

CABINET
21 December 2021

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: DRAFT BUDGET 2022/23

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: BE A MORE WELCOMING, INCLUSIVE AND EFFICIENT COUNCIL

1. EXECUTIVE SUMMARY

- 1.1. Cabinet is asked to consider the latest forecasts in relation to funding, income and expenditure in relation to the revenue budget for 2022/23. It is expected that an addendum report will be provided in relation to the Local Government settlement.
- 1.2. Cabinet are asked to consider the savings and investment proposals that were presented to the budget workshops, as well as any new savings and investment proposals that have emerged since those workshops. This should consider the feedback from those workshops, as well as taking appropriate measures to meet the net savings target of £200k.
- 1.3. Cabinet are asked to consider the capital project proposals that were presented to the budget workshops, as well as any other opportunities that have emerged since those workshops. This should consider the feedback from those workshops, as well as considering the forecast revenue impact of capital expenditure.

2. RECOMMENDATIONS

- 2.1. That Cabinet note the latest funding forecasts for 2022/23 and the significant uncertainty around inflation and Central Government funding, and that these estimates provided could be subject to significant change.
- 2.2. That Cabinet note the comments made at the budget workshops, and comment on the inclusion of the revenue savings and investments in the budget to be brought back for consideration in January, for referral on to Council in February.
- 2.3. That Cabinet note the comments made at the budget workshops, and comment on the inclusion of the capital investments in the Investment Strategy to be brought back for consideration in January, for referral on to Council in February.

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that all relevant factors are considered in arriving at a proposed budget, Investment Strategy and Council Tax level for 2022/23, to be considered by Full Council on 10 February 2022.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. In seeking to address the funding gap detailed in the Council's Medium Term Financial Strategy for 2022-27, Political Groups and Officers have been asked for savings ideas and these are presented in appendix A to this report.
- 4.2. The proposed investments are a combination of cost pressures to deliver existing services and new spend that is linked to the delivery of priorities identified within the Council Plan.
- 4.3. The Council is required to set a balanced budget over the medium term.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. Councillors were given an opportunity to comment on the revenue efficiency, revenue investment and capital proposals at budget workshops. The comments from these workshops are detailed in this report.
- 5.2. This report is the first draft of the budget and a further report to Cabinet will follow in January. Both reports will also be considered by the Finance, Audit and Risk (FAR) Committee.
- 5.3. Business Ratepayers will be consulted on the proposals within the January report. This is the only statutory consultation that is required. This consultation will be via the website/ e-mail, as this has worked well since it was introduced.
- 5.4. If any saving proposal is anticipated to have a particular impact on a specific area (or areas) then it would be referred to the relevant Area Committee(s). If taken forward this should be considered for the toilet charging proposal.

6. FORWARD PLAN

- 6.1. This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan. The final revenue budget and investment strategy will be considered and approved by Council in February.

7. BACKGROUND

- 7.1. The Medium Term Financial Strategy (MTFS), which provides the financial background for the Corporate Business Planning Process, was approved by Full Council in September following recommendation by Cabinet. The budget estimates within the MTFS included a number of assumptions. These have been updated as better information has become available and further updates will be made prior to the presentation of the budget to Cabinet in January. The final budget recommended to Council in February will still contain some assumptions, hence monitoring reports are provided to Cabinet on a quarterly basis.
- 7.2. The MTFS set target net savings for each of the next 5 years. This is to ensure progress is made towards balancing the Council's budget in each year, with the aim of achieving a fully balanced budget (net expenditure = funding) by 2026/27. In the shorter term the budget will be balanced through use of reserves. The phasing of the delivery of savings also ensures that the reserves are not diminished too much, and remain above the minimum recommended level. The net savings target for 2022/23 is £200k.
- 7.3. The Council has applied, along with four other Hertfordshire District and Borough Councils and Hertfordshire County Council, to form a Business Rates Pool for 2022/23.

The anticipated benefit, based on current forecast rates income, from the pooling of Business Rates is a relative reduction in the business rates levy payable to Central Government next year, referred to as the 'pooling gain', meaning the Council will be able to retain more of the Business Rates income it collects. Should the forecast position change, however, each of the proposed pool members have the option to withdraw from the Pool after (within 28 days of) the announcement of the Local Government Finance settlement. Such is the volatility of business rates and the higher level of uncertainty surrounding estimates in this area, a pooling gain in 2022/23 is not assumed in the estimated funding figures contained in this report.

8. RELEVANT CONSIDERATIONS

General and Specific Funding

- 8.1. The Government Budget and Spending Review was presented by the Chancellor at the end of October. This included the following announcements in relation to Local Government funding:
 - A real terms increase of 3% in Core Spending Power
 - £1.5billion (rising to £1.6billion in 2023/24) of additional grant funding. Currently for the spending review period to the end of 2024/25.
 - Specific grant funding, including digitising the planning system and homelessness
- 8.2. The majority of the increase in Core Spending Power for Districts seems to be expected to be delivered through growth in the Council Tax base (i.e. number of properties paying Council Tax) and assumes that Council Tax levels will be increased by the maximum allowed (for North Herts this is expected to be the greater of 2% or £5 for a Band D equivalent property). Our expectations for Council Tax base growth are currently estimated at 0.5% per year from 2023/24 onwards, which is below the national forecasts. This reflects the uncertain recovery from Covid-19 in relation to Council Tax Reduction Scheme (CTRS) eligibility. It also reflects that where growth in the tax base comes from new properties, there is a need to deliver and pay for services (e.g. waste collection) for those properties. Therefore a proportion of any growth needs to be set aside for those additional costs.
- 8.3. At the time of writing this report it is not known how the £1.5billion grant funding will be allocated. Some will be to fund the additional National Insurance costs that Councils will need to cover (as employers) in relation to the Health and Social Care levy. This will offset additional costs so will not provide any additional net funding. It is also possible that the funding will only cover direct employer costs and we will see unfunded cost increases in our contracts for the staff that they employ. It is assumed that the majority of the remainder will be allocated to Social Care. It is expected that the draft Local Government Settlement for 2022/23 will be announced in advance of the meeting and an addendum report will be provided.
- 8.4. The Government Budget and Spending Review provided a three year funding position for Local Government overall. But as the new Local Government funding mechanism has not been progressed, it seems likely that individual Council funding allocations will be provided for one year only. It is assumed that this means that a negative Revenue Support Grant (or equivalent) will not be applied in 2022/23, but that one could be applied from 2023/24 onwards.
- 8.5. The Government Budget and Spending Review also made announcements in respect of Business Rates. These included reliefs (i.e. reducing the amount to be paid by certain

business types compared to normal levels) and freezing of the multiplier (i.e. not applying an inflationary increase to all businesses). These will be fully funded by off-setting grants.

- 8.6. Based on the above (at this stage) it is assumed that funding will be in line with what was detailed in the MTFS.

Pay and Price Inflation

- 8.7. The current rate of inflation is significantly higher than it has been for a number years, with the CPI-H rate of inflation at 3.8% in October. It was last at this level at the end of 2011 and has generally been below 2% since 2013. The Government Budget forecasts (provided by the Office of Budgetary Responsibility) assume that inflation will continue at high levels in 2023/24, before dropping back towards the target level of 2%. The Council's service contracts have inflationary increases built in to them, so these higher levels of inflation will lead to increases above the previous estimates. The waste contract has an element that is linked to fuel cost inflation, and gas and electricity price increases are currently around 20%. All the above means that price inflation is now forecast at just over £460k for 2022/23, and £400k in 2023/24 and 2024/25 (compared with a previous assumption of £300k per year). This is slightly off-set by assumed increases in fees and charges income, which are also generally inflation linked.
- 8.8. The pay forecasts are currently based on the employer pay offer for 2021/22 (although that has not been agreed by the unions and is subject to potential strike action) and 2% thereafter. There is a risk that these forecasts will not be sufficient (especially with the general inflation levels detailed in the paragraph above), but will be kept at this level until better information becomes available.

General Reserve balances and overall position

- 8.9. The MTFS was set based on a General Fund balance at the end of 2021/22 (start of 2022/23) of £7.56million. The Quarter 2 budget monitor estimates that this will now be around £9.4million.
- 8.10. The previous paragraphs detail that whilst there is the potential for additional funding, this is currently considered unlikely. They also detail the significant inflation risk that the Council faces, both from contract and pay inflation. Finally, they detail the increase in the forecast of the general fund balance. Combining these together means that the Council should still be targeting to set a budget for 2022/23 that identifies at least £200k of net savings. But there is a risk that even after delivering that level of savings, the impact of inflation could mean the future years savings target still increases. The higher than forecast General Fund balance provides some additional leeway to identify and deliver those savings if they are required. This leeway must not be used in the current year as the Council needs to set a clear path towards delivering net savings, which based on current forecasts will need to be at a much greater level in future years (i.e. £400k+).

Revenue Savings and Investment proposals

- 8.11. The MTFS highlighted a need to make £1.8million of net savings (efficiencies, income generation and service changes) over a five-year period i.e. by the end of 2026/27, which included the assumption that £200k of savings would be identified and delivered in 2022/23. This is based on an assumption that any new funding formula will have an equivalent impact on the Council as negative Revenue Support Grant.
- 8.12. The revenue savings and investment proposals were presented to Political Group workshops (Joint Administration and Conservative) in early November. The full list of

revenue savings and investments is attached as Appendix A. The Groups also considered capital investment proposals, which are attached at Appendix B. In addition to the importance that capital spend is scrutinised to ensure that it is in line with Council needs and priorities, the Council will be in a position where it has to use borrowing (either internal or external) to fund its capital programme. Therefore, capital spend comes with a revenue cost, which needs to be reflected in revenue budget forecasts.

- 8.13. The proposals presented to the budget workshops resulted in medium-term net revenue savings of just over £200k. The message provided to the workshops was therefore that any savings that were removed (or additional investments added in) would need to be off-set by an additional saving or a reduction in an existing investment.
- 8.14. The joint administration workshop did not support the proposal to introduce charging for public conveniences.
- 8.15. The joint administration workshop also believed that the increase in garden waste charges was too high, and questioned the reason for such a significant increase. The proposed new charge was based on aligning with the amount currently charged by East Herts Council and would also still be lower than a large number of other Councils. They did not identify any investments that they wanted to remove. They were generally content with the capital proposals put forward.
- 8.16. The joint administration workshop was broadly content with the investments proposed and that they increased resources in some key service areas that were under pressure. They were generally content with the capital proposals put forward.
- 8.17. The Conservative Group asked a number of questions about the proposals, but did not make any comments or recommendations to Cabinet.
- 8.18. If the proposals in relation to charging for public conveniences and increasing garden waste charges to £49 were removed, then this would reduce the net saving as follows:

All amounts £000	2022/23	2023/24	2024/25	2025/26	2026/27
Remove charging for toilets	27	34	34	34	34
Remove £49 garden waste charge	55	171	171	171	171
	82	205	205	205	205

As stated in paragraph 8.13, these need to be replaced with additional new savings or reductions in investments. This can include removing capital spend as this will have a knock-on impact on the revenue costs of capital. This impact is estimated at 3% per year, which is based on internally borrowing (i.e. borrowing against revenue reserves) and incorporates Minimum Revenue Provision (MRP) at 2.5% and assumed lost interest at up to 0.5%.

- 8.19. Officers and Executive Members have been working together to identify alternative savings that could be incorporated in to the budget. This has identified the following list (where prudent estimates can be made):
 - **£3k** (per year ongoing) of income for charging for commercial filming on Council land. This is based on the income that has generally been achieved in recent years, but is subject to risk as it is dependent on filming companies wanting to use our land.
 - **£80k** (per year ongoing) reduction in revenue spend by swapping the purchase of refuse bins and containers to being capital spend. This will be partly off-set by an additional revenue cost of capital.

- **£16k** (ongoing from 2023/24) income from letting Harkness Court to a Council owned property company. The company will then let the flats on to individual tenants. This follows a decision by the Cabinet Sub-committee (for Trading Companies) to approve the creation of a property letting company.
- Estimated income from a community lottery (increasing up to **£13k** in 2026/27). This is based on the business case for setting up the community lottery, which will commence in 2022/23.
- **£22k** (ongoing from 2023/24) of income from mausoleum niches. This will involve a capital investment of around £250k as the current mausoleum is almost full, although the majority of this will be funded from amounts held in reserve for this purpose. The income is based on an average of 3 niches sold per year (at £8k each), less the costs of maintaining the mausoleum. It is expected that in some years there will be more sales, but in some years the target may not be met.
- The capital programme includes an allocation for building commercial storage alongside museum storage. The business case for this is being finalised, but it is expected that a prudent estimate on the return on this investment would be **£50k**. This is based on a 5% level of return.
- Increase garden waste charges in line with the inflationary increases in Council Tax (estimated at 2%). The charge has remained unchanged since it was first introduced in 2018. The proposed increase (80p from 1st October 2022) is still below the general level of inflation. This also reflects what other Councils are charging. For example, East Herts who we have a joint waste contract with, charge £49 for garden waste. It will also start to cover the inflationary and other cost increases that the Council incurs in delivering the service. This is estimated to generate **£99k** of additional income by 2026/27.

8.20. The impact of the above (including the estimated revenue costs of capital) is shown in the table below:

All amounts £000	2022/23	2023/24	2024/25	2025/26	2026/27
Net savings as per proposals at budget workshop	-8	-231	-293	-265	-222
Remove charging for toilets	27	34	34	34	34
Remove £49 garden waste charge	55	171	171	171	171
Estimated filming income	-3	-3	-3	-3	-3
Remove existing revenue budget for bin replacements (swap to capital)	-80	-80	-80	-80	-80
Harkness Court income- lease payment from company	-8	-16	-16	-16	-16
Community Lottery income to NHC	0	-4	-7	-10	-13
Income from mausoleum niches	-11	-22	-22	-22	-22
Income from commercial storage (based on £1m cost and 5% return)	0	0	-25	-50	-50
Increase garden waste charges in line with Council Tax inflation	-11	-33	-54	-76	-99
Revenue costs of capital	5	7	9	12	14
Revised net savings	-34	-177	-286	-305	-286

8.21. The table above shows that these proposals would achieve the target level of savings (i.e. at least £200k of savings to be identified that are expected to be delivered within the medium term).

9. LEGAL IMPLICATIONS

- 9.1. The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.
- 9.2. Cabinet's terms of reference include recommending to Council the annual budget, including the capital and revenue budgets and the level of council tax and the council tax base. Council's terms of reference include approving or adopting the budget.
- 9.3. Members are reminded of the duty to set a balanced budget and to maintain a prudent general fund and reserve balances

10. FINANCIAL IMPLICATIONS

- 10.1. These are mainly covered in the body of the report.
- 10.2. The Council can fund capital expenditure from capital reserves or new capital receipts (e.g. sale of surplus land) and this has only a minimal revenue impact (i.e. the lost interest from investing the cash). The Council can also use revenue funding for capital expenditure but given the forecast budget position that the Council faces, this is not a viable option.
- 10.3. The Council is now in a position where its available and forecast capital reserves will not be sufficient to fund the capital programme, so it will need to borrow to fund its capital spend. Expected new guidance from CIPFA (the Chartered Institute of Public Finance and Accountancy) will strongly encourage Councils to borrow internally where possible. This involves using the available cash from revenue reserves and provisions to fund the capital spend, rather than bringing in additional cash from external borrowing. The cost of this will be made up of the lost interest from investing that cash and a charge known as a Minimum Revenue Provision (MRP).
- 10.4. Where a Council is in a position where it needs to borrow (technically known as having a positive Capital Financing Requirement) then it has to include a MRP charge to its revenue budget. In simple terms this creates an amount over the life of the asset being borrowed for to repay the borrowing. In common with other Councils, the Council will assume that it is borrowing against its assets with the longest life and therefore the MRP will be based on a 40 year life (i.e. 2.5% per year).

11. RISK IMPLICATIONS

- 11.1. The risks are highlighted in section 8. The next iteration of this report will be presented to Cabinet in January, and this version will include a full review of the adequacy of estimates that have been made and of reserve balances. This includes a view from the Service Director- Resources (as the Council's Chief Finance Officer) of the minimum level of General Fund reserves. The margin between actual and the minimum General Fund reserve levels provides a proxy for the level of financial risk that the Council faces, and its ability to deal with changes.

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2. For any individual proposal comprising either £50k growth or efficiency, or affecting more than two wards, an equality analysis is required to be carried out; this has either taken place or will take place following agreement of efficiencies or growth.

13. SOCIAL VALUE IMPLICATIONS

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

14. ENVIRONMENTAL IMPLICATIONS

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

15. HUMAN RESOURCE IMPLICATIONS

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

16. APPENDICES

16.1. Appendix A - List of Revenue Savings and Investments proposals.

16.2. Appendix B - Proposed Capital Programme

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

18.1. None.