

# CABINET

## 23 JANUARY 2018

**\*PART 1 – PUBLIC DOCUMENT**

**AGENDA ITEM No.**

**8**

### **TITLE OF REPORT: DRAFT REVENUE 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.
- 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 £2.15 million is recommended.
- 2.5 That Cabinet approves the reduction in the 2017/18 working budget of £682k, and to note the expected impact in 2018/19 of a £82k reduction in budget.
- 2.6 That Cabinet notes and comments on the requests for the carry-forward of budgets that total £198k from 2017/18 to 2018/19.
- 2.7 That Cabinet approves the inclusion of the efficiencies and investment proposals at Appendix 2 in the General Fund budget estimates for 2018/19.
- 2.8 That Cabinet makes recommendations to Council on any changes to previous efficiencies.
- 2.9 That Cabinet notes the proposal that any revenue savings arising from the capitalisation of waste vehicle costs are transferred to a specific reserve.

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| <p>2.10 That Cabinet notes the savings target in future years.</p> <p>2.11 That Cabinet notes the estimated 2018/19 net expenditure of £14.6m, as detailed in appendix 1, and recommends this budget to Council.</p> |
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### **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 28<sup>th</sup> 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.
- 8.1.2 The main change announced in the provisional settlement (announced on 19 December 2017) related to Council Tax flexibility (see 8.2.5 below).
- 8.1.3 It was also announced in the provisional settlement that there will be no changes to the way that New Homes Bonus is calculated for 2018/19. It was expected that there could either be a change in the baseline or that new homes built on appeal would be excluded from the bonus calculation. As a result the Council’s provisional allocation for 2018/19 has been confirmed as £1.264 million.
- 8.1.4 Furthermore, it was announced that the Department for Communities and Local Government would look at “fair and affordable” options for dealing with negative Revenue Support Grant (RSG). There will be an announcement on this in the spring. The negative RSG is an additional amount of Business Rates that the Council has to pay to Central Government, and is currently expected to be £1.07 million in 2019/20. It is very unlikely that all negative RSG amounts could be eliminated and this could be made affordable for Central Government, so current prudent assumptions are that the negative RSG will continue.
- 8.1.5 The current estimates of non-specific Central Government funding are detailed in table 1 below. The amounts in relation to Business Rates in 2018/19 and 2019/20 are as per the DCLG Settlement Funding Assessment, and it is then assumed that they will increase by 3% per year in the following 2 years. New Homes Bonus has been confirmed for 2018/19 and is estimated for the following 3 years.

**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            | (1,071)      | (1,103)      | (1,136)      |
| 140          | Transitional Funding                               | 0            | 0            | 0            | 0            |
| 2,557        | Business Rates Baseline (share income less tariff) | 2,622        | 2,680        | 2,761        | 2,844        |
| <b>2,697</b> | <b>Funding Assessment</b>                          | <b>2,622</b> | <b>1,609</b> | <b>1,658</b> | <b>1,708</b> |

|              |                                   |              |              |              |              |
|--------------|-----------------------------------|--------------|--------------|--------------|--------------|
| 1,992        | New Homes Bonus                   | 1,265        | 1,119        | 1,252        | 1,252        |
| <b>4,689</b> | <b>Total non-specific funding</b> | <b>3,887</b> | <b>2,728</b> | <b>2,910</b> | <b>2,960</b> |
|              |                                   |              |              |              |              |
|              | Change on previous year           | (802)        | (1,159)      | 182          | 50           |

8.1.6 Hertfordshire was unsuccessful in its application to become a Business Rates Pilot area for 2018/19. There may be an opportunity to apply again for 2019/20. Instead it is expected that North Hertfordshire will be part of a Hertfordshire Business Rates pool in 2018/19. This will be subject to a final assessment of the forecasts and risks across the applicant Authorities. As in previous years, whilst it is expected that there will be a financial benefit from being part of the pool, this will not be built in to the budget.

**8.1.7 Cabinet is asked in Recommendation 2.1 to note the expected Central Government funding levels.**

8.1.8 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**

|  | <b>2017/18 amount<br/>£'000</b> | <b>Expectation for 2018/19</b>   |
|--|---------------------------------|--|
| 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.  |

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

## **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 The main change announced in the provisional settlement was to allow Councils to increase their Council Tax by an additional 1% without the need for a local referendum in 2018/19 and 2019/20. This means that NHDC can raise its portion of the Council Tax by up to 3% (i.e. 2.99%). The Medium Term Financial Strategy agreed by Council in August stated that “the Council will continue to raise Council Tax by as much as it is allowed to without triggering a local referendum”. It is assumed that the maximum increase will revert to being 2% or £5 (band D equivalent) from 2020/21. The impact of this is shown in Table 3, along with a comparison with the previous assumption (i.e. a £5 increase in each year).

**Table 3: Council Tax forecasts**

| 2017/18 |   | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---------|---|---------|---------|---------|---------|
| 216.96  | Band D Council Tax (£), increasing at 2.99% in 2018/19, and then £5 per year from 2019/20 | 223.45  | 230.13  | 235.13  | 240.13  |
|         | Increase as a %   | 2.99%   | 2.99%   | 2.17%   | 2.12%   |
| 48,649  | Estimated Council Tax Base  | 49,119  | 49,610  | 50,106  | 50,607  |
|         | Increase as a %   | 1%      | 1%      | 1%      | 1%      |
| 10.555  | Council Tax income to NHDC (£m)   | 10.976  | 11.417  | 11.782  | 12.152  |
|         |   |         |         |         |         |
| 216.96  | Band D Council Tax (£), increasing at £5 per year   | 221.96  | 226.96  | 231.96  | 236.96  |
|         | Increase as a %   | 2.30%   | 2.25%   | 2.20%   | 2.16%   |
| 10.555  | Council Tax income to NHDC (£m)   | 10.902  | 11.259  | 11.623  | 11.992  |
|         |   |         |         |         |         |
| 0       | Additional Council Tax income (£000)  | 74      | 158     | 159     | 160     |

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). The additional flexibility 1% also applies to County Councils, who can also increase their Social Care precept in line with previously announced limits. Police and Crime commissioners are able to increase their precept in 2018/19 by up to £12.

**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%            |
| <b>Total</b>                       | <b>1,614.79</b> |               |

**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**

|                                   | <b>Balance at 1 April<br/>2017<br/>£000</b> | <b>Forecast balance<br/>at 31 March 2018<br/>£000</b> |
|-----------------------------------|---|---|
| Cemetery Mausoleum                | 129   | 129   |
| Children's Services               | 8   | 8   |
| Climate Change Grant              | 30  | 30  |
| Community Development             | 1   | 0   |
| Community Right to Bid            | 45  | 45  |
| DCLG Grants                       | 489   | 519   |
| DWP Additional Grants             | 3   | 143   |
| Environmental Warranty Reserve    | 209   | 209   |
| Growth Area Fund                  | 53  | 53  |
| Homelessness                      | 42  | 192   |
| Housing Planning Delivery Reserve | 368   | 367   |
| 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  | 111   |
| S106 Monitoring                   | 68  | 190   |
| Special Reserve                   | 1,720                                       | 1,720   |
| Street Furniture                  | 10  | 14  |
| Street Name Plates                | 38  | 17  |
| Taxi Licences Reserve             | 13  | 13  |
| Town Centre Maintenance           | 39  | 46  |
| Town Wide Review                  | 222   | 256   |
| Waste Reserve                     | 513   | 528   |
| <b>Total Specific Reserves</b>    | <b>4,609</b>                                | <b>5,083</b>  |

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. A full list of these risks is shown in Appendix C.

**Table 6: Budget risks 2017/18**

| <b>Category</b> | <b>Number of risks</b> | <b>Forecast value of impact<br/>£000</b> | <b>Risk Allowance<br/>£000</b> |
|-----------------|------------------------|--|--------------------------------|
| High            | 10                     | 1,780                                    | 890                            |
| Medium          | 26                     | 2,135                                    | 534                            |
| Low             | 20                     | 3,954                                    | 0                              |
| <b>Total</b>    | <b>56</b>              | <b>7,469</b>                             | <b>1,424</b>                   |

- 8.3.6 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £2.15 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 £2.15 million is recommended.**

#### **8.4 Month 8 (November) Budget Review**

- 8.4.1 A review of budgets as at the end of November has been carried out. Table 7 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 7- Summary of forecast variances**

| <b>Budget Area</b>  | <b>Working Budget<br/>£k</b> | <b>Forecast<br/>£k</b> | <b>Differen<br/>ce<br/>£k</b> | <b>Reason for difference</b>   | <b>Carry-<br/>forward<br/>requested<br/>£k</b> | <b>2018/19<br/>Impact<br/>£k</b> |
|---------------------|------------------------------|------------------------|-------------------------------|--|--|----------------------------------|
| Investment Interest | (320)                        | (444)                  | (124)                         | The interest received from the Local Authority Mortgage Scheme was being held in a reserve in case of default. This will now be transferred to the General Fund and covered by a financial risk. | 0  | (50)                             |



| Budget Area                                      | Working Budget<br>£k | Forecast<br>£k | Difference<br>£k | Reason for difference   | Carry-forward<br>requested<br>£k | 2018/19<br>Impact<br>£k |
|--|----------------------|----------------|------------------|---|----------------------------------|-------------------------|
|  |                      |                |                  | Due to the reprogramming of capital schemes during the year, the balances available for investment in 2018/19 are expected to be higher and therefore additional investment interest income is anticipated.   |                                  |                         |
| Apprenticeships                                  | 79                   | 1              | (78)             | Of the total apprentice budget of £144k, £78k has not been allocated. This reflects changes being made to the scheme to make best use of the apprentice levy and facilitate career development within the scheme.   | 0                                | 0                       |
| Vacancy Control<br>Target Savings                | 258                  | (394)          | (136)            | Over achievement due to posts being vacant during the year, with 20 posts expected to be held vacant for the remainder of the year.   | 0                                | 0                       |
| Off-street car<br>parking- RingGo                | (137)                | (169)          | (32)             | This is part of an ongoing increase in the number of people using this facility. This amount is net of the transaction fee collected that the Council passes on to the supplier.  | 0                                | 0                       |
| On-street parking-<br>Penalty Control<br>Notices | (350)                | (392)          | (42)             | Increase in the number issued. This will partly be due to having lower staff vacancy levels.  | 0                                | 0                       |
| Area Committee<br>Grants                         | 124                  | 64             | (60)             | This forecast underspend is due to fewer grant applications than anticipated being received and also represents grants awarded but not yet released pending evidence of certain criteria being met. It is requested that this is carried forward in to 2018/19.   | 60                               | 0                       |
| Planning<br>Application Income                   | (807)                | (944)          | (137)            | The progress of the Council's Local Plan through this financial year has resulted in an increase in planning applications.  | 0                                | 0                       |
| Planning Income-<br>transfer to reserve          | 0                    | 137            | 137              | Request to transfer the additional income above to a reserve. This will help cover the costs associated with challenges to other local authorities / organisations / bodies etc. e.g. Local Plans, policies/strategies/proposals etc., due to their impact upon the District.   | 0                                | 0                       |
| Economic<br>Development<br>Officer               | 30                   | 12             | (18)             | This is a joint post hosted by East Herts. As the post was not recruited to until November 2018, there is an underspend on the contribution for this year. There was also a carry-forward from 16/17 of £10k that has not been spent. It is requested that the total underspend of £18k is carried forward to 2018/19 to fund economic development initiatives. | 18                               | 0                       |

| Budget Area  | Working Budget<br>£k | Forecast<br>£k | Difference<br>£k | Reason for difference  | Carry-forward<br>requested<br>£k | 2018/19<br>Impact<br>£k |
|--|----------------------|----------------|------------------|--|----------------------------------|-------------------------|
| Community Infrastructure Levy                            | 87                   | 0              | (87)             | Request for £87k Community Infrastructure budget to be carried forward into 18/19 for the work to be undertaken, subject to Central Government changes to CIL, after the Local Plan process.   | 87                               | 0                       |
| Housing Stock Condition Consultants                      | 25                   | 12             | (13)             | A project with HCC and all other districts/boroughs in the County to improve the energy efficiency of residents properties. It is likely this project will extend to a second year commencing in October 2017, so it is requested to carry forward the remaining £13k for the continuation of the project in 2018/19.  | 13                               | 0                       |
| Housing- Social Provision                                | 21                   | 0              | (21)             | Budget was carried forward in 16/17 to assist with review of Housing Strategies. However new housing legislation will come into effect in April 2018, so the proposal has been made to delay this project until 2018/19, when the strategies can be reviewed to take into account the changes from the new legislation. So carry forward in to 2018/19 is requested. | 21                               | 0                       |
| Syrian Refugee Grant                                     | 0                    | (92)           | (92)             | £157k of grant income will be received, of which £65k is forecast to be spent supporting refugee families.   | 0                                | 0                       |
| Syrian Refugee Grant- transfer to reserve                | 0                    | 92             | 92               | Request to transfer the unspent grant income above to a reserve. This will be used for future costs of supporting refugee families.  | 0                                | 0                       |
| Flexible Homelessness Support Grant                      | 0                    | (159)          | (159)            | Grant funding received from the DCLG to fund flexible homelessness support grant. The grant has been awarded to reflect changes that will be made on the 1st April 2018 by the introduction of the Homelessness Reduction Act. This will place additional responsibilities on housing authorities and grant funding has been awarded                                 | 0                                | 0                       |
| Flexible Homelessness Support Grant- transfer to reserve | 0                    | 159            | 159              | Request to transfer the grant income above to a reserve. This will be used. to fund additional resources to help manage higher demand levels from the public as a result of the Act.   | 0                                | 0                       |
| Highways- contribution to reserve                        | 13                   | 0              | (13)             | Ongoing contribution in to the reserve is not required.  | 0                                | (13)                    |
| Contaminated land consultants                            | 10                   | 0              | (10)             | The budget has not been spent for the last four years. Spend is dependant on relevant projects and staffing resources. The risk of any contaminated land works needing to  | 0                                | (10)                    |

| Budget Area  | Working Budget<br>£k | Forecast<br>£k | Difference<br>£k | Reason for difference   | Carry-forward<br>requested<br>£k | 2018/19<br>Impact<br>£k |
|--|----------------------|----------------|------------------|---|----------------------------------|-------------------------|
|  |                      |                |                  | be done in the future will be covered by a financial risk in the risk register.   |                                  |                         |
| Disabled Facilities Grant (DFGs)- Capitalisation of Salaries | (38)                 | (28)           | 10               | DFGs are now delivered (from October 2017) by a county-wide Home Improvement Agency. The way that the service is now delivered means that there is no scope to capitalise staff costs against the grant, as had been possible in the past. The overall service cost is expected to decrease, so this would then increase the budget available for grants to households. | 0                                | 38                      |
| <b>Total of explained variances</b>                          | <b>(1,521)</b>       | <b>(2,145)</b> | <b>(624)</b>     |   | <b>199</b>                       | <b>(35)</b>             |
| Other minor variances  | 18,620               | 18,560         | (60)             |   | 0                                | (47)                    |
| <b>Overall total</b>   | <b>17,099</b>        | <b>16,415</b>  | <b>(684)</b>     |   | <b>199</b>                       | <b>(82)</b>             |

8.4.2 This has identified £682k of underspends against the working budget. Of this there are requests for £198k of this to be carried forward into 2018/19. This gives a net increase in the General Fund balance of £484k. The final column of the table above details the forecast impact on 2018/19, which is a £66k reduction in required budget.

**8.4.3 Cabinet is asked in recommendation 2.5 to approve the reduction in the 2017/18 working budget of £682k, and to note the expected impact in 2018/19 of a £82k reduction in budget.**

**8.4.4 Cabinet is asked in recommendation 2.6 to note and comment on the requests for the carry-forward of budgets that total £198k from 2017/18 to 2018/19.**

## **8.5 Savings and Investment Proposals**

8.5.1 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.

8.5.2 Budget proposals were considered by Cabinet at the December meeting. To give the full context, these proposals included both savings and investment proposals. Those being taken forward are detailed in appendix 2.

8.5.3 At the meeting in December, Cabinet discussed the removal of the saving in relation to Four yearly District Council Elections (PE8) that had previously been agreed by Full Council. They also discussed deferring the following savings until 2019/20 that had been agreed by Full Council:

- NHDC Lottery (PE23).
- Replace Area Committees with a more informal alternative.

As these changes require Full Council approval to be changed they have not been reflected in the totals in Appendix A. The impact on the General Fund if they were agreed is shown in the table 8.

**Table 8: Impact of proposed changes on the General Fund**

| <b>Proposed Change</b>                               | <b>Impact in<br/>2018/19<br/>£000</b> | <b>Impact in<br/>2019/20<br/>£000</b> | <b>Impact in<br/>2020/21<br/>£000</b> | <b>Impact in<br/>2021/22<br/>£000</b> |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Four yearly District Council Elections (PE8) removal | 0                                     | -54                                   | 89                                    | 89                                    |
| NHDC Lottery (PE23) deferred                         | 65                                    | 15                                    | 0                                     | 0                                     |
| Replace area committees (PE25) deferred              | 50                                    | 0                                     | 0                                     | 0                                     |
| <b>Increased General Fund Expenditure</b>            | <b>115</b>                            | <b>(39)</b>                           | <b>89</b>                             | <b>89</b>                             |

**8.5.4 Cabinet is asked at recommendation 2.7 to approve the inclusion of the efficiencies and investment proposals at Appendix 2 in the General Fund budget estimates for 2018/19.**

**8.5.5 Cabinet is asked at recommendation 2.8 to make recommendations to Council on any changes to previous efficiencies.**

8.5.6 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.

**8.5.7 Cabinet is asked at recommendation 2.9 to note the proposal that any revenue savings arising from the capitalisation of waste vehicle costs are transferred to a specific reserve.**

8.5.8 The budget currently includes an allowance for pay inflation of 3% in 2018/19 and 2019/20. NHDC follows the National Joint Council pay negotiations. The employers have made an offer of 2% per year in 2018/19 and 2019/20. At this stage this has not been accepted by the Unions and therefore the budget has not been adjusted to reflect this. The current pay proposal does include higher increases for lower paid staff in order to comply with National Living Wage legislation and to maintain differentials across the pay scales (although this affects a relatively low number of Council employees). If the 2% offer was accepted then it would reduce forecast expenditure by over £200k by 2019/20.

## **8.6 Overall Summary**

8.6.1 Appendix 1 provides a summary of the forecast General Fund impact of the factors referenced in the previous sections of this report. This includes increases in Council Tax of 2.99% in 2018/19 and 2019/20.

8.6.2 Appendix 1 also includes a forecast of the remaining savings that the Council still needs to deliver by 2021/22, which are expected to be around £150k. This amount could be significantly affected by a number of factors which include:

- Changes to the way New Homes Bonus is calculated in future years
- Changes to the Fair Funding Formula, which is currently being consulted on by the Department for Communities and Local Government, with any changes likely to be implemented from 2020/21.
- The successful delivery of the savings included within the budget forecasts.

**8.6.3 Cabinet is asked at recommendation 2.10 to note the savings targets for future years.**

**8.6.4 Cabinet is asked at recommendation 2.11 to note the estimated 2018/19 net expenditure of £14.6m, as detailed in appendix 1, and recommends this budget to Council.**

## **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 potential changes to how the New Homes Bonus Scheme operates and the impact of future changes to the Fair Funding Formula.

## **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 do not unduly impact any one individual group within our local community more than another. Any future budget proposals relating to the staff, their terms and conditions or future employment will need subject to individual equality analysis.

### **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 – Budget Risks for 2018/19.

### **16. CONTACT OFFICERS**

16.1 Ian Couper, Head of Finance, Performance and Asset Management, Tel 474243, email, [ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk)

16.2 Antonio Ciampa, Accountancy Manager, Tel 474566, email, [Antonio.ciampa@north-herts.gov.uk](mailto:Antonio.ciampa@north-herts.gov.uk)

16.3 Reuben Ayavoo, Senior Policy Officer, Tel 474212, email [Reuben.ayavoo@north-herts.gov.uk](mailto:Reuben.ayavoo@north-herts.gov.uk)

### **17. BACKGROUND PAPERS**

17.1 Medium Term Financial Strategy 2018-23.