

FINANCE, AUDIT & RISK COMMITTEE

18 DECEMBER 2017

***PART 1 – PUBLIC DOCUMENT**

AGENDA ITEM No.

8

The following is the report to be considered by the Cabinet at its meeting to be held on 21 November 2017. The Committee is invited to comment on the report.

TITLE OF REPORT: DRAFT BUDGET 2018/2019

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To consider the draft budget for 2018/19 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level. To recommend the appropriate level of Council Tax to the meeting of the Council on the 8 February 2018.
- 1.2 To consider the key factors, both of known and unknown amount, which could impact on NHDC finances within the period of the medium term financial strategy (2018-23).

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the expected Central Government funding levels, but that New Homes Bonus could be significantly affected by changes to the way that it is calculated.
- 2.2 That Cabinet notes the estimated position on the Collection Fund and how this will be funded.
- 2.3 That Cabinet provides a view on the appropriate level of Council Tax for 2018/19.
- 2.4 That Cabinet notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £1.76 million is recommended.
- 2.5 That Cabinet comments on the proposal that any revenue savings arising from the capitalisation of waste vehicle costs are transferred to a specific reserve.
- 2.6 That Cabinet notes and comments on the inclusion of the savings and investment proposals in the draft budget.
- 2.7 That Cabinet notes and comments on the inclusion of the capital investment proposals.
- 2.8 That Cabinet comments on the proposal that Council's efficiency plan is not updated.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure that all relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2018/19.
- 3.2 To ensure that the Cabinet recommends a balanced budget to Council on 8 February 2018.

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 funding gap that needs to be met over 4 years. This means that currently there are not any alternative options available.

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 The Cabinet will consult on the proposals in this report with the Business Rate Payers Group in January 2018. This is the only statutory consultation that is required.
- 5.3 If any 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 decision that was first notified to the public in the Forward Plan on the 28th July 2017.

7. BACKGROUND

- 7.1 The Medium Term Financial Strategy (MTFS), which provides the financial background to the Corporate Business Planning process for 2018-2023, was adopted by Full Council on the 31 August 2017 following recommendation by Cabinet.
- 7.2 The MTFS included a number of assumptions, which will be updated as better information becomes available. The final budget will still contain 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, NHDC 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, over £6 million since 2011/12. This means that the opportunity for savings from reducing resources and staffing levels is getting more limited. Instead the focus is now on service transformation, joint working, making best use of capital assets and justifying delivery of services above statutory levels.
- 7.5 NHDC's funding is split between revenue (i.e. the day-to-day running costs) and capital (i.e. creating and improving assets). The general rule is that capital funding can not be

used for revenue expenditure. However in the 2015 Spending Review, the Chancellor announced the “flexible use of Capital Receipts direction”. Subject to certain conditions this allows Local Authorities to use Capital Receipts to fund the revenue costs of reform projects.

8. RELEVANT CONSIDERATIONS

8.1 Central Government funding

8.1.1 On the 22 November 2017, the Chancellor made his Budget Statement. This Budget Statement, which has now moved to November, replaces the previous Autumn Statement. The Budget included an update on the current state of public finances and the latest economic forecasts. None of the announcements had a significant specific impact on NHDC funding.

8.1.2 The current estimates of non-specific Central Government funding are detailed in table 1 below. The totals are the same as the forecasts included in the August report to Council.

Table 1: Estimated Central Government Funding (All amounts in £ millions)

2017/18		2018/19	2019/20	2020/21	2021/22
0	Revenue Support Grant	0	(1,070)	(1,125)	(1,159)
140	Transitional Funding	0	0	0	0
2,557	Business Rates Baseline (share income less tariff)	2,628	2,721	2,803	2,887
2,697	Funding Assessment	2,628	1,651	1,678	1,728
1,992	New Homes Bonus	1,265	1,119	1,252	1,252
4,689	Total non-specific funding	3,893	2,770	2,930	2,980
	Change on previous year	(796)	(1,123)	160	50

8.1.3 The Provisional Local Government Finance Settlement is expected to be announced during week commencing 11th December. It is expected that this will include the following:

- An announcement on those Authorities that have been successful in applying to form a Business Rates pilot. As highlighted in the report to Cabinet on 26th September 2017, this could lead to significant one-off gains for the Council. However there is an expectation that a proportion of any gains are used to fund investments in growth. The proportion that is used to support the General Fund will be one-off only and so therefore does not have a significant impact on the medium term financial planning of the Council.
- Last year there were changes to the way that New Homes Bonus was provided, resulting in a reduction in funding that the Council would receive. Part of this was the introduction of a dead-weight, where only housing growth above a certain level would receive any funding. The Department for Communities and Local Government (DCLG) are able to make changes to this dead-weight level. If the percentage is increased the amount of funding that the Council receives will drop further. There has also been a consultation this year on other ways that the scheme could change (e.g. not rewarding Councils for housing increases that are only granted on appeal).

8.1.4 Cabinet is asked in Recommendation 2.1 to note the expected Central Government funding levels, but that New Homes Bonus could be affected by further changes to the way that it is calculated.

8.1.5 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 amounts are uncertain. Therefore any reductions in the amounts received are likely to create a spending pressure that would need to be met from general base budget funding.

Table 2: Forecasts in relation to Specific Government Grants

	2017/18 amount expected £'000	Expectation for 2018/19
Housing Benefit Subsidy	33,361	Initial Estimate will be available late January 2018, so current budget level in 2018/19 will be based on the 2017/18 mid year estimate - £33,361k
Discretionary Housing Payments	283	Not expecting announcement until January 2018, however expectations are that the grant level will be similar to 2017/18 so £283k.
Benefits Administration and Fraud Initiative	513	The announcement for the grants will be made in December. However expectation is that there will be at least a 5% reduction in both, plus an additional adjustment for universal credit. Assume 5% reduction on 17/18 grant = £487k
Section 31 Grants to reimburse the impact of Business Rate reliefs and caps.	810	The amount received in 2018/19 will depend on the changes announced in the budget in November 2018. However expectation is that the level of grant will be similar to 2017/18. A second discretionary scheme has been set up to help mitigate the effects on businesses from the 2017 revaluation. The Council will receive £77,500 in S31 grant in 2018/19 for this scheme.
Waste minimisation – HCC contribution via the Alternate Financial Model.	391	While the total funding 'pot' is planned to reduce the actual AFM funding received depends on the annual recycling performance of NHDC relative to the corresponding performance of the other Hertfordshire waste collection authorities.
NNDR Administration Grant	184	Will not know the cost of collection until the NNDR1 is completed in January 2018. Assume similar level to 2017/18 of £180k.
Flexible homelessness support grant	124	Allocation of £141k
Syrian refugee resettlement grant	125	Estimated to be £125k based on North Herts quota of 10 families per year. There is a set allocation per family member.

	2017/18 amount expected £'000	Expectation for 2018/19
Homelessness Reduction Act - New Burdens Funding.	35	Allocation of £32k in 2018/19 (£37k in 2019/20)
Total Revenue Grants	35,826	

8.2 Council Tax and Business Rates

- 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. 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. The section 31 grant that NHDC receives for business rate reliefs and caps will be used for this purpose (see table 2). It is expected that the Council Tax collection fund will have a small surplus.
- 8.2.4 **Cabinet is asked in recommendation 2.2 to note the estimated position on the Collection Fund and how this will be funded.**
- 8.2.5 Local Authorities are still able to raise Council Tax by the greater of 2% or £5 (band D equivalent) without the need for a local referendum. The Medium Term Financial Strategy (agreed by Council in August) proposed that the Council should increase Council Tax by as much as it is allowed to without triggering a referendum. Therefore a £5 increase is used to forecast future Council Tax income. Table 3 shows the level of Council Tax by year and the forecast level of income to the Council. Cabinet can recommend either a lower or higher rate of Council Tax increase to Full Council. Given the funding forecasts for the Council, a lower increase would require further savings to be delivered. A higher increase would require a local referendum. The growth in Council Tax Base is currently based on 1% growth per year, a more accurate estimate for 2018/19 will be provided in the report to Cabinet in January 2018.

Table 3: Forecasts of Council Tax level and income

2017/18		2018/19	2019/20	2020/21	2021/22
216.96	Band D Council Tax (£), increasing at £5 per year	221.96	226.96	231.96	236.96
	Increase as a %	2.3%	2.3%	2.2%	2.2%
48,649	Estimated Council Tax Base	49,135	49,627	50,123	50,624
	Increase as a %	1%	1%	1%	1%
10.555	Council Tax income to NHDC (£m)	10.906	11.263	11.626	11.996

- 8.2.6 It should be noted that this only represents the District Council element of the Council Tax bill for households. Table 4 below shows the constituent elements of the 2017/18 Council Tax bill for a Band D property (excluding any Parish precept).

Table 4: Band D Council Tax 2017/18 (excluding Parish precepts)

	2017/18	Share of bill
	£	
District	216.96	13%
County Council	1,187.41	74%
County Council-Social Care Precept	58.42	4%
Police and Crime Commissioner	152.00	9%
Total	1,614.79	

- 8.2.7 **Cabinet is asked in recommendation 2.3 to provide a view on the appropriate level of Council Tax for 2018/19.**

8.3 Balances and Reserves

- 8.3.1 Before setting the budget, it is necessary to review the position of balances and 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.

- 8.3.2 A full list of specific reserves and forecast balances is shown in table 5.

Table 5: Specific Reserves

	Balance at 1 April 2017 £000	Forecast balance at 31 March 2018 £000
Cemetery Mausoleum	129	129
Children's Services	8	8
Climate Change Grant	30	30
Community Development	1	0
Community Right to Bid	45	45

	Balance at 1 April 2017 £000	Forecast balance at 31 March 2018 £000
DCLG Grants	489	519
DWP Additional Grants	3	113
Environmental Warranty Reserve	209	209
Growth Area Fund	53	53
Homelessness	42	33
Housing Planning Delivery Reserve	368	366
Information Technology Reserve	82	82
Insurance Reserve	32	34
Leisure Management Reserve	89	89
Local Authority Mortgage Scheme	107	0
Museum Exhibits Reserve	13	13
Neighbourhood Plan Reserve	21	21
Office Move IT Works	7	7
Paintings Conservation	11	11
Personal Search Fees	161	159
Property Maintenance	67	77
Syrian Refugee Project	19	19
S106 Monitoring	68	52
Special Reserve	1,720	1,720
Street Furniture	10	14
Street Name Plates	38	17
Taxi Licences Reserve	13	13
Town Centre Maintenance	39	47
Town Wide Review	222	256
Waste Reserve	513	528
Total Specific Reserves	4,609	4,664

8.3.3 As at the 31 March 2017 there was a total of £966k held as provisions. These comprised of:

- Business Rates appeals- the NHDC share of outstanding business rates appeals. This makes up £928k of the total.
- Insurance- covers the uninsured aspect of outstanding insurance claims

8.3.4 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 £14.6 million, this means a minimum balance of about £730k. The minimum figure represents the cushion against totally unforeseen items. When setting the level of balances for any particular year, known risks which are not being budgeted for should be added to this figure, according to risk likelihood.

8.3.5 An assessment of the risks has been compiled for the coming year based on risks identified by each Head of Service/ Corporate Manager 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 6 summarises the risks, the forecast impact and the risk allowance to be made.

Table 6: Budget risks 2017/18

Category	Number of risks	Forecast value of impact £000	Risk Allowance £000
High	10	990	495
Medium	26	2,135	534
Low	21	3,099	0
Total	57	6,224	1,029

8.3.6 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £1.76 million should be maintained.

8.3.7 Cabinet is asked in recommendation 2.4 to note the position relating to the General Fund balance and that due to the risks identified a minimum balance of £1.76 million is recommended.

8.4 Savings and Investment Proposals

8.4.1 The Medium Term Financial Strategy highlighted the need to find at least 4.2 million of savings within 4 years. Furthermore, with the expected phasing of these savings, there would be a need to use £3.8 million of reserves.

8.4.2 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 are included as appendix D.

8.4.3 Updates since the workshop are as follows:

- The structure of the shared waste client team has been finalised, resulting in additional forecast savings for the Council of **£60k** in 2018/19 (and **£120k** from 2019/20 onwards).
- The waste lot 2 contract (materials processing) has not yet been awarded, so the expected financial impact can not yet be fully determined. This was shown as 'tbc' in the information presented to the budget workshops.
- It is likely that an element of the waste contract should be treated as a capital cost. This relates to the Councils making substantial use of the vehicles that are embedded within the contract. Under accounting regulations there is a requirement for these costs to be capitalised, which means that they are funded from capital expenditure and there is therefore a corresponding decrease in revenue spend. Given the forecast shortage of capital funds in the future it is proposed that these savings are transferred to a specific reserve. This reserve can then be used to fund the purchase of vehicles when they next need to be replaced. This is expected to be in 7 years when these vehicles reach the end of their useful life. The information presented to budget workshops did not assume any revenue savings in respect of this.

8.4.4 Cabinet is asked at recommendation 2.5 to comment on the proposal that any revenue savings arising from the capitalisation of waste vehicle costs are transferred to a specific reserve.

- 8.4.5 The net total of all the savings and investments identified is shown in table 7 below. If any savings are rejected then this will add to the remaining savings that need to be identified.

**Table 7: Savings and investments presented against target
(All amounts in £000)**

	2017/18	2018/19	2019/20	2020/21	Total
Target minimum savings	1,791	691	919	750	4,151
Less: Investment budget assumed within MTFS	-150	-150	-150	-150	
Add: Investments reported to Budget Workshops (and estimated from 2018/19)	147	150	150	150	
Less: Savings reported to Budget Workshops (previously agreed)	-378	45	-152	0	-485
Less: Savings reported to Budget Workshops (new)	-2,288	-493	-61	-50	-2,892
Less: Shared Waste client team savings	-60	-60	0	0	-120
Remaining Savings to be identified (positive total means more savings need to be found)	-938	183	706	700	651
Cumulative remaining Savings to be identified (positive total means more savings need to be found)	-938	-755	-49	651	

- 8.4.6 An application was made at the end of 2016/17 to the Department for Communities and Local Government (DCLG) for the capitalisation of a lump sum payment to the pension fund. This request was not granted and therefore the table above does not include the revenue savings that could result from this.

8.4.7 Cabinet is asked at recommendation 2.6 to note and comment on the inclusion of the savings and investment proposals in the draft budget.

8.5 Capital programme and funding

- 8.5.1 This version of the budget does not include the full capital programme.
- 8.5.2 The Budget proposals that were put forward for discussion at Group workshops in November also included the full proposed capital programme for 2018/19 onwards. The comments made by the Groups are included as appendix E.
- 8.5.3 As referenced in paragraph 7.5, there are generally separate funding sources for Revenue and Capital. Where possible, external funding sources are sought for capital projects (e.g. developer contributions and grants), but the majority of the capital programme is funded from capital reserves. These reserves are made up of set-aside and capital receipts, and totalled £19.86 million at the start of 2017/18. Set-aside receipts are the amounts that NHDC received from the stock transfer of housing to North Herts Homes. Capital receipts are amounts that NHDC receive when it sells surplus assets. By the end of 2017/18 it is expected that total capital reserves will fall to around £7 million. Based on the proposed capital programme, the Council will be reliant on generating further capital receipts from the sale of surplus land.

8.5.4 Cabinet is asked at recommendation 2.7 to note and comment on the inclusion of the capital investment proposals.

8.6 Efficiency/ Sustainability plan

8.6.1 The Council submitted an efficiency plan to the DCLG in autumn 2016. This provided some additional certainty over Central Government funding (excluding New Homes Bonus) for the period up to 2019/20. The plan incorporated the Corporate Plan and Medium Term Financial Strategy at the time. It is proposed that this plan is not updated for the following reasons:

- There is no requirement from the DCLG to submit an updated plan.
- The period of certainty over grant funding has not been extended.
- There have not been any significant changes to the Corporate Plan or Medium Term Financial Strategy.

8.6.2 Cabinet is asked at recommendation 2.8 to comment on the proposal that the Council's efficiency plan is not updated.

8.7 Overall summary

8.7.1 Appendix A provides a summary of the forecast General Fund impact of the factors referenced in the previous sections of this report.

9. LEGAL IMPLICATIONS

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

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 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 in relation to the expected changes to how the New Homes Bonus Scheme operates. More detail may be available prior to finalising the budget in early 2018.

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, although proposals relating to the staff, their terms and conditions or future employment will need to be subject to individual equality analysis in due course, as for any organisational or service restructure.

12.4 For any individual proposal comprising either £50k growth or efficiency, or affecting more than two wards, an equality analysis is required to be carried out; this 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. HUMAN RESOURCE IMPLICATIONS

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

15. APPENDICES

15.1 Appendix A – Budget Summary 2018/19 – 2021/22.
Appendix B – Revenue Efficiencies and Investment proposals.
Appendix C – Capital Investment proposals.
Appendix D – Notes of November Member Workshops (Revenue Efficiencies and Investments).
Appendix E – Notes of November Member Workshops (Capital Programme).

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

17.1 Medium Term Financial Strategy 2018-23.

17.2 Sustainability Plan <http://www.north-herts.gov.uk/home/council-performance-and-data/budgets-and-spending/sustainability-plan-2016-20>