarded, of which the Council's share is projected to be £55k. A contribution from the General Fund to the Collection Fund of this amount is therefore required in 2020/21. This contribution therefore reduces the total funding amount available next year, as shown in appendix C.

8.3 Business Rate Pilot and Pool

- 8.3.1 For 2019/20, Hertfordshire was successful in becoming a Business Rate pilot. As highlighted when the application was made, this will hopefully mean that the Council is around £800k better off than the baseline position included in the budget estimates, and £400k better off than being part of a pool. This is dependent on the level of Business Rates collected in North Hertfordshire and across Hertfordshire during 2019/20. The forecasts are looking like this estimate could be exceeded but this will not be known until after the end of the financial year. As detailed later in this report, the overall position in 2020/21 is forecast to be a budget surplus and therefore any gains will be reflected in the 2021/22 budget. These gains are a one-off and do not improve the long-term position.
- 8.3.2 For 2020/21 a Business Rates Pool application has been accepted for Hertfordshire County Council and five other Districts (including North Hertfordshire). This is expected to generate additional funding (of around £400k+) but again this will be one-off. It is not expected that the Council will be able to benefit from pooling arrangements under the new business rates funding system, at least not in the short to medium term. Therefore future forecasts do not include any ongoing gains from this.

8.4 Review of balances and reserves

- 8.4.1 In setting its budget, the Council needs to consider the level of its reserves. This determines the extent to which the current budget can be supported by the use of reserves, or requires a budget to be set that includes an allowance for increasing reserves. In addition to the General Fund balance, NHDC has specific reserves and provisions. Specific reserves are amounts that are set aside for a determined purpose. This purpose can arise from a choice made by the Council, or where it is felt that there is an obligation. Provisions are where there is a requirement on the Council to meet future expenditure, and a reasonable estimate can be made of the amount and timing. In determining the risks that may need to be met from the General Fund, it is important to know which risks will already be covered by amounts that are set aside as a specific reserve or provision.

8.4.2 A full list of specific reserves and estimated balances is shown in table 2 below.

Table 3- Specific Reserves

Name of Reserve	Purpose of Reserve	Balance at 1 April 2019	Estimated Balance at 31 March 2020	Estimated Balance at 31 March 2021
Funding Equalisation Reserve	As detailed in section 8.9.3	0	68	559
Cemetery Mausoleum Reserve	Held to cover the Authority's obligation to supply Mausoleum niches at the Wilbury Hills Cemetery and is funded from the sale of currently available niches. Still available niches so not expected to be used in the short-term.	161	161	161
Childrens Services Reserve	Part is used to help fund children's play projects in the district and is funded from grant income. Part is previous external funding used for	8	6	0
Climate Change Grant Reserve	Grant awarded to help combat the effect of climate change. Being used for the additional costs (above available establishment) of employing a Trainee Policy Officer working on Climate Strategy. Will be fully used by the end of 2024/25.	28	26	22
Community Right to Challenge Reserve	The one-off grant funding received to recognise the additional burden of the new legislation. The legislation has been in place for 5 years and nothing has transpired, so propose release to General Fund.	45	0	0
Environmental Warranty Reserve	An environmental warranty was provided to North Herts Homes on the transfer of the Housing stock. This was the cost of obtaining insurance which would have only lasted 10 years. There has been no call on the reserve so far, and there might never be. The cost claim could be significantly more than the reserve. To release to General Fund and create a financial risk.	209	0	0
Growth Area Fund Reserve	Holds the revenue grant awarded. To be used when progress on the Local Plan so may be used in 2020/21, but may not be until 2021/22.	53	53	53
Homelessness Grants Reserve	To help prevent homelessness in the district. The entire grant is earmarked for different homelessness projects or resources. Reflects that additional grant will be received in 2020/21 and that this will be used first.	262	291	282
Housing & Planning Delivery	Hold unspent Housing & Planning Delivery grant to fund Cabinet approved spending plans in subsequent years. The Authority has also made a commitment to the Local Development Framework and funds are held in this reserve for this purpose. Additional income from the 20% increase in statutory planning fees is also transferred here to fund the development of Planning Services. Future balances will depend on timing of spend and fees received in relation to the 20% increase.	1,142	1,489	Unknown
Information Technology Reserve	To ensure the Authority has adequate resources to purchase hardware and software items when they are required. Plan to use over 2 years for a Uniform software upgrade with improved functionality.	82	47	12
Insurance Reserve	Used to finance potential claims for risks that are not covered by external policies together with higher excesses currently being borne by the Authority. It is good financial practice to have an insurance reserve. The future balances will depend on the claims received and the level of relevant insurance.	34	Unknown	Unknown
Land Charges Reserve	Reserve originally established to help meet the	94	84	59

Name of Reserve	Purpose of Reserve	Balance at 1 April 2019	Estimated Balance at 31 March 2020	Estimated Balance at 31 March 2021
	potential cost should the financial risk of the repayment of personal search fees occur. Being used for additional administration costs and software upgrades over 3 years.			
Leisure Management Maintenance Reserve	To cover the cost of any future repairs liabilities on the leisure facilities. The Leisure Contract requires a contribution from the Council for maintenance items over £5k, so therefore if funds are not available in the reserve then this would impact on the general fund. Use of the reserve depends on what arises and is therefore unknown.	47	Unknown	Unknown
MHCLG Grants Reserve	Balance of unapplied Section 31 business rate relief grants and pooling gains. Used to fund NNDR Collection Fund deficit contributions and levy payments in future years. Pooling gain of £368k to be released to the General Fund. Balance at end of 2020/21 will depend on NNDR1 return and the levy. To be reviewed during 2020/21 as to how much additional funding can be released to the General Fund, bearing in mind the implications of any Business Rates baseline reset.	1,814	3,318	Unknown
Museum Exhibits Reserve	Funds the purchase of museum exhibits and is funded from donations. Use of reserve will depend on donations and opportunities for acquisitions.	12	Unknown	Unknown
Neighbourhood Plan Reserve	Funds received for neighbourhood Plans from the MHCLG (previously DCLG) have been transferred. The funding has been provided to authorities who received neighbourhood plans as funding will be needed in future years as plans are developed and public examinations and public referendums are required.	41	61	61
Office Move IT Works	A reserve to cover the cost of moving cabling between Town Lodge and the other Authority buildings when required.	7	0	0
Paintings Conservation Reserve	Used to help restore paintings. This is funded through donations and publication income. To be used against a list of items that require conservation.	11	11	11
Property Maintenance Reserve	To cover the cost of any unplanned emergency maintenance costs that may occur at any of the Authority's properties. There are revenue and capital budgets for property maintenance so to use these in future and release this reserve to the General Fund.	72	0	0
S106 Monitoring Reserve	To cover the cost of monitoring s106 obligations in future years. Ring-fenced. Future balances are unknown as do not know what new funding will be received.	36	Unknown	Unknown
Special Reserve	Maintained for any special financial pressures such as pump priming for initiatives for shared services, changes in working practice, major contract renewals, unexpected contract variation and other financial pressures. To be retained in the short-term in case of any impacts from carrying out the budget review mentioned in paragraph 8.9.4. Known commitment of £125k in 2020/21.	1,395	1,307	Unknown
Street Furniture	To fund new street furniture as and when required. Rarely used so release to General Fund and reflect costs as and when the need arises.	21	0	0
Street Name Plates	To fund Street Name Plates as and when required. To maintain until Local Plan is adopted and then review.	16	16	16
Syrian Refugee Project	The council has agreed to house 50 Syrian Refugees	115	181	181

Name of Reserve	Purpose of Reserve	Balance at 1 April 2019	Estimated Balance at 31 March 2020	Estimated Balance at 31 March 2021
	over five years under the government's resettlement scheme. The scheme is fully funded by the government and the reserve enables the multiple year funding for each household to be maintained for future expenditure associated with their placement in the district, such as housing and support costs. Reflects that additional grant will be received in 2020/21 and that this will be used first.			
Taxi Reserve	Any surplus from the taxi service will be transferred to the earmarked reserve where it can be used to offset any future deficit or to fund investment in the taxi service. Expected to be used in 2020/21 for re-marking the taxi ranks and new taxi rank signage, in addition to reviewing the existing taxi rank provision.	13	5	0
Town Centre Maintenance	For the implementation of the Town Wide Reviews and ad hoc town centre maintenance.	45	53	53
Traffic Regulation Orders	An audit was done to identify TRO work to be carried out in the district. However due to other priorities this work was delayed and the budget has been transferred to a reserve, to be drawn down as and when the work is done. To be spent over the next 3 years.	347	395	265
Waste Reserve	AFM monies are transferred to help mitigate any potential risk to the waste service, for example the construction of a Northern Transfer Station.	631	650	650
Waste Vehicles Reserve	As repayment of the finance lease principal embedded within the waste contract is funded from the Council's cash reserves, the saving on the revenue account is transferred to this reserve to fund the purchase of vehicles when they next need to be replaced.	253	554	913
Welfare Reform Grants Reserve	Awarded to the Authority for different initiatives or changes relating to Housing & Council Tax benefit scheme. These grants will be used when the initiatives or changes are carried out, and therefore the exact timing of usage is unknown.	190	200	Unknown

8.4.3 The MHCLG grants reserve includes the gain made by the Council from being part of the Business Rates Pool in 2018/19 of £368k. There is no reason for this to be kept in this reserve and it is proposed that this is transferred to the General Fund. The remaining balance in this reserve is the section 31 grants received for Business Rate reliefs, which are used to off-set the shortfall on the Collection Fund and the payment of the business rates levy.

8.4.4 The following other reserves show the balance being reduced to zero. This is because they are no longer needed and the balances will be moved to the General Fund:

- Community Right to Challenge Reserve - release £45k to General Fund
- Environmental Warranty Reserve - release £209k to the General Fund
- Property Maintenance Reserve - release £82k to the General Fund
- Street Furniture Reserve - release £21k to General Fund

8.4.5 As at the 31 March 2019 there was a total of £1.527m held as provisions. These comprised of:

- Business Rates appeals - £1.501m - the NHDC estimated share of outstanding business rates appeals

- Insurance - £0.026m - covers the uninsured aspect of outstanding insurance claims.

8.4.6 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. 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. As net expenditure is anticipated to be around £15million, this means a minimum balance of about £750k. However as the Council has become more reliant on generating income to set a balanced budget, an additional 3% of budgeted income (excluding Housing Benefit, grants and other contributions) will also be included in determining the minimum level. Income from fees, charges, interest and rentals is forecast to be £11.6m and therefore an additional allowance of £347k will be added. This 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.

8.4.7 An assessment of the risks has been compiled for the coming year based on risks identified by each Service Director and cross-referenced to the risk register. The identified areas are where the financial impact is not wholly known, but an estimate can be made. The amount allocated is based on the forecast likelihood of occurrence. Where there is a high likelihood, 50% of the estimated financial impact is allowed for. For medium likelihood, it is 25%. For low likelihood, it is 0%. Table 4 summarises the risks, the forecast impact and the risk allowance to be made. A full list of these risks is shown in Appendix A.

Table 4- Budget Risks in 2020/21

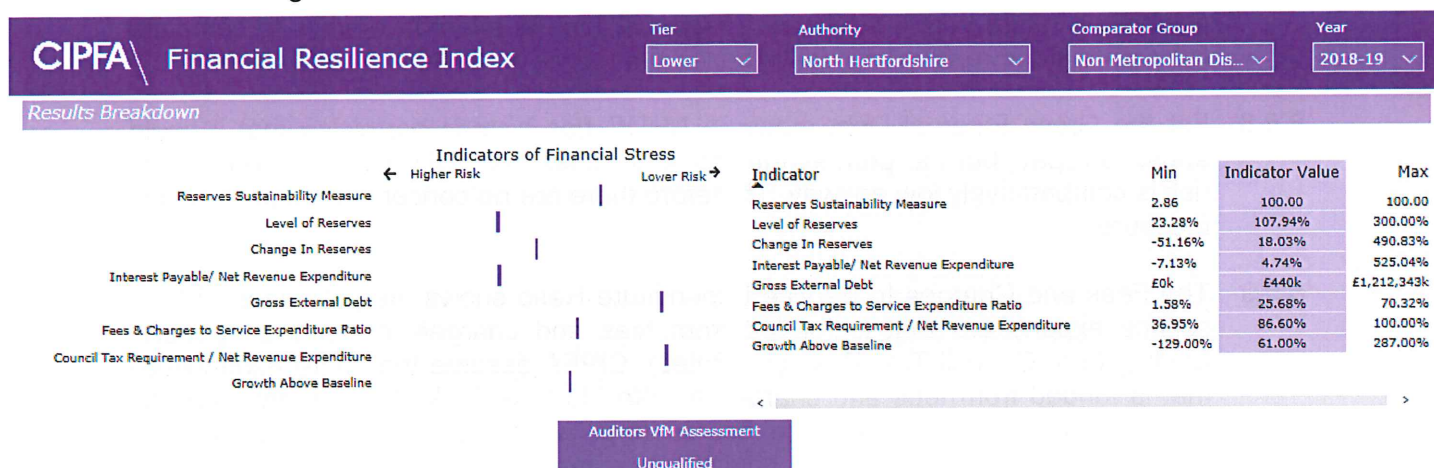
Category	Number of Risks	Forecast Value of Impact (£000)	Risk Allowance (£000)
Low	18	5,453	0
Medium	15	1,665	416
High	12	1,870	935
Total	45	8,988	1,351

8.4.8 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £2.45million should be maintained. This is what is recommended by the s151 Officer (Chief Finance Officer).

8.5 Council Resilience

8.5.1 In response to the issues faced by Northamptonshire County Council, and concerns over the financial health of other Local Authorities, the Chartered Institute of Public Finance and Accountancy (CIPFA) have developed a financial resilience tool. This uses historic publicly available data to compare indicators of financial stress across similar Local Authorities. The results for NHDC in comparison with other non-Metropolitan Districts for the latest year (2018/19) are shown in the image below.

Image 5- Financial Resilience results



8.5.2 The table on the right shows the performance of NHDC in the middle (purple column) against 8 measures. It also shows the minimum and maximum values for the comparator group. Note that it swaps about as to whether minimum or maximum is good (lower risk). The graph on the left shows how NHDC sits (on a ranking basis) against all the Authorities in the comparator group.

8.5.3 The purple box at the bottom confirms that we have an unqualified (which is good) assessment from the Council's Auditors in relation to the processes we have in place for delivering Value for Money. This will be the case for the vast majority of Local Authorities.

8.5.4 The Reserves Sustainability measure shows the depletion (or addition) to reserves over the last 3 years. It does this by taking the use of reserves over the 3 years as a proportion of the current reserves level and converting this to a ratio. Where reserves have stayed the same or gone up, the ratio is shown as 100. This is the case for NHDC, and this is the lowest risk position. In the medium term, if the Council end up using reserves to balance the budget then this value will drop. Currently the vast majority of the comparator group are in the same position as NHDC (i.e. at 100).

8.5.5 The Level of Reserves measure shows total reserves (General Fund and specific) as a proportion of annual net expenditure. This shows that NHDC has a bit more in reserves (108%) than is spent each year. The maximum value that can be achieved has been capped at 300%. This shows that NHDC is relatively high risk, but the key here is that it is in relation to others rather than being an absolute concern.

8.5.6 The Change in Reserves measure is very similar to the Reserves Sustainability measure. For NHDC it shows that reserves have increased by 18% over the last three years. This is a low increase in comparison to others, but is not an absolute concern.

8.5.7 The next two measures reflect that borrowing money (for whatever purpose) is risky. The Interest Payable / Net Revenue Expenditure measure is skewed for NHDC by an accounting adjustment. As part of the waste contract the contractor provides vehicles to perform the service. Under accounting rules there is a requirement to show these as our assets and an off-setting debt owed. Each year part of the revenue cost of the service is reallocated as a repayment of the debt and

a notional interest charge. This notional interest charge does not create a risk to the Council. In future years, the finance team will look at alternative ways to complete the data that the resilience index is based on.

- 8.5.8 For the Gross External Debt measure NHDC has historic borrowing that it could afford to repay, but the premium for doing so does not make financial sense. The risk is comparatively low anyway. Therefore there are no concerns in relation to this measure.
- 8.5.9 The Fees and Charges to Service Expenditure Ratio shows the proportion of total service expenditure that is funded from fees and charges, rather than general funding (e.g. Council Tax, Business Rates). CIPFA assume that more expenditure that is funded from fees and charges equates to lower risk. As fees and charges could be from a volatile income source (e.g. parking income is dependent on usage), the opposite assumption could also be made. NHDC is about in the middle and there are no concerns in relation to this measure.
- 8.5.10 The Council Tax Requirement / Net Revenue Expenditure measure shows the proportion of net spend that is funded from Council Tax, as opposed to other funding sources (e.g. Business Rates, New Homes Bonus). NHDC funds 87% of its spend from Council Tax and this is considered to be relatively low risk. This will be due to the fact that Council Tax is a relatively stable income source, with some inflationary increase allowed. With referendum limits on increases, this is mainly a measure of history and there is nothing that can be done about it now for those that are lower down. It does suggest that the resilient option to pursue is to continue to increase Council Tax by the maximum amount allowed.
- 8.5.11 The Growth above Baseline measure shows actual Business Rate income compared with the Baseline Business Rate level (an assumed amount used in funding formulae that determines how much of the Business Rate income that the Council collects that it can keep). Business Rate income is uncertain, especially with a Baseline reset due. Therefore being above the Baseline is considered to be high risk. NHDC is 61% above the baseline. The Council uses the Baseline funding level to set its budget and treats any income that it can retain above that as a bonus. Therefore there are no concerns in relation to this measure.
- 8.5.12 Overall, it is the Chief Finance Officers view that there are currently no concerns in relation to the resilience index.

8.6 Expenditure Forecasts

- 8.6.1 The starting point for forecasting net expenditure for future years is the previous year's budget, as set in February 2019. This is then adjusted by:
- Any changes since then identified in revenue budget monitoring that have an impact in future years (Quarter 3 2018/19, End of Year 2018/19, Quarter 1 2019/20 and Quarter 2 2019/20)
 - A budget review at the end of November- see paragraph 8.6.2 below.
 - Any relevant decisions made by Full Council
 - Savings (including efficiencies, income generation and service changes) identified in this report at Appendix B.

- Investments (including increases in service and non-inflationary cost pressures) as identified in Appendix B.
- Estimates of expenditure (including pay) and income inflation.
- Any other significant changes, e.g. pension contribution rates.

8.6.2 A review of budgets as at the end of November has been carried out. Table 5 below provides explanations for the variances that are greater than £25k, as well as any budgets where there are carry-forward requests. All other variances are included within the 'other minor variances' line at the bottom of the table.

Table 6- Summary of forecast variances (amounts £000)

Budget Area	Current Working Budget	Forecast Outturn	Variance	Explanation for variance	Carry-forward requested	2020/21 Budget impact
PCN Income	(595)	(664)	(69)	Increase in projected PCN income is based on the level of activity this year. The current full complement of staff in post has meant a greater number of traffic offences being identified and penalty notices issued.	0	0
Area Committee Grants	82	60	(22)	The underspend requested to be carried forward comprises £12.9k for Letchworth, £1.5k for Royston and £7.5k for Southern Rural. This is largely due to fewer grant applications than anticipated being received and also represents grants awarded but not yet released pending evidence of criteria being met.	22	0
Health and Wellbeing Initiatives	21	5	(16)	Service resource and delivery has been affected by staff absence in this year. A carry forward of the unspent budget is therefore requested to deliver a number of projects and services that have been postponed.	16	0
Transport User Forum	50	0	(50)	The inaugural meeting of the Forum has taken place. As resulting work streams and associated expenditure are still to be clarified, this budget is requested to be carried forward.	50	0
Income from paper	(262)	(249)	13	The Council is part of a consortium for the disposal of paper that it collects from households. This consortium	0	150

Budget Area	Current Working Budget	Forecast Outturn	Variance	Explanation for variance	Carry-forward requested	2020/21 Budget impact
				provides the volumes that are considered to give better prices than acting individually. The current contract ends in March. Whilst it is felt that the new contract offers the best value available, market conditions mean that this is still a substantial reduction from the previous price. The new contract is only until May 2021, so there is a risk of a further drop in income after that.		
Total of Explained Variances	(704)	(848)	(144)		88	150
Other Minor Variances	15,974	15,931	(43)		0	1
Total General Fund	15,270	15,083	(187)		88	151

8.6.3 Budget proposals were put forward for discussion at Group workshops in November. To give the full context, these proposals included both savings and investment proposals. The comments made by the Groups were presented for consideration alongside the budget proposals at the December meeting of Cabinet. The lists of savings and investments agreed by Cabinet at the December meeting are attached at Appendices B and C respectively.

8.7 Revenue effects of capital

8.7.1 The Council incurs some interest costs in relation to historic borrowing for capital purposes. The small cost of this is reflected in budget estimates. If the Council was to take out new borrowing for capital purposes then it would incur revenue costs in relation to interest payments and Minimum Revenue Provision (MRP). MRP is explained in the Investment Strategy report. As identified in the Investment Strategy report, the Council does not need to borrow to fund core capital spend, as it is forecast that this can be funded from existing capital reserves and the generation of new capital receipts. The Council would need to borrow for non-service property development and acquisition. However as it is a requirement of any such investment that the income generated provides a margin above the borrowing costs, the prudent decision has been taken to present this as a net nil revenue cost (i.e. the income is not shown and nor are the borrowing costs). This is because the exact scale and timing of any such investments will depend on the opportunities available.

8.8 Reliability of Estimates

- 8.8.1 As part of the budget setting process, the Chief Finance Officer is required to comment on the reliability of the estimates made. A prudent approach has been adopted, especially in relation to income where it is only included where there is a high degree of certainty over it being achieved. The main area of uncertainty is in relation to pay inflation, which has been assumed to be 2%. The national pay bargaining process is underway but it is unknown when it will be concluded. The 2% assumption is in line with the majority of Councils, and the allowances made are a factor in where the negotiations will end up. It should however be noted that the Union claim is for a 10% increase.
- 8.8.2 Overall it is considered by the Chief Finance Officer that the estimates made are reliable. They will be subject to some risk and this is the reason for setting a minimum General Fund balance and carrying out budget monitoring throughout the year.

8.9 Cumulative impact and decisions

- 8.9.1 The cumulative impact of all the estimates described in the previous sections (and recommendations below) is provided at Appendix C. This shows a forecast of funding and net expenditure for the next four years, including the impact on the General Fund balance.
- 8.9.2 This shows a budget surplus in 2020/21, but a significant deficit in 2021/22 onwards. The surplus in 2020/21 is mainly as a result of negative RSG not being introduced and the transfer of pooling gains from the specific reserve to the General Fund. The deficit in following years is mainly as a result of both the assumption that negative RSG (or an equivalent reduction in funding) will be introduced and the known reductions in New Homes Bonus.
- 8.9.3 Whilst it might seem perverse to increase Council Tax by the maximum allowed when the Council is forecasting a budget surplus in 2020/21, not increasing it by the maximum amount would reduce the funding available in future years (unless an increase above the referendum limit was then considered) and make the ongoing position (2021/22 and beyond) worse. The proposal is therefore that Council Tax should be increased by the maximum allowed (£5 for a Band D equivalent) and the surplus in 2020/21 is put in to the funding equalisation reserve (along with the balance from this year, 2019/20). This should provide more time to implement the savings that are likely to be required to address the future forecast budget gap.
- 8.9.4 Based on current forecasts the Council will need to reduce its net annual revenue expenditure by over £1.35m. Due to the creation of the funding equalisation reserve proposed above and fairly high General Fund balances, this could be achieved over a four year period. The profile of net savings needed to be delivered would then be £400k in 2021/22, a further £400k in 2022/23 and at least another £550k in 2023/24. This is a net savings requirement and any new investments will increase the level of gross savings required, therefore there is very limited scope for any new investments (unless they are genuinely time-limited). Some of these savings could be delivered from commercial opportunities, including property development and acquisitions. However these can only be built in as savings when there is a known project with a business plan and evidence that it can be delivered. Even then

commercial and property income is inherently risky and the Council will need to have a contingency plan as to how it will deal with any shortfall.

8.9.5 As a result of the time it can take to implement savings, there is a need to start budget planning early in the new financial year. As the opportunity for any further efficiencies is expected to be very limited, this will include a review of all current spend identifying those areas which are discretionary services or services that are delivered in excess of the statutory requirement. This will be used to identify areas where service changes could be made. There will be public consultation on the results of this to determine which areas of spend residents value the most and therefore areas where service levels can be reduced. However it should be noted that the majority of the Council's spend is on statutory services and therefore given the scale of expenditure reductions required, it is possible that the continuation of discretionary services, at least in their current form, might be quite limited.

8.9.6 In the recommendations, Cabinet are asked to make the following decisions:

- Approves the decrease in the 2019/20 working budget of £187k, as detailed in table 5.
- Approves the carry-forward of £88k of budget in to 2020/21, as detailed in table 5.

8.9.7 In the recommendations, Cabinet are asked to recommend to Council that they make the following decisions:

- Approves the transfers to/ from reserves as detailed in 8.4.2 to 8.4.4
- Notes the forecast savings target for future years and confirms the approach to balancing the budget, as detailed in paragraph 8.9.4.
- Notes the position on the Collection Fund and how it will be funded
- Notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £2.45 million is recommended.
- Approves the savings and investments as detailed in Appendix B.
- Approves a net expenditure budget of £15.124m, as detailed in Appendix C.
- Approves a Council Tax increase of £5 for 2020/21 for a band D property, with other increases pro-rata to this (as per the Medium Term Financial Strategy)

9. LEGAL IMPLICATIONS

- 9.1 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.
- 9.2 Cabinet's terms of reference include recommending to Council the annual budget, including the capital and revenue budgets and the level of council tax. Council's terms of reference include approving or adopting the budget.
- 9.3 Members are reminded of the duty to set a balanced budget and to maintain a prudent general fund and reserve balances.

10. FINANCIAL IMPLICATIONS

- 10.1 As outlined in the body of the report.

11. RISK IMPLICATIONS

- 11.1 As outlined in the body of the report.
- 11.2 There are significant uncertainties and risks with regard to the funding of NHDC over the medium term. In particular the impact from the outcomes of the Fairer Funding review and 75% Business Rates retention.

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their 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.
- 12.2 The proposals for efficiencies within this report do not unduly disadvantage one individual group within our local community more than another.
- 12.3 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 has either taken place or will take place following agreement of efficiencies or growth.

13. SOCIAL VALUE IMPLICATIONS

- 13.1. The Social Value Act and “go local” requirements do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 Where efficiency proposals directly affect staff, it is important that all affected staff are consulted and supported at the earliest opportunity and the Council’s HR policies and procedures are followed.
- 14.2 Paragraph 8.8.1 highlights the uncertainty over future pay inflation and that this is still subject to national pay bargaining.

15. APPENDICES

- 15.1. Appendix A- Financial Risks
- 15.2. Appendix B- Revenue Budget Savings (including efficiencies, income generation and service changes) and Investments (including increases in service and non-inflationary cost pressures)
- 15.3. Appendix C- Budget Summary 2020-24

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17. BACKGROUND PAPERS

- 17.1. Medium Term Financial Strategy 2020-25

Appendix C - General Fund Estimates for 2020/21 to 2023/24 (addendum)

All amounts £000	2020/21	2021/22	2022/23	2023/24
Net expenditure brought forward	14,597	15,124	14,974	14,956
Planned delivery of savings previously identified	-78	-149	84	0
Planned Investments previously approved	28	-28	8	0
Other previously identified adjustments in future years	56	73	-5	0
Ongoing impact of variances reported in year	-41	70	49	5
New savings proposals	-642	203	60	26
New investment proposals	727	-10	-140	-60
Net pay increments	-25	50	50	50
Pay inflation	262	200	200	200
Forecast Contractual Inflation	169	350	350	350
Forecast Income Inflation	-157	-280	-274	-289
Investment allowance in future years	0	0	0	0
2019/20 Budgets Carried Forward	230	-230	0	0
Further savings tbc	0	-400	-400	-550
Total Net Expenditure	15,124	14,974	14,956	14,688
Council Tax Income	-11,752	-12,122	-12,498	-12,880
Council Tax Collection Fund (Surplus) / Deficit	55	0	0	0
Release of NNDR pooling gain	-368	0	0	0
(Negative) Revenue Support Grant	0	1,136	1,159	1,182
Business Rates	-2,726	-2,780	-2,836	-2,893
New Homes Bonus	-713	-350	-131	0
Other (Council Tax Reduction Scheme payment to Parishes)	39	24	24	24
Total Funding	-15,465	-14,092	-14,282	-14,567
Net funding position (use of reserves)	-341	881	673	120
General Fund b/f (includes transfers detailed in paragraph 8.4.4)	8,387	8,387	7,915	7,241
Funding Equalisation Reserve	341	-409	0	0
General Fund c/f	8,387	7,915	7,241	7,121

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