

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: REVENUE BUDGET 2022/23

REPORT OF: THE 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 has recommended a budget for 2022/23 to Council for their consideration and approval. The budget considers the following:
- The funding that the Council would expect to receive in 2022/23 and in future years
 - The forecast net spend required to enable the continued delivery of the Council services in 2022/23 and beyond
 - The prioritisation of any investments in line with the priorities of the Council Plan
 - The exceptional spend in relation to Covid-19
 - The other risks in relation to the budget (e.g. higher spend or lower income) and providing reasonable financial protection against those risks
 - The implications of all the above on future years and ensuring that actions are in place to deliver a balanced budget in the medium term.

2. RECOMMENDATIONS

That Council:

- 2.1. Notes the position on the Collection Fund and how it will be funded.
- 2.2. Notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £3.05 million is recommended.
- 2.3. Approves the savings and investments as detailed in Appendix B.
- 2.4. Approves a net expenditure budget of £18.123m, as detailed in Appendix C.
- 2.5. Approves a Council Tax increase of £5 or a band D property (other bands with pro-rata increases). This is in line with the Medium Term Financial Strategy and is equivalent to 2.08%.

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that all relevant factors are considered in arriving at a proposed budget and Council Tax level for 2022/23, to be considered by Full Council on 10 February 2022. To ensure that the budget is aligned to Council priorities for 2022/23 as set out in the Council Plan.

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.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. All Councillors were given an opportunity to comment on the revenue efficiency, revenue investment and capital proposals at the budget workshops.
- 5.2. Business Ratepayers will be consulted on the proposals within this report (once it has been published) before the budget is discussed at Full Council on 10 February. Any feedback will be made available at that meeting. This is the only statutory consultation that is required. This consultation will be via the website/ e-mail, which is the method that has now been established.
- 5.3. If any saving proposal is anticipated to have a particular impact on a specific area (or areas) then it would be referred to the relevant Area Committee(s) during January. It is however considered that this does not apply to any of the savings proposals that have been included.

6. FORWARD PLAN

- 6.1. The decisions in this report are taken by Full Council. Therefore this is not a Key Executive Decision and has therefore not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1. The Medium Term Financial Strategy (MTFS), which provides the financial background for the Corporate Business Planning Process, was approved by Council in September following recommendation by Cabinet. The budget estimates within the MTFS included a number of assumptions. These have been updated as better information has become available. The final budget recommended to Council in February will still contain some assumptions, hence monitoring reports are provided to Cabinet on a quarterly basis.
- 7.2. Political groups were given the opportunity to comment on the initial budget proposals (put forward by Officers and Executive Members) in early November. The feedback from those discussions was presented to Cabinet in December, which has resulted in the proposals contained within this report.
- 7.3. The addendum report presented to Cabinet in December provided details of the provisional Local Government settlement for 2022/23. It is assumed (as in previous years) that there will not be any significant changes between that and the final settlement.

8. RELEVANT CONSIDERATIONS

Decisions made to balance the budget and deliver Council priorities

- 8.1 The Council's Medium Term Financial Strategy set a target of identifying £200k of net savings as part of this budget process. At its meeting in December, Cabinet considered the feedback from the Budget Workshops. This resulted in the removal of some proposals and some others being introduced. The resultant full list is detailed in Appendix B, and this section highlights some of the notable inclusions.
- 8.2 Cabinet rejected the proposal to increase garden waste charges up to £49 but did feel that it was necessary to start to increase the charge in line with inflation. An increase in line with Council Tax inflation was chosen. The charge will remain in line with (and in many cases below) what other Councils are charging.
- 8.3 The budget includes the savings from changes to the Grounds Maintenance contract (annual saving of £144k). These savings will support the Council's sustainability priority by also delivering environmental benefits, including increased biodiversity and reduced mileage.
- 8.4 The investments include a number of increases in staffing to ensure that the Council can continue to deliver its services. It includes investments in our Environmental Health teams to help ensure food standards (as well as other important protection services) continue to be delivered across the District. It also includes early investment in work towards the next Local Plan, which will help ensure that we deliver "a brighter future together". The recruitment of an additional Conservation and Listed Buildings Officer will also contribute towards this.
- 8.5 The continuing investment in Artificial Intelligence software will allow us to continue to automate our services. This will help to deliver online services and information that are available 24/7, and therefore help us to "put people first".
- 8.6 Overall the list of new savings and new investment proposals are projected to generate a net saving of £438k in 2026/27.

General Funding

- 8.7. The settlement for 2022/23 was positive in respect of the following:
- £122k of Lower Tier Services Grant, which was not forecast
 - £188k of Services Grant. This will cover the increased employee costs that the Council faces from the National Insurance/ Social Care levy. It is also sufficient to provide a contribution towards additional contractor costs that the Council may be required to pay as a result of the levy. This will be set aside as a central contingency.
 - An allocation for New Homes Bonus for new properties during the year to September 2021. This was in addition to the expected legacy payment for 2019/20. This means funding of £295k versus a forecast of £113k.
- 8.8 The settlement also confirmed the referendum principles for Council Tax increases. As in previous years, these have been set at the higher of 2% or £5 (band D equivalent). The Government's calculation of an Authorities "Core Spending Power" assumes that Councils will increase their Council Tax by the maximum allowed. A £5 increase is also in line with the Medium Term Financial Strategy.

- 8.9 There was no additional Covid-19 funding announced for 2022/23. This was in line with expectations but does mean that the Council will need to fund Covid-19 costs in 2022/23 from other funding and using reserves.
- 8.10 The settlement stated that Government would be looking at a new funding formula over the next few months. With the time for consultation that would be required, this would seem to be in line with a new formula being implemented from 2023/24. It was also stated that there would be transitional protection built into it. Although when a new funding mechanism was previously discussed it was suggested that if there was any transitional protection it would be for as short a period as possible. The proposal that the Council would be faced with “negative RSG” was also based on a formula, so a prudent assumption is that this will still be the result of a new formula. For planning purposes it will be assumed that this will be implemented over 2 years (with half the cut in 2023/24 and the full amount in 2024/25). The Council will continue to petition that such a decrease would be unfair and will require a substantial reduction in the services that we deliver, on top of the efficiencies and service changes that we have already delivered.
- 8.11 The above results in the forecast funding levels detailed in table 1 below:

Table 1 – Estimated General Funding

£000 Funding	2022/23	2023/24	2024/25	2025/26	2026/27
Council Tax	12,248	12,560	12,875	13,197	13,527
Council Tax Collection Fund Deficit	(2)	(54)	0	0	0
Negative RSG (or equivalent)	0	(602)	(1,232)	(1,257)	(1,282)
Business Rates baseline	2,726	2,831	2,898	2,956	3,015
Compensation for not increasing the Business Rates multiplier	224	229	234	239	244
New Homes Bonus	295	150	150	150	150
Lower Tier Services Grant	122	0	0	0	0
2022/23 Services Grant / funding for Health and Social Care Levy	188	100	100	100	100
Council Tax support to Parishes	(39)	(32)	(26)	(26)	(26)
	15,762	15,182	14,999	15,359	15,728

Specific Funding

- 8.12 The Council also receives grants and contributions for specific purposes. Generally these are built in to service budgets and have therefore already been taken in to account when determining spend forecasts, so cannot be used towards funding the base budget. These amounts can be uncertain, and reductions in the amount can result in spending pressures that would need to be met from the General Fund. These have been reviewed and the main risks and opportunities are detailed in table 2 below, noting that this is not an exhaustive list:

Table 2 – Forecasts in relation to grants and other contributions

Grant/ Contribution	Amount in 2021/22 (£000)	Risk/ Opportunity
Healthy Hub funding	58	Discussions with Hertfordshire County Council (HCC) are ongoing in relation to them continuing this funding. It is expected that the costs in 2022/23 can be met from any money received from HCC, plus funding that can be carried forward. There could be a budget pressure from 2023/24 if the service is going to continue in its current form.
Cyber funding	0	The Spending Review announced this as additional funding. No allocations have been provided yet. This should allow the undertaking of additional work, so is considered to be an opportunity rather than a risk.

Grant/ Contribution	Amount in 2021/22 (£000)	Risk/ Opportunity
Alternative Financial Model (AFM)	34	This is accounted for in the year that we receive the payment. The payment we receive in 2022/23 will be based on the performance in 2021/22. The latest forecast is that we could receive nothing. The Covid-19 contingency budget has been adjusted to reflect this (see paragraph 8.21).
Audit funding	0	Government have previously announced additional ongoing funding to compensate Councils for increased External Audit fees. These additional fees relate to new audit requirements, including an increased focus on Value for Money. The allocations of this funding have not been announced. We are assuming that the additional costs will be covered by this grant, so have not added a budget pressure. This will be included as a financial risk, see section 8.19.
Housing Benefit Administration Grant	274	The Council has not yet been notified of the grant allocation for 2022/23. The grant amount has reduced in recent years as working age benefit claimants have migrated to Universal Credit. With the budget currently assuming the grant amount will be the same amount in next year, a further reduction in grant for 2022/23 will increase the net cost to the Council of providing the service.
Council Tax Administration Grant	137	The Council has not yet been notified of the grant allocation for 2022/23. While this grant has increased in recent years, the budget assumes the same amount in next year as received in the current year. Any increase in grant allocation for 2022/23 will therefore reduce the Council's net expenditure in next year.

Business Rates and Council Tax Collection Funds

- 8.13 North Herts Council 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 North Herts Council General Fund and other precepting bodies. The Fund is required to break even over time and any surplus or deficit is transferred to the North Herts Council General Fund and other precepting bodies. For Business Rates, most of the deficits relate to reliefs introduced by Government. The Council receives funding for these which it holds in a specific reserve. This reserve is then released back to the General Fund as required. The net impact is forecast to be relatively low, and is included in the budget summary in Appendix C.
- 8.14 A Business Rates Pool application for 2022/23 has been accepted for Hertfordshire County Council and five other Districts (including North Hertfordshire). The Pool has been formed with the expectation that this will reduce the business rates levy amount otherwise payable at the end of next year, as has been the case in prior years. The initial estimate was a reduction in levy of around £600k. The achievement of this pooling gain next year is however not guaranteed and will be dependent on the actual value of business rates collected in the year. As the levy payable will be funded from grant held in reserve, any pooling gain that does materialise next year will not increase the General Fund balance, but instead reduce the drawdown on the grant held in reserve. The Council (and other Local Authorities in the Pool) have until mid-January to determine if they want to continue with the planned pooling arrangement. The budget makes the prudent assumption that the pooling gain will be zero.

Review of balances and reserves

- 8.15 In setting its budget, the Council needs to consider the level of its reserves. This determines the extent to which the current budget can be supported by the use of reserves, or requires a budget to be set that includes an allowance for increasing reserves. In addition to the General Fund balance, North Herts Council 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.

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

Table 3 – Specific Reserves

Name of Reserve	Purpose of Reserve	Balance at 1 April 2021	Estimated Balance at 31 March 2022	Estimated Balance at 31 March 2023
Funding Equalisation Reserve	Where anticipated annual revenue funding has exceeded estimated net expenditure, the Council has opted to contribute the surplus amount to the Funding Equalisation Reserve, rather than raise Council Tax by less than the maximum amount allowed. The reserve balance will be used to mitigate the impact on the General Fund of pressures in the current year (2021/22).	397	0	0
Cemetery Mausoleum Reserve	Held to cover the Authority's obligation to supply Mausoleum niches at the Wilbury Hills Cemetery and is funded from the sale of currently available niches. Balance in the reserve will be used to help finance the proposed capital project in 2022/23 to construct further niches on the site for future sale.	175	175	0
Childrens Services Reserve	Used to help fund Active Communities projects in the district funded from grant income and/or external contributions. Drawdown is expected over the next few years to support the continued operation of the Healthy Hub service.	91	45	25
Climate Change Grant Reserve	Grant awarded to help combat the effect of climate change. Being used for the additional costs (above available establishment) of employing a Trainee Policy Officer working on Climate Strategy. Is now expected to be fully used by the end of 2025/26.	25	21	16
Growth Area Fund Reserve	Holds the revenue grant awarded. An amount has been used in this year to contribute to the cost of a feasibility study for a proposed cycle path, with the remainder to be used once the Local Plan is in place.	53	38	Unknown
Homelessness Grants Reserve	To help prevent homelessness in the district. The grant is earmarked for different homelessness projects or resources.	481	455	Unknown
Housing & Planning Delivery	Hold unspent Housing & Planning Delivery grant to fund Cabinet approved spending plans in subsequent years. The Authority has also made a commitment to the Local Development Framework and funds are held in this reserve for this purpose. Additional income from the 20% increase in statutory planning fees is also transferred here to fund the development of Planning Services. Future balances will depend on timing of spend and fees received in relation to the 20% increase.	1,022	912	Unknown
Information Technology Reserve	To ensure the Authority has adequate resources to purchase hardware and software items when they are required. Reserve balance now committed to fund a Uniform software upgrade with improved functionality.	58	23	0
Insurance Reserve	Used to finance potential claims for risks that are not covered by external policies together with higher excesses currently being borne by the Authority. It is good financial management practice to have an insurance reserve. The future balances will depend on the claims received and the level of relevant insurance.	34	Unknown	Unknown
Land Charges Reserve	Reserve originally established to help meet the potential cost should the financial risk of the repayment of personal search fees occur. Being used for additional administration costs and software upgrades over 3 years.	66	37	13
Leisure Management Maintenance Reserve	To cover the cost of any future significant repair liabilities on the leisure facilities. The Leisure Contract requires a contribution from the Council for maintenance items over £5k, so therefore if funds are not available in the reserve then this would impact on the general fund. Use of the reserve depends on what arises and is therefore unknown.	26	Unknown	Unknown

Name of Reserve	Purpose of Reserve	Balance at 1 April 2021	Estimated Balance at 31 March 2022	Estimated Balance at 31 March 2023
Leased Vehicles and Equipment Reserve	The incorporation of the accounting standard IFRS 16: Leases in the accounting code, effective from April 2022, will mean that both the vehicles and machinery used to deliver the Council's greenspace maintenance contract, as well as the Council's cars provided to staff on operations, will be considered for accounting purposes to have transferred to the Council and will be recorded on the Council's balance sheet at the end of 2022/23. The saving on the revenue account from these arrangements will be transferred to this reserve and ultimately used to finance the capital costs of replacement vehicles.	0	0	50
MHCLG Grants Reserve	Balance of unapplied Section 31 business rate relief grants and pooling gains. Used to fund NNDR Collection Fund deficit contributions and levy payments in future years. Based on the business rates pilot gain recorded in 2019/20, in setting the budget for 2021/22 it was considered that £2.5m could be released from the reserve and used to cushion the impact of pressures on the General Fund. Almost £2m will be released in the current year, with the remaining £500k planned to be transferred to the General Fund next year, as shown in Appendix C.	14,298	10,135	Unknown
Museum Exhibits Reserve	Funds the purchase of museum exhibits and is funded from donations. Use of reserve will depend on donations and opportunities for acquisitions.	13	Unknown	Unknown
Neighbourhood Plan Reserve	Funds received from MLUHC to support neighbourhood planning have been transferred to reserve. The funding will be needed in future years as neighbourhood plans are developed and public examinations and public referendums are required.	98	106	86
Paintings Conservation Reserve	Used to help restore paintings. This is funded through donations and publication income. To be used against a list of items that require conservation.	11	6	Unknown
Special Reserve	This reserve is maintained for any special financial pressures such as pump priming for initiatives for shared services, changes in working practice, major contract renewals, unexpected contract variation, support the response to and reduce the impact of major incidents and other financial pressures. As originally detailed in the Covid-19 Financial Impacts report (on the Council agenda in September 2020) the Special Reserve will be released in to General Fund balances. The remaining balance anticipated of £639k will be transferred in 2022/23.	743	639	0
Street Name Plates	To fund Street Name Plates as and when required. To maintain until Local Plan is adopted and then review.	16	Unknown	Unknown
Syrian Refugee Project	The Council agreed to house 50 Syrian Refugees over five years under the government's resettlement scheme. The scheme is fully funded by the government and the reserve enables the multiple year funding for each household to be maintained for future expenditure associated with their placement in the district, such as housing and support costs.	450	572	Unknown
Taxi Reserve	Any surplus from the taxi service will be transferred to the earmarked reserve where it can be used to offset any future deficit or to fund investment in the taxi service.	7	6	4
Town Centre Maintenance	For the implementation of the Town Wide Reviews and ad hoc town centre maintenance.	61	69	Unknown
Traffic Regulation Orders	An audit was done to identify TRO work to be carried out in the district. Amounts will be drawn down as and when the work is done.	386	381	376
Waste Reserve	AFM monies are transferred to help mitigate any potential risk to the waste service and support future service developments. To be spent on various projects, including developing options around a new waste depot.	749	749	600
Waste Vehicles Reserve	As repayment of the finance lease principal embedded within the waste contract is funded from the Council's cash reserves, the saving on the revenue account is transferred to this reserve to fund the purchase of vehicles when they next need to be replaced.	913	1,340	1,849

Name of Reserve	Purpose of Reserve	Balance at 1 April 2021	Estimated Balance at 31 March 2022	Estimated Balance at 31 March 2023
Welfare Reform Grants Reserve	Awarded to the Authority for different initiatives or changes relating to Housing & Council Tax benefit scheme, and more recently the Business Support and self-isolation grant schemes developed in response to the Covid-19 pandemic. The balance in reserve will be used to develop the service and drawn down when the initiatives or changes are carried out, and therefore the exact timing of usage is unknown.	584	627	Unknown

8.17 As at the 31 March 2021 there was a total of £2.783m held as provisions. These are comprised of:

- Business Rates appeals - £2.740m - the NHDC estimated share of outstanding business rates appeals
- Insurance - £43k - covers the uninsured aspect of outstanding insurance claims.

8.18 North Herts Council 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 £18million, this means a minimum balance of about £900k. As the Council has become more reliant on generating income to set a balanced budget, an additional 3% of budgeted income (excluding Housing Benefit, grants and other contributions) will also be included in determining the minimum level. Income from fees, charges, interest and rentals is forecast to be around £11.75m and therefore an additional allowance of £350k will be added.

8.19 An assessment of the risks has been compiled for the coming year based on risks identified by each Service Director and cross-referenced to the risk register. The identified areas are where the financial impact is not wholly known, but an estimate can be made. The amount allocated is based on the forecast likelihood of occurrence. Where there is a high likelihood, 50% of the estimated financial impact is allowed for. For medium likelihood, it is 25%. For low likelihood, it is 0%. Table 4 summarises the risks, the forecast impact and the risk allowance to be made. A full list of these risks is shown in Appendix A. This list excludes certain Covid-19 risks which are detailed in paragraph 8.21 below.

Table 4- Budget Risks in 2022/23

Category	Number of Risks	Forecast Value of Impact (£000)	Risk Allowance (£000)
Low	18	6,599	0
Medium	13	1,603	401
High	16	2,815	1,407
Total	47	11,017	1,808

8.20 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £3.05million should be maintained. This is what is recommended by the s151 Officer (Chief Finance Officer).

Covid-19 financial risk

8.21 The Medium Term Financial Strategy (MTFS) highlighted that a central contingency budget would be created in 2022/23 and 2023/24 to cover the estimated costs (including lost income) of Covid-19. This is based on estimates for particular service areas but will be held centrally as the actual impacts could be very different. Table 5 below highlights the amounts that will be set aside. This is updated from the MTFS version.

Table 5- Covid-19 central contingency

Type of spend/ income	Normal budget (£m)	Basis of provision for 2022/23	Amount of provision in 2022/23 (£m)	Basis of provision for 2023/24	Amount of provision in 2023/24 (£m)
Leisure Centre management fee income	0.82	50% of management fee, increased from 25% due to potential impact of Omicron on speed of recovery	0.42	20% of management fee, increased from 10%	0.16
Pay as you use parking income	2.02	10% of annual income. Increased from 5% due to slow recovery of long-stay parking income.	0.20	5% of annual income, increased from 2.5%	0.10
Hitchin Town Hall	0.23	50% of annual income, increased from 20%	0.11	20% of annual income, increased from 10%	0.04
Trade Waste income	1.01	10% of annual income	0.10	5% of annual income	0.05
Homeless costs	0.08	100% increase	0.08	50% increase	0.04
Car park season tickets	0.32	40% of annual income, increased from 20% due to slow recovery	0.12	20% of annual income, increased from 10%	0.06
Recyclable materials	0.29	100% increase	0.29	50% increase	0.15
AFM income	0.42	100% of annual income, increased from 50% based on latest forecasts	0.42	50% of annual income	0.21
			1.74		0.81

Expenditure Forecasts

8.22 The starting point for forecasting net expenditure for future years is the previous year's budget, as set in February 2021. This is then adjusted (where necessary) through the Quarterly budget monitoring reports, which highlight both in-year and ongoing impacts. An additional budget review is carried out at the end of November (month 8). The results of this are detailed in table 6 below.

Table 6- Summary of forecast variances (amounts £000)

Budget Area	Current Working Budget	Forecast Outturn	Variance	Explanation for variance	Carry-Forward requested	2022/23 Budget impact
Commercial Rents Income	(1,368)	(1,326)	+42	Annual budget anticipates an additional £52k of rents income from rent reviews completed in the year. One review has been settled in the year, and several reviews currently under negotiation could be finalised by the end of the financial year but are more likely to reach a conclusion in the early part of the 22/23 financial year. Ongoing impact reflects rent changes agreed to date.	0	(10)
Area Committee Grants	58	39	(19)	The carry forward requested is at this stage an estimate of unspent and unallocated Area Committee budgets. This is largely due to the influx of additional funding that has been provided to the District Council from the County Council to support organisations that have been affected by Covid. Many of the applications that have been received have been for addressing the impacts of Covid on the organisations' ability to function and support those in the community. The application amounts have often exceeded the Area committee budgets and have been diverted to these larger funding pots so that the application requests can be fulfilled in their entirety.	19	0
Supplementary Planning Documents (SPDs)	67	0	(67)	It is anticipated that the evidence-based work associated with the SPDs, and approved by Cabinet in March 2021, will be procured in the final quarter of 2021/22. The majority of spend will therefore now be in 2022/23 and it is requested to carry forward the remaining £67k allocated to this project.	67	0
Town Centre Strategies	40	0	(40)	Council approved an investment bid of £40k for 2021/22 to finance progress with town centre strategy reviews, which form part of the documents supporting the Local Plan. Due to the delay in the issuing of the Inspectors final report post examination of the Local Plan, it is requested that this budget is carried forward to enable work to commence in the next financial year, following adoption of the Local Plan.	40	0
Transport User Forum	7	0	(7)	The forums have been held virtually due to the pandemic, which has reduced costs, and there are no plans to change this format for the remainder of this financial year. £40k was requested to be carried forward at Quarter One and it is requested that the remaining current year budget is carried forward to fund the costs of the User Forum in the next financial year.	7	0

Budget Area	Current Working Budget	Forecast Outturn	Variance	Explanation for variance	Carry-Forward requested	2022/23 Budget impact
Bulky Waste Collection Service Income	(42)	(81)	(39)	Forecast overachievement of income reflects the current level of activity, which is similar to the last financial year. Demand for the service has increased since the onset of the Covid-19 pandemic, with some residents consequently reluctant to visit Household Waste Recycling Centres, while others have reorganised their living spaces in adapting to new ways of working.	0	0
Total of Explained Variances	(1,223)	(1,353)	(130)		133	(10)
Other Minor Variances	19,328	19,347	+19		0	1
Total General Fund	18,105	17,994	(111)		133	(9)

8.23 Budget proposals were put forward for discussion at Group workshops in November. Comments on the proposals made by the Groups were outlined in the draft budget report presented at the December meeting of Cabinet. This has been covered in more detail in paragraphs 8.1 to 8.6 above. The savings arising from the Council decision to move to four-yearly elections have also now been added. The complete final list of savings and investments is included at Appendix B. This now includes an additional saving in relation to forecast interest received from the Council's investment of surplus cash. This is explained in more detail in the Council's Investment Strategy.

Revenue effects of capital

8.24 The Council incurs some interest costs in relation to historic borrowing for capital purposes. The small cost of this is reflected in budget estimates. If the Council was to take out new borrowing for capital purposes, then it would incur revenue costs in relation to interest costs and Minimum Revenue Provision (MRP). MRP is explained in the Investment Strategy report. The proposed changes to the Prudential Code mean that Councils would be expected to borrow internally against their revenue balances first, and only when those balances are insufficient would they borrow externally. Borrowing internally is currently cheaper as the interest cost is the lost interest that would have been earned, rather than the external borrowing cost. MRP still needs to be applied. The initial cost of borrowing is therefore forecast at 3%, although in the longer-term (when external borrowing is required) this will increase to around 5%.

8.25 As identified in the Investment Strategy report, the Council will need to borrow in the medium-term. The revenue budget therefore includes an estimate of these costs. This total is now estimated to be £52k in 2026/27.

Reliability of estimates

8.26 As part of the budget setting process, the Chief Finance Officer is required to comment on the reliability of the estimates made. A prudent approach has been adopted, especially in relation to income where it is only included where there is a high degree of certainty over it being achieved.

8.27 In addition to those factors already highlighted in this report that may affect estimates, a further significant area of uncertainty is in relation to pay inflation, which has been assumed to be 2% across the period. This assumption is in line with the majority of

Councils, and the allowances made are a factor in where the negotiations will end up. However the 2021/22 pay award has still not yet been agreed, which adds even more uncertainty to what pay levels will be for 2022/23 onwards.

- 8.28 The impact of Covid-19 remains a significant uncertainty, as detailed in paragraph 8.21 above. It is felt that setting aside a central contingency in both 2022/23 and 2023/24 is a prudent response to this uncertainty. The Council is not assuming any additional support from Government, even though the impacts faced could continue to be significant.
- 8.29 Each year, CIPFA publish a financial resilience index for all Local Authorities. The index provides an analysis of various measures (e.g. level of reserves, use of reserves) that are considered to be indicators of resilience. Each measure is shown as an index (i.e. a comparison against other similar Councils) so performance that is worse than average could be perceived as poor, even though all Councils might be considered to be performing adequately. The full analysis of the resilience index is included as Appendix D. The overall conclusion is that it does not highlight any new financial risks or concerns that have not already been highlighted (e.g. through the Medium Term Financial Strategy).
- 8.30 Overall it is considered by the Chief Finance Officer that the estimates made are as reliable as they reasonably can be. They will be subject to risk and this is the reason for setting a minimum General Fund balance and carrying out budget monitoring throughout the year.

Cumulative impact

- 8.31 The cumulative impact of all the estimates described in the previous sections is provided at Appendix C. This shows a forecast of funding and net expenditure for the next five years, including the impact on the General Fund balance.
- 8.32 Appendix C also includes a forecast of the remaining savings that the Council still needs to deliver by 2026/27. The recent increases in inflation (which are forecast by the Office of Budgetary Responsibility to increase in to 2023/24) mean that it has been necessary to increase the inflation forecasts included in the budget. This means that despite the savings that have been identified as part of the budget cycle, the forecast savings that need to be identified and delivered are £1.5m. Furthermore, with the proposed phasing of these savings, there would be a need to use more than £5.5m of reserves. These amounts are likely to be significantly affected by future changes to Local Government funding, with the introduction of a new funding formula and a proposed business rates reset.
- 8.33 This level of savings still required to be identified assumes that the Council will continue to increase Council Tax at the maximum level permitted without the need for a referendum. Any increase in Council Tax below this level would further increase the savings required to balance the budget over the period and require greater drawdown on reserves. The proposal is therefore that Council Tax should be increased by the maximum allowed.

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 prudent general fund and reserve balances
- 9.4 Local authorities are required by virtue of the Local Government Finance Act 1992 to calculate as part of their overall budget what amounts are appropriate for contingencies and reserves. The Council must ensure sufficient flexibility to avoid going into deficit at any point during the financial year.
- 9.5 The provisions of section 25 Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance Officer (s.151 officer) as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

10 **FINANCIAL IMPLICATIONS**

- 10.1 These are covered in the body of the report.

11 **RISK IMPLICATIONS**

- 11.1 As outlined in the body of the report.
- 11.2 There are significant uncertainties and risks with regard to the funding of the Council over the medium term. This uncertainty is reflected in a corporate risk of 'managing the Council's finances'.

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 Some of the savings and investments identified in Appendix B could have an environmental impact. For some of these (e.g. Green Space maintenance contract savings) the description in the Appendix provides details of the specific implications. For others there may be indirect implications (e.g. recruiting additional staff could require increased travel), and for these the impacts will be managed as much as possible. Overall the Council still plans to deliver the commitments contained within its Climate Change Strategy. Some of the specific actions contained within the Climate Strategy will be dependent on opportunities and funding being available. They may not therefore be in this budget, but could be incorporated in future years.

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, consultation and support is provided in line with HR policy.

16 APPENDICES

16.1 Appendix A – Financial Risks 2022/23

16.2 Appendix B – Revenue Budget Savings and Investments

16.3 Appendix C – Budget Summary 2022 – 2027

16.4 Appendix D- Resilience Index

17 CONTACT OFFICERS

17.1 Ian Couper, Service Director – Resources
ian.couper@north-herts.gov.uk; ext 4243

17.2 Antonio Ciampa, Accountancy Manager
antonio.ciampa@north-herts.gov.uk; ext 4566

17.3 Rebecca Webb, Human Resources Services Manager
rebecca.webb@north-herts.gov.uk; ext 4481

17.4 Isabelle Alajooz, Legal Commercial Team Manager and Deputy Monitoring Officer
isabelle.alajooz@north-herts.gov.uk; ext 4346

17.5 Reuben Ayavoo, Policy and Community Engagement Manager
reuben.ayavoo@north-herts.gov.uk; ext 4212

18 BACKGROUND PAPERS

18.1 Medium Term Financial Strategy <https://democracy.north-herts.gov.uk/documents/s17416/APPENDIX%20B%20-%20MTFS%202022-27%20updated.pdf>