

Public Document Pack

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MONDAY, 18TH JANUARY, 2021

SUPPLEMENTARY AGENDA

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

| Agenda No | Item |
|------------------|-------------|
|------------------|-------------|

| | |
|----|---|
| 8. | <u>REVENUE BUDGET 2021/22</u> (Pages 3 - 22) |
|----|---|

REPORT OF THE SERVICE DIRECTOR – RESOURCES

To consider the draft budget for 2021/22 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 11 February 2021.

This page is intentionally left blank

**FINANCE, AUDIT AND RISK COMMITTEE
18 JANUARY 2021**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: REVENUE BUDGET 2021/22

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

- 1.1. Cabinet is asked to; consider the draft budget for 2021/22 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level; consider the appropriate level of Council Tax that will be recommended to the meeting of the Council on the 11 February 2021.

2. RECOMMENDATIONS

That Cabinet:

- 2.1. Approves the decrease in the 2020/21 working budget of £129k, as detailed in table 5.

That Cabinet recommends to Council:

- 2.2. Notes the position on the Collection Fund and how it will be funded.
- 2.3. Notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £3.7 million is recommended.
- 2.4. Approves the savings and investments as detailed in Appendix B.
- 2.5. Approves a net expenditure budget of £16.390m, as detailed in Appendix C. In the event of a £10 band D increase being allowed, then Appendix D would apply,
- 2.6. Approves a Council Tax increase by the maximum allowed without the need for a local referendum in 2021/22(as per the Medium Term Financial Strategy). This is likely to be an amount of £5 for a band D property, with other increases pro-rata to this. However in response to the consultation on the Local Government settlement, a £10 increase for a band D property (other bands pro-rate) may be allowed.

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that all relevant factors are considered in arriving at a proposed budget and Council Tax level for 2021/22, to be considered by Full Council on 11 February 2021.
- 3.2. To ensure that Cabinet recommends a balanced budget to Full Council on 11 February 2021.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. In seeking to address the funding gap detailed in the Council's Medium Term Financial Strategy for 2021-26, Political Groups and Officers have been asked for savings ideas and these are presented in appendix A to this report.
- 4.2. The proposed investments are a combination of cost pressures to deliver existing services and new spend that is linked to the delivery of priorities identified within the Council Plan.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. All Councillors were given an opportunity to comment on the revenue efficiency, revenue investment and capital proposals at the budget workshops.
- 5.2. Business Ratepayers will be consulted on the proposals within the January report before the budget is discussed at Full Council on 11 February. Any feedback will be made available at that meeting. This is the only statutory consultation that is required. It is intended that this consultation will be via the website/ e-mail, as previous consultation events have not been very well attended, and this is also more practical given the impact of Covid-19.
- 5.3. If any saving proposal is anticipated to have a particular impact on a specific area (or areas) then it would be referred to the relevant Area Committee(s) during January. It is however considered that this does not apply to any of the savings proposals included.

6. FORWARD PLAN

- 6.1. This report contains a recommendation on a key Executive decision (recommendation 2.1) that was first notified to the public in the Forward Plan on the 14 October 2020. The budget for 2021/22 will be presented to Full Council for approval in February.

7. BACKGROUND

- 7.1. The Medium Term Financial Strategy (MTFS), which provides the financial background for the Corporate Business Planning Process, was approved by Full Council in September following recommendation by Cabinet. The budget estimates within the MTFS included a number of assumptions. These have been updated as better information has become available. The final budget recommended to Council in February will still contain some assumptions, hence monitoring reports are provided to Cabinet on a quarterly basis.

- 7.2. The Covid-19 pandemic is expected to have a fundamental impact on the Council's finances in the short and medium term. The financial impacts of Covid-19 to date have been detailed in a separate report to Cabinet in July and a further summary update was included in the Second Quarter Revenue Budget Monitoring report. It is anticipated that additional funding from Central Government will not fully compensate for the financial impacts of Covid-19 and this has therefore reduced the projected reserves available at the start of the financial year 2021/22. The potential impacts in next year and the medium term are considered in this report and the appendices.
- 7.3. Due to Covid-19, the introduction of a new Fairer Funding Formula and 75% Business Rates Retention have been delayed. The details of these are now expected in 2021/22 for implementation from 2022/23, though this timescale is not certain. Similarly, there was no Autumn Budget this year, while the Spending Review announced by the Chancellor on the 25 November covered only one year, instead of the three-year review originally anticipated.

8. RELEVANT CONSIDERATIONS

General and Specific Funding

- 8.1. Following the Spending Review in November, the provisional Local Government Settlement was announced on 17 December 2020. This provided the following information on the funding for the Council in 2021/22, subject to there being no changes in the final settlement.
- 8.2. As expected in the Draft Budget report, and assumed in the MTFs, the Settlement confirmed that Negative Revenue Support Grant (RSG) will not be applied in 2021/22. This deferral is assumed to be for one year only, with the assumption still that the equivalent of a negative RSG (i.e. reducing our funding by around £1m) will be applied as part of the fair funding formula from 2022/23. Funding amounts for the Council in 2022/23 and beyond remain highly uncertain, with reforms to Local Government funding and business rates having a potentially significant impact on the level of funding the Council receives.
- 8.3. The Settlement also confirmed that the business rates multiplier has been frozen for 2021/22, reducing the business rates income estimate for next year by around £50k, with a similar impact on the estimates for the years beyond. This will be off-set by an increase of £33k in the compensation for under-indexing the business rates multiplier, up to £142k for 2021/22. The freezing of the multiplier does also reduce the Council's projected expenditure on business rates, with the estimated inflation allowance within the proposed total net expenditure budget, as shown in Appendix C, adjusted accordingly.
- 8.4. While it was announced in the November Spending Review that the referendum threshold for increases in Council Tax will be 2% in 2021/22, the publication of the

Provisional Settlement detailed that District Councils will be allowed to increase Council Tax by the higher of the 2% referendum limit or £5 for a band D equivalent property.

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. For the future years beyond 2021/22, it is assumed that the 2% (or £5 for a band D equivalent) will continue to be the maximum increase allowed without the need for a referendum. The Provisional Settlement is however subject to a consultation process before it becomes final. It is expected that there will be a number of representations from Districts that the referendum limit should be set at £10 (per band D equivalent). If that was agreed for a single year then it would increase the Council's funding by around £250k per year on an ongoing basis. Recommendation 2.6 includes provision in case this higher increase is allowed. It is unclear when any announcement on this will be made, and it might be after the date of the Council meeting in February.

- 8.5. The Council Tax income that the Council retains is also affected by the Council Tax base. Subsequent to the Draft Budget report, further update and refinement of the Council Tax base calculation for 2021/22 has resulted in a revised total of 49.396.9, which represents a 1.17% decrease on the Council Tax Base for 2020/21 and is equivalent to a £140k reduction in Council Tax income. The MTFs did identify a reduction in the Council Tax base as a potential consequence of the Covid-19 pandemic, due to the associated increase in residents becoming eligible for Council Tax reduction. The assumption in table 1 is that the Council Tax base will return to the 20/21 level in 2022/23, with no further growth in the subsequent financial years.
- 8.6. A new round of New Homes Bonus payments in 2021/22 was announced in the Settlement. While the deadweight of 0.4% was maintained, property growth in North Herts in the 12 months to October 2020 has attracted a provisional total eligible bonus allocation of around £42k. This amount is in addition to the prior assumption, based on previous announcements, that only the legacy payments due from previous years (2018/19 and 2019/20), totalling £350k, would be received in 2021/22. The government has confirmed that, as was the case for the 2020/21 allocation, there will be no legacy payments in respect of the 2021/22 allocation. The Council therefore only expects to receive a further £131k in 2022/23. There will be a consultation on potential reforms to the scheme from 2022/23 but, given the uncertainty over a funding stream that looks to reward housing growth, over which the Council does not have much control, no assumption is made in the funding estimates as to any replacement funding.
- 8.7. The Government also proposed in the Settlement a new non-ringfenced Lower Tier Services Grant in 2021-22, of which the Council has been provisionally allocated £116k. The stated intention behind the grant is to ensure overall funding, or 'Core Spending Power', which includes estimated receipts from Council Tax, Business Rates and New Homes Bonus, in 2021/22 is no lower than funding available for 2020/21. This grant was not anticipated prior to the Settlement announcement and is therefore additional to the funding estimates provided in the Draft Budget Report 2021/22, presented to Cabinet in December.

- 8.8. Outside of core spending power consideration, it was announced in the Spending Review that £2.2bn of funding would be provided to Local Government in 2021/22 to help authorities mitigate the financial impact of the Covid-19 pandemic. Further details have now been released by Government and the additional financial support that the Council will receive next year is comprised of;
- Non-ringfenced grant to support services – Based on a relative needs formula devised by MHCLG, the Council will receive a grant allocation of £558k in April 2021 to manage pressures in 2021/22. This amount had not been anticipated and is therefore additional to previous funding estimates for 2021/22.
 - Council Tax support grant – This funding is intended to recognise the additional costs associated with increases in local council tax support caseloads in 2021/22. The indicative allocation for the Council is £230k and it is non-ringfenced funding. The impact of the reduced Council Tax base (due to increased Council Tax Reduction Scheme eligibility) is already reflected in the Council Tax income estimate, so this funding will be applied to the General Fund. The impact detailed in paragraph 8.5 is £140k, but in a usual year the Council would also expect growth in the tax base of around 1% (equivalent to over £100k of additional income). Some of this growth has been suppressed by the increase in Council Tax support. It is therefore considered reasonable to apply the whole balance.
- 8.9. Supplementary to the additional grant funding above, the Government has also announced a 'Local Tax Income Guarantee' for 2020/21, with the government compensating local authorities for 75% of irrecoverable losses in Council Tax and business rates income in respect of 2020-21. The current estimate is that this could mean the Council receiving a total of around £350k, with £120k relating to Council Tax and £230k in respect of Business Rates lost. The actual value to the Council of the Local Tax Income Guarantee will not be known until after the Collection Fund accounts for 2020/21 are finalised and the relevant returns to Government are submitted. Whilst the compensation receipts are expected to be received in January 2022, as the compensation relates to activity in 2020/21 the calculated eligible amounts will be accounted for in the 2020/21 accounts. The benefit from the scheme will therefore be an increase in reserve balances at the start of the next financial year.
- 8.10. As a further response to the impact of the Covid-19 pandemic on Local Government finances, the Government has legislated that the repayment of the Business Rates and Council Tax Collection Fund deficits for 2020/21 be spread over three years from 2021/22, rather than full repayment in 2021/22 as would have been required under the previous legislation. In terms of the Council Tax Collection Fund, the estimated impact of the spreading on projected General Fund balances is shown in table 1 below, based on the current projection of the 2020/21 year-end position. In respect of the Business Rates Collection Fund, the Council funds annual deficits from grant held in an earmarked reserve. The spreading of the repayment of the deficit therefore simply changes the projected amounts required to be drawn down from the earmarked reserve over the next three years and hence has no impact on the funding estimates in table 1.

- 8.11. The above results in the following forecasts of funding for 2021/22 onwards. The forecasts in table 1 are shown for five years on the basis that the Council should be balancing net expenditure and funding within the medium-term:

Table 1 – Estimated General Funding

| £000 Funding | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|----------------|----------------|----------------|----------------|----------------|
| Council Tax | 11,862 | 12,252 | 12,501 | 12,751 | 13,005 |
| Council Tax Collection Fund Deficit | (77) | (54) | (54) | 0 | 0 |
| Negative RSG (or equivalent) | 0 | (1,159) | (1,182) | (1,206) | (1,230) |
| Business Rates baseline | 2,726 | 2,780 | 2,836 | 2,893 | 2,951 |
| Compensation for not increasing the Business Rates multiplier | 142 | 142 | 145 | 148 | 151 |
| New Homes Bonus | 392 | 131 | 0 | 0 | 0 |
| Lower Tier Services Grant | 116 | 0 | 0 | 0 | 0 |
| Council Tax support to Parishes | (39) | (23) | (23) | (23) | (23) |
| | 15,122 | 14,069 | 14,223 | 14,563 | 14,854 |
| Covid-19: Emergency Grant Funding | 558 | 0 | 0 | 0 | 0 |
| Covid-19: Council Tax Support Grant | 230 | 0 | 0 | 0 | 0 |
| | 15,910 | 14,069 | 14,223 | 14,563 | 14,854 |
| <i>Additional funding if a £10 band D Council Tax increase was allowed (for 2021/22 only)</i> | 247 | 250 | 250 | 254 | 259 |
| Revised Total | 16,157 | 14,319 | 14,473 | 14,817 | 15,113 |

- 8.12. The Council also receives grants for specific purposes. Generally 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. These grant amounts are often uncertain, and reductions in the amount can result in spending pressures that would need to be met from the General Fund.

Table 2 – Forecasts in relation to Grant Income

| Grant | 2020/21 Amount £'000 | Expectation for 2021/22 |
|--|-----------------------------|---|
| Housing Benefit Subsidy | 24,340 | Initial estimate will be available late January 2021, so budget expectation for 2021/22 is based on the 2020/21 mid-year estimate of £24.340million. |
| Discretionary Housing Payments | 247 | An announcement is expected in January 2021. Expectation is that the grant level will be similar to 2020/21. |
| Benefits Administration and Fraud Initiative | 419 | Notification of a Housing Benefit Administration grant of £274k was received in January. Council Tax administration grant is still to be announced. The expectation is that the grant amount will be similar to 2020/21, meaning a total for next year of around £400k. |
| Section 31 Grants | 10,877 | These grants compensate the Council for the impact of Business Rate reliefs and caps (which create a deficit on the Collection Fund). Values for next year will be determined by MHCLG after submission of the business rates return in January. Based on the estimates provided for the assessment of Business Rates Pooling options next year, LG Futures have calculated an estimate of S31 reliefs for 2021/22 of £2.282million |

| Grant | 2020/21 Amount £'000 | Expectation for 2021/22 |
|--|-------------------------|--|
| NNDR Administration Grant | 175 | The cost of collection will not be known until the central government return for business rates is finalised in January 2021. Assuming a similar level to the 2020/21 total of £175k. |
| Healthy Hub Grant | 40 | Hertfordshire County Council are providing total funding of £100k for a two year Healthy Hub project. £40k is projected to be drawn down this year and a further £40k is anticipated in 2021/22 |
| Syrian refugee resettlement grant | 190 | There are no new families expected in 2021/22, so the grant funding next year will be to support existing families living in the District. Estimated to be £127k. |
| Flexible homelessness support grant | 173 | MHCLG announced in December that the two grants would be replaced by a new Homelessness Prevention Grant for 2021/22, with NHDC receiving a grant allocation of £340k. |
| Homelessness Reduction Grant | 84 | |
| Waste minimisation – HCC contribution via the Alternate Financial Model. | 572 | While some reduction was expected in 2021/22 (as detailed in PE3 in Appendix B), the Covid-19 pandemic has impacted on the Council's recycling performance during 2020/21 to the extent that the Council's eligible share is projected by HCC to be zero in 2021/22, compared to the budget assumption of £481k. While £122k of the £481k total expected was earmarked for waste awareness activities, the remaining £359k had been anticipated as a contribution to the cost of Waste Services. The resulting pressure is itemised in Appendix B and is included in the calculation of the net budget estimate in Appendix C. |
| Total Revenue Grants | 36,545 | |

Business Rates and Council Tax Collection Funds

- 8.13. 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.
- 8.14. 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.
- 8.15. It is currently forecast (at the end of month 8) that the Council Tax collection fund will have a 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 £185k. A contribution from the General Fund to the Collection Fund is therefore required to make up the shortfall. £23k of the projected deficit relates to the deterioration in the position in the

final quarter of 2019/20 and this amount will be repaid in 2021/22. The repayment of the remainder (£162k) will now be spread over the next three years.

The contribution required from the General Fund therefore reduces the total funding amount available in each of the next three years, as shown in table 1 above and appendix C. The compensation received from the Local Tax Guarantee will increase the funding reported for 2020/21 and therefore increase the General Fund balance available at the start of 2021/22.

- 8.16. The current forecast for the Business Rates collection fund is that there will be a deficit at the end of the year, of which the NHDC share will be around £8m. Much of the deficit is due to the additional business rate reliefs introduced by government in response to the Covid-19 pandemic. NHDC has received compensation in this financial year from Government, in the form of section 31 Grants, for the impact of the additional reliefs introduced, as detailed in table 2 above. The element of the deficit relating to the additional reliefs is still required to be repaid in full in the following financial year. The section 31 grant amounts received this year have therefore been transferred to an earmarked reserve for this purpose.
- 8.17. As highlighted in the funding section above, the repayment of the element of the business rates deficit for 2020/21 relating to lost business rates income in the year, as a result of business closures etc., will now be spread over the next three financial years. The current estimate is that the NHDC share of the lost rates income will be around £300k. The repayment over the next three years will be funded from the grant held in an earmarked reserve. The introduction of the Local Tax Income guarantee will also mean that the Council receives additional section 31 grant, accounted for in the current year, equivalent to 75% of this amount (based on current estimate, approximately £230k). This amount will be added to the reserve and used to fund the repayment of the deficit.
- 8.18. A Business Rates Pool application for 2021/22 has been accepted for Hertfordshire County Council and five other Districts (including North Hertfordshire). As detailed in the Business Rates Pooling 2021/22 report presented to Cabinet in October, the Pool has been formed with the expectation that this will reduce the business rates levy amount otherwise payable at the end of next year, as has been the case in prior years. The initial estimate was a reduction in levy of around £400k. The achievement of this pooling gain next year is however not guaranteed and will be dependent on the actual value of business rates collected in the year. As the levy payable will be funded from grant held in reserve, any pooling gain that does materialise next year will not increase the General Fund balance, but instead reduce the drawdown on the grant held in reserve. The Council (and other Local Authorities in the Pool) have until mid-January to determine if they want to continue with the planned pooling arrangement.

Review of balances and reserves

- 8.19. 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.

8.20. A full list of specific reserves and estimated balances is shown in table 3 below.

Table 3 – Specific Reserves

| Name of Reserve | Purpose of Reserve | Balance at 1 April 2020 | Estimated Balance at 31 March 2021 | Estimated Balance at 31 March 2022 |
|--------------------------------|--|--------------------------------|---|---|
| Funding Equalisation Reserve | Where anticipated annual revenue funding has exceeded estimated net expenditure, the Council has opted to contribute the surplus amount to the Funding Equalisation Reserve, rather than raise Council Tax by less than the maximum amount allowed. The reserve balance will now be used to mitigate the impact on the General Fund of pressures anticipated for next year. | 68 | 397 | 0 |
| 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. | 167 | 167 | 167 |
| Childrens Services Reserve | Used to help fund Active Communities projects in the district funded from grant income and/or external contributions. Expected to be fully utilised next year. | 57 | 49 | 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. | 26 | 22 | 17 |
| Growth Area Fund Reserve | Holds the revenue grant awarded. To be used once the Local Plan is in place. | 53 | 53 | 53 |
| Homelessness Grants Reserve | To help prevent homelessness in the district. The entire grant is earmarked for different homelessness projects or resources. | 413 | 461 | 323 |
| 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. | 1,091 | 1,489 | Unknown |
| Information Technology Reserve | To ensure the Authority has adequate resources to purchase hardware and software items when they are required. Reserve balance now committed to fund a Uniform software upgrade with improved functionality. | 78 | 35 | 0 |
| 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 |

| Name of Reserve | Purpose of Reserve | Balance at 1 April 2020 | Estimated Balance at 31 March 2021 | Estimated Balance at 31 March 2022 |
|--|--|-------------------------|------------------------------------|------------------------------------|
| Land Charges Reserve | Reserve originally established to help meet the 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. | 94 | 65 | 36 |
| Leisure Management Maintenance Reserve | To cover the cost of any future significant 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. | 77 | 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 in 2020/21. In 2019/20 participation in the Business Rates Pilot resulted in total business rates related income (including pilot gain and s31 grant receipts) of £5.2m, exceeding the original budget amount of £2.7m by £2.5m, and reduced the draw down required on this reserve, resulting in a net contribution to this reserve in 2019/20 of £1.9m. It is considered that £2.5m can be released from the reserve and used to cushion the impact on the General Fund of the anticipated funding shortfall from 2022/23, as shown in Appendix C. | 3,741 | 13,896 | 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. | 13 | Unknown | Unknown |
| Neighbourhood Plan Reserve | Funds received for neighbourhood Plans from the MHCLG 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. | 78 | 78 | 78 |
| 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 | Unknown | Unknown |
| S106 Monitoring Reserve | To cover the cost of monitoring s106 obligations in future years. Ring-fenced. Future balances are unknown as not known what new funding will be received. | 19 | Unknown | Unknown |
| Special Reserve | This reserve is 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, support the response to and reduce the impact of major incidents and other financial pressures. As detailed in the Covid-19 Financial Impacts report (on the Council agenda in September 2020) the Special Reserve will be released in to General Fund balances. The balance of £716k will be transferred in 2022/23. | 1,175 | 821 | 716 |
| Street Name Plates | To fund Street Name Plates as and when required. To maintain until Local Plan is adopted and then review. | 16 | Unknown | Unknown |

| Name of Reserve | Purpose of Reserve | Balance at 1 April 2020 | Estimated Balance at 31 March 2021 | Estimated Balance at 31 March 2022 |
|-------------------------------|--|-------------------------|------------------------------------|------------------------------------|
| Syrian Refugee Project | The council has agreed to house 50 Syrian Refugees 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. | 272 | 458 | 585 |
| 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. | 15 | 13 | 11 |
| Town Centre Maintenance | For the implementation of the Town Wide Reviews and ad hoc town centre maintenance. | 53 | 61 | 69 |
| 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. | 346 | 346 | 346 |
| Waste Reserve | AFM monies are transferred to help mitigate any potential risk to the waste service. | 730 | 749 | 749 |
| 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. | 554 | 913 | 1,340 |
| 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. | 185 | 134 | Unknown |

8.21. As at the 31 March 2020 there was a total of £882k held as provisions. These are comprised of:

- Business Rates appeals - £842k - the NHDC estimated share of outstanding business rates appeals
- Insurance - £40k - covers the uninsured aspect of outstanding insurance claims.

8.22. 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 £16million, this means a minimum balance of about £800k. 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 £11.2m and therefore an additional allowance of £335k will be added. Furthermore, a significant proportion of Council expenditure, approximately £10m per annum, is for goods and services procured via contract. Considering the potentially significant, but still unknown, impact of Brexit and / or Covid-19 on contract prices for outsourced goods and services, it would be prudent to incorporate 5% of this expenditure in the minimum balance calculation. Therefore £500k will also be added to the minimum level. This minimum figure represents the cushion against 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.

- 8.23. 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 2021/22

| Category | Number of Risks | Forecast Value of Impact (£000) | Risk Allowance (£000) |
|-----------------|------------------------|--|------------------------------|
| Low | 17 | 5,368 | 0 |
| Medium | 17 | 3,075 | 768 |
| High | 17 | 2,665 | 1,333 |
| Total | 51 | 11,108 | 2,101 |

- 8.24. Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £3.7million should be maintained. This is what is recommended by the s151 Officer (Chief Finance Officer).

Expenditure Forecasts

- 8.25. The starting point for forecasting net expenditure for future years is the previous year's budget, as set in February 2020. The budget adjustments identified subsequently are itemised in Appendix B, including those changes recommended following the budget review undertaken at the end of November, details of which are included in table 5 below.
- 8.26. Table 5 provides explanations for the variances identified at the end of November 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 5- Summary of forecast variances (amounts £000)

| Budget Area | Current Working Budget | Forecast Outturn | Variance | Explanation for variance | Carry-Forward requested | 2021/22 Budget impact |
|-------------------------------------|-------------------------------|-------------------------|-----------------|---|--------------------------------|------------------------------|
| Court Summons Income | (102) | (41) | +61 | Due to the timing of the national lockdown in November, no further action was taken to recover unpaid Council Tax and Business Rates amounts after statutory reminder notices were issued in September. | 0 | 0 |
| Area Committee Grants | 72 | 59 | (13) | The underspend requested to be carried forward comprises £3.7k for Letchworth, £2k for Hitchin, £4.2k for Baldock and £3k 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. | 13 | 0 |
| Paper Recycling | | | | Ongoing trend of falling paper tonnages, with volumes collected in April to November 2020 22% less than the equivalent period in 2019. This is attributed to consumers switching from print media to digital media. The reduction in tonnages reduces the incentive income eligible from Hertfordshire County Council. | | |
| Income from sale of paper | (112) | (92) | +20 | | 0 | 20 |
| HCC Recycling Credit Income | (111) | (87) | +24 | | 0 | 24 |
| Total | (223) | (179) | +44 | | 0 | 44 |
| Electric Vehicle Charging | 35 | 20 | (15) | This budget was an investment bid to engage consultants to undertake a study to review and consider opportunities from Electric Vehicle Charging. Officers have prepared a Scoping Document and undertaken a consultation to define the extent of a Strategy and agreed action plan for adoption. Work on the Strategy was underway prior to the pandemic and will now continue into 21/22. The requested carry forward of the unspent budget will fund any specialist advice required. | 15 | 0 |
| Community Infrastructure Levy (CIL) | 87 | 0 | (87) | The publication of a government white paper is awaited prior to reporting on the review of the feasibility of introducing a CIL for residential sites. It is requested that the unspent budget is carried forward into 2021/22 to cover any costs arising from this review or its recommendations. | 87 | 0 |

| Budget Area | Current Working Budget | Forecast Outturn | Variance | Explanation for variance | Carry-Forward requested | 2021/22 Budget impact |
|---|------------------------|------------------|----------|--|-------------------------|-----------------------|
| Single Issue Local Plan Review | 52 | 12 | (40) | An investment bid was approved for the delivery of a single issue local plan review to incorporate any emerging Council priorities. However, due to the delay in the adoption of the local plan, this will be delayed until at the earliest 2021/22, hence the request for this budget to be carried forward into 2021/22. | 40 | 0 |
| Street names, lines and signs | 63 | 23 | (40) | Due to the national lockdowns planned works have been delayed and/or deferred. The unspent budget is requested to be carried forward to fund those works that will now be carried out in the next financial year. | 40 | 0 |
| Waste and Street Cleansing Contract | 5,236 | 5,191 | (45) | Application of the negative indexation rate of 0.89% to contract prices for services delivered in 2020/21. | 0 | (45) |
| Grounds Maintenance – Income from Services provided to settle | (199) | (171) | +28 | Reduction in income follows a dispute raised by settle in respect of the level of service received not meeting that outlined in the service level agreement in the first half of the year. A refund has now been agreed in respect of services in Quarter One, with discussions ongoing to resolve any residual issues. | 0 | 0 |
| Transport Users Forum | 50 | 3 | (47) | £50k of funding has been allocated to set up a Transport Users Forum. This Forum has now been set-up and requires minimal ongoing funding. The funding will therefore be used on initiatives that promote use of public transport in the District. Initiatives will only be funded where they provide value for money and are supported by the Forum. £3k of this funding will be spent in 2020/21 on a bus service amalgamation project, while the remainder is requested to be carried forward to 2021/22. | 47 | 0 |

| Budget Area | Current Working Budget | Forecast Outturn | Variance | Explanation for variance | Carry-Forward requested | 2021/22 Budget impact |
|-------------------------------------|------------------------|------------------|--------------|---|-------------------------|-----------------------|
| Support for Leisure Facilities | 992 | tbc | tbc | An update on the financial position of the Leisure Facilities will be presented to Council in January. The financial implications of recommendations approved by Council will be reflected here via an addendum report. This will ensure that the financial position, upon which the budget for 2021/22 will be approved in February, is as accurate as possible. | | |
| Hitchin Market Management Contract | (24) | 0 | +24 | Cabinet approved an eight-month contract extension from August to the end of March 2021 at zero cost to the Council. The proposal presented to Cabinet is for the cost neutral arrangement with Hitchin Market Ltd to continue into the next financial year (and potentially beyond). | 0 | 28 |
| Total of Explained Variances | 6,039 | 5,909 | (130) | | 242 | 27 |
| Other Minor Variances | 13,291 | 13,292 | +1 | | 0 | (2) |
| Total General Fund | 19,330 | 19,201 | (129) | | 242 | 25 |

8.27. Budget proposals were put forward for discussion at Group workshops in November. Comments on the proposals made by the Groups were outlined in the draft budget report presented at the December meeting of Cabinet. The lists of savings and investments proposals is attached at appendix B.

8.28. Appendix B to this report includes two changes to those proposals agreed by Cabinet at the December meeting. The first relates to anticipated investment interest income. An additional pressure (R11) has been added to the list, with the budgeted level of interest income over the period revised in line with the returns detailed in the Investment Strategy (Capital and Treasury Combined) for 2021-31. The second is a revision to the timing of the biannual investment (PI2) for the local housing market analysis, as this will not now be undertaken in 2021/22 as originally planned.

Revenue effects of capital

8.29. 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. For capital spend that is line with the property acquisition and development strategy, no income generation or borrowing costs are assumed. This is considered to be a prudent approach in the absence of any specific opportunities at this stage, as the initial income generation would be required to exceed any borrowing costs

Reliability of estimates

- 8.30. 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.
- 8.31. In addition to those factors already highlighted in this report that may affect estimates, a further significant area of uncertainty is in relation to pay inflation, which has been assumed to be 2.25% across the period. This assumption is in line with the majority of Councils, and the allowances made are a factor in where the negotiations will end up. The Chancellor however announced a public sector pay freeze in the November Spending Review. This does not directly apply to Local Government pay but may be considered as part of pay negotiations. The pay awards that the Council actually pays will be unchanged by this, as they would still be based on the results of national pay bargaining.
- 8.32. The impact of Covid-19 remains a significant uncertainty. The funding towards expenditure pressures and the Council Tax support grant have been incorporated in to the budget. No significant expenditure pressures in relation to Covid-19 have been assumed. The decision made by Full Council in January will result in an update to this budget to reflect the expected cost of supporting leisure provision in both the current year and 2021/22. It is currently assumed that income levels will return to normal by 202/23, but there is a risk that they will not. The unknown duration of the current period of restrictions makes it very difficult to estimate the impact on key income sources (e.g. parking) in 2020/21 and 2021/22. Following the previous easing of restrictions, parking income has bounced back towards normal levels quite quickly. The commitment from Government to Sales, Fees and Charges compensation also mitigates the majority of the financial pressure. The most significant issue will be if income levels do not substantially recover before the end of June, and the compensation scheme is not extended. There are also income sources (e.g. garden waste charges) that are not covered by the income compensation scheme. Overall it is very difficult to forecast and the increased minimum level of General Fund Balance highlights the need to create a cushion to protect from this uncertainty.
- 8.33. Overall it is considered by the Chief Finance Officer that the estimates made are as reliable as they reasonably can be. They will be subject to risk and this is the reason for setting a minimum General Fund balance and carrying out budget monitoring throughout the year.

Cumulative impact

- 8.34. The cumulative impact of all the estimates described in the previous sections is provided at Appendix C. This shows a forecast of funding and net expenditure for the next five years, including the impact on the General Fund balance. Appendix D is also provided to provide a summary in the event that a £10 Council Tax increase (band D equivalent) is allowed without the need for a referendum.
- 8.35. Appendix C also includes a forecast of the remaining savings that the Council still needs to deliver by 2025/26. Savings totalling £2m are estimated to be required in order for the Council to balance income and expenditure by the end of the period. Furthermore, with the proposed phasing of these savings, there would be a need to use more than £4m of reserves. These amounts could also be significantly affected by future changes to Local Government funding, with the introduction of the fairer funding formula and a proposed business rates reset potentially from 2022/23, ongoing impacts on expenditure and income from the Covid-19 pandemic, while they are also dependent on the successful delivery of the efficiencies identified in Appendix B. Appendix D shows that in the event of a £10 Council Tax (band D equivalent) increase for 2021/22, the savings that will need to be identified and delivered will be reduced to £1.75m. The use of reserves will reduce to around £3.5m.
- 8.36. This level of savings still required to be identified assumes that the Council will continue to increase Council Tax at the maximum level permitted without the need for a referendum. Any increase in Council Tax below this level would further increase the savings required to balance the budget over the period and require greater drawdown on reserves. As shown in Appendix C and D a deficit is anticipated for 2021/22 (before use of reserve balances). The proposal is therefore that Council Tax should be increased by the maximum allowed.
- 8.37. In response to the significant challenges indicated in this report, a budget review/ challenge process has been started. This will highlight opportunities for savings (including efficiencies, service changes and income generation) in future years. Some of those opportunities will need to be taken forward in advance of next year's budget e.g. where they primarily relate to efficiencies. For the majority of those savings, which relate to service changes, these will need to be prioritised so that they can start to be developed and included in next year's budget. This will demonstrate that, whilst the exact value of the savings that the Council needs to deliver is unknown, the Council is committed to the work and decisions that will need to be taken in the medium-term. As set out in the Medium Term Financial Strategy it is expected that the Council will adopt a phased approach to balancing savings, and achieve an in-year balanced budget by 2025/26. Reserves will be used to balance the budget in intervening years.

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 and the council tax base. 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. These are covered 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. 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” policy do not apply to this report.

14. ENVIRONMENTAL IMPLICATIONS

14.1. There are no known Environmental impacts or requirements that apply to this report.

15. HUMAN RESOURCE IMPLICATIONS

15.1. Although there are no direct human resource implications at this stage, care is taken to ensure that where efficiency proposals or service reviews may affect staff, appropriate communication and consultation is provided in line with HR policy.

16. APPENDICES

16.1. Appendix A – Financial Risks 2021/22

16.2. Appendix B – Revenue Budget Savings and Investments

16.3. Appendix C – Budget Summary 2021 – 2026

16.4. Appendix D – Budget Summary 2021 – 2026 (£10 Council Tax increase 2021/22)

17. CONTACT OFFICERS

- 17.1. Ian Couper, Service Director – Resources
ian.couper@north-herts.gov.uk; ext 4243
- 17.2. Antonio Ciampa, Accountancy Manager
antonio.ciampa@north-herts.gov.uk; ext 4566
- 17.3. Jo Keshishian, Acting Human Resources Services Manager
Jo.Keshishian@north-herts.gov.uk; ext 4314
- 17.4. Isabelle Alajooz, Legal Commercial Team Manager and Deputy Monitoring Officer
isabelle.alajooz@north-herts.gov.uk; ext 4346
- 17.5. Reuben Ayavoo, Policy and Community Engagement Manager
reuben.ayavoo@north-herts.gov.uk; ext 4212

18. BACKGROUND PAPERS

- 18.1. None.

This page is intentionally left blank