

<b>COUNCIL</b> <b>8 FEBRUARY 2018</b>
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<b>*PART 1 – PUBLIC DOCUMENT</b>	<b>AGENDA ITEM No.</b>  <b>7</b>
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**TITLE OF REPORT: ITEM REFERRED FROM CABINET: 23 JANUARY 2018 – DRAFT REVENUE BUDGET 2018/19**

*The following is an extract from the Draft Minutes of the Cabinet meeting held on 23 January 2017.*

**83. DRAFT REVENUE BUDGET 2018/2019**

The Executive Member for Finance and IT presented the report of the Head of Finance, Performance and Asset Management in respect of the Draft Revenue Budget 2018/2019. The following appendices were submitted with the report:

Appendix A – Budget Summary 2018/19 – 2012/22;  
Appendix B – Revenue Efficiencies and Investment proposals; and  
Appendix C – Budget Risks for 2018/19.

The Executive Member for Finance and IT advised that this was the final opportunity for the Cabinet to make recommendations to the budget and the underlying strategy before formal recommendation to Council.

The Executive Member for Finance and IT stated that, whilst Local Authorities had to operate in an environment where they had to show their auditors that they were operating a balanced budget on a year to year basis, they also had to consider the operation of their finances on a medium term basis. Hence, NHDC had a Medium Term Financial Strategy (MTFS) that set out the Council's approach for operating its finances over a five year period, and also why when presenting the proposed budget figures it tried to estimate the potential position of its funds over a similar period.

The Executive Member for Finance and IT commented that the impact of local government finance on NHDC was a matter of considerable uncertainty. It was not his intention to detail the very significant reductions in funding that the Council had dealt with over the last seven years, but he drew attention to Table 1 in the report which clearly showed that over the next two years NHDC faced a further reduction in funding of more than 40%.

The Executive Member for Finance and IT advised that it was a sad inevitability that the Council was now at the stage where it had to seriously consider cuts to the provision of front line services or find alternative ways to finance its operations. He found the whole concept of "negative" Revenue Support Grant (RSG) a total anathema. Whilst it might be appropriate for the Government to say that NHDC did not need general financial support, it could not be appropriate to require residents of North Hertfordshire to contribute to the provision of services in other Local Authorities. In this context, whilst he welcomed the Minister's budget announcement that the question of negative RSG would be examined, there was no certainty that there would be any significant changes.

In respect of the detail of the report, the Executive Member for Finance and IT commented as follows:

- Table 1 showed a 42% reduction in general Government funding (excluding specific grants to cover such matters as housing and Council tax benefit, which were detailed in Table 2);
- There were still many hundreds of Business Rate appeals outstanding from the 2010 revaluation, and these would ripple through into the final 2017 revaluation exercise. Most of the top 10 businesses in North Hertfordshire had outstanding appeals. This made forecasting difficult. This was compounded by the uncertainty surrounding the proposed retention of business rates by local authorities;
- In respect of the Council Tax Collection Fund, he was pleased to report that the Council expected eventually to collect over 99% of all Council Tax due, and the in-year collection rates of over 98% placed the Council amongst the top performing authorities in this field;
- The MTFs indicated that the Council would charge Council Tax at the maximum level to which the Government permitted without the need for a referendum. For 2018/19, he recommended a proposed increase of 2.99%, as detailed in Table 3;
- CIPFA guidance indicated a minimum of 5% of general expenditure as reserves, as set out in Table 5. Added to this would be the specific reserves that the Council made against certain risks, which were set out in Table 6 and in Appendix C to the report. He asked the Cabinet to note Risks FR23 and 24 in Appendix C, where the actual amounts and likelihood figures relating to planning functions had been increased, in order to allow the Council to operate effectively and protect the District and its environment;
- He therefore recommended that the General Fund minimum balance should be set at £2.15 Million;
- Table 7 detailed the variances to the current budget at the end of November 2017, together with a forecast of the year end position. In respect of the Vacancy Control Target, he clarified that it was not the Council's intention to run 20 vacant posts, but rather that this figure mostly related to the time lag between losing staff and being able to replace them;
- Also in Table 7, he drew attention to the position on Area Committee Grants. If it was the case that the Council was receiving fewer grant applications then he was loathe to simply allow a carry over of the underspend in this area. If, however, it could be attributed to delays in actually accessing allocated amounts then this was a different matter. Following advice from the Head of Finance, performance and Asset Management, it was recommended that this matter be reviewed at the end of the current financial year;
- Table 8 detailed the savings items previously agreed by the Council and thus to recommend to Council that they be either reversed for the future or deferred for the time being. He recommended a further adjustment to this table regarding Efficiency E16 (Apprenticeship Scheme). Whilst it had previously been indicated that this Scheme was to be kept under review, he had been persuaded that there were significant benefits to the Council in continuing to operate the scheme, and he therefore recommended that it was deleted as a saving going forward;
- In respect of the previously discussed efficiencies set out in Appendix B to the report, he had received many representations regarding Efficiency E9 (Cessation of Area Committee Grants) and the Finance, Audit and Risk Committee had made a recommendation in this regard. He reminded Members that the proposed savings on Area Committee operations had been deferred for a further year, as had consideration of a

local lottery, which might impact on Area Committee grant funding. He had come to the conclusion that it was probably most sensible to leave the existing mechanism in place, with revenue grants being dispersed through Area Committees. He therefore recommended a further amendment to the list of savings to amend E9 to show a 30% reduction in grants available to Area Committees for 2018/19;

- In respect of Efficiency E20 (Waste Contract Lot 2 Award), as it was confirmed that it was now expected that the savings attributable to this item would be zero, he recommended that the item be removed from the list; and
- The projected budget figure of £14.6Million in 2018/19 may need to be amended in the light of some of the aforementioned changes, and it was proposed that up to date figures would be available for consideration at the Council meeting on 8 February 2018.

Returning to the generality of the report, the Executive Member for Finance and IT explained that the figures in Appendix A to the report still showed a need for further budget savings to be identified by 2021/22. In the light of the relatively small amount, it could perhaps be argued that the level of proposed general reserves that the Council was carrying was not necessary. However, he had already referred to the general uncertainty surrounding Local Government finance and had alluded to the need for the Council to find new ways of financing its activities, such as commercialisation. He therefore perceived the need to be able to support such activities through their early years until they were able to deliver a regular income flow for the Council.

The Executive Member for Finance and IT felt that this further militated in favour of the proposed higher level of reserves that he was recommending. Even if he was wrong and the future was considerably more rosy than current expectations, he would much rather be in a position where the Council could revisit its funding needs because it had over-reserved, rather than be in a position where it had to take an axe to staff and services because the risks had been underestimated. The proposed level of reserves was still significantly below the maximum CIPFA recommended level.

The Cabinet supported the recommendations made by the Executive Member for Finance and IT.

***RECOMMENDED TO COUNCIL:***

- (1) That the expected Central Government funding levels be noted;
- (2) That the estimated position on the Collection Fund and how this will be funded be noted;
- (3) That a 2.99% increase in Council Tax for 2018/19 be approved;
- (4) That the position relating to the General Fund reserve be noted and, that due to the risks identified, a minimum balance of £2.15 million is recommended;
- (5) That the reduction in the 2017/18 working budget of £682,000 be approved, and the expected impact in 2018/19 of a £82,000 reduction in budget be noted;

- (6) That the requests for the carry-forward of budgets that total £198,000 from 2017/18 to 2018/19 be noted, subject to further review of the carry forward relating to Area Committee Budgets at the end of the 2017/18 Financial Year;
- (7) That the inclusion of the efficiencies and investment proposals, as set out at Appendix 2 to the report, in the General Fund budget estimates for 2018/19 be approved, subject to the following amendments:
  - Efficiency E9 (Cessation of Area Committee Grants) – amendment to show a 30% reduction in grants available to Area Committee;
  - Efficiency E16 (Apprenticeship Scheme) – to be removed from the list of efficiency savings;
  - Efficiency E20 (Waste Contract Lot 2 Award) – removal from the list for 2018/19 as it was expected that the savings attributable to this item would be zero;
- (8) That the amendments to previously agreed efficiencies, as detailed in Paragraph 8.5.3 and Table 8 of the report, be approved;
- (9) That the proposal that any revenue savings arising from the capitalisation of waste vehicle costs are transferred to a specific reserve be noted;
- (10) That the savings targets for future years be noted; and
- (11) That the estimated 2018/19 net expenditure of £14.6Million, as detailed in Appendix 1 to the report, as amended, be approved.

**REASON FOR DECISION:** To ensure that all relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2018/19; and to ensure that the Cabinet recommends a balanced budget to Council on 8 February 2018.

### **Postscript**

The budget report considered by Cabinet at its meeting on 19 December 2017 (Minute 72) included a saving relating to the shared waste client team (paragraph 8.4.3). The value of the saving was not known at the time of the Budget Workshops so it was not presented at this time, and therefore was not included in the list of savings that was attached as Appendix B to the Cabinet report. The figures provided in the January report were updated to reflect this saving, but it was omitted from the updated list of savings (Appendix B) in error. As the saving was agreed by Cabinet at the December meeting, the Appendix B provided to Council has been updated to include it.

***The following is the report considered by Cabinet at its meeting held on 23 January 2018 (Appendices A and B have been amended following the Cabinet meeting).***

**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.

2.10 That Cabinet notes the savings target in future years.

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.

### **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 £'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.
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

	<b>2017/18 amount £'000</b>	<b>Expectation for 2018/19</b>
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 2017 £000</b>	<b>Forecast balance at 31 March 2018 £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**

Category	Number of risks	Forecast value of impact £000	Risk Allowance £000
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**

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Carry-forward requested £k	2018/19 Impact £k
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.  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.	0	(50)

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Carry-forward requested £k	2018/19 Impact £k
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 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 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- Penalty Control Notices	(350)	(392)	(42)	Increase in the number issued. This will partly be due to having lower staff vacancy levels.	0	0
Area Committee 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 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- 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 Development 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 £k	Forecast £k	Difference £k	Reason for difference	Carry-forward requested £k	2018/19 Impact £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)

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Carry-forward requested £k	2018/19 Impact £k
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 be done in the future will be covered by a financial risk in the risk register.	0	(10)
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 2018/19 £000</b>	<b>Impact in 2019/20 £000</b>	<b>Impact in 2020/21 £000</b>	<b>Impact in 2021/22 £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**

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### **17. BACKGROUND PAPERS**

- 17.1 Medium Term Financial Strategy 2018-23.