STATEMENT BY EXECUTIVE MEMBER FOR FINANCE & IT ON COUNCIL TAX ESTIMATES 2018/2019

COUNCIL MEETING – 8 FEBRUARY 2018

THE CURRENT YEAR FINANCIAL STATEMENT

When Full Council approved the budget for this financial year, it was based on the Council needing to use its general fund reserves to make up for the shortfall in funding from the reduction in Government funding. The expectation was that £1.3 million of reserves would be required to cover the in-year deficit, reducing the general fund balance to £5 million by the 31 March 2018. Due to favourable variances and carry forwards towards the end of 2016/17, the opening General Fund balance at 1 April was higher than budgeted at £8.2m. However the expectation of using reserves to balance the budget for this year was still there.

As at the end of November, the estimated use of these reserves in the financial year 2017/18 has decreased by £0.5 million, due to both favourable variances reported during the year and the request to carry budgets forward into 2018/19 and delay the spending on specific projects. The revised forecast is that the General Fund balance at the end of this financial year will be around £7m.

As expected the general fund balance has been significantly greater than the budgeted minimum of £1.6m approved by Members at the time of setting the 2017/18 budget.

All the various funds and other earmarked reserves held in the General Fund are estimated to total £12.1 million at 31 March 2018 and comprise of the general fund balances of £7million and other earmarked reserves of £5.1million. The detail of the earmarked reserves can be found in Table 5 of the budget report.

CAPITAL ACCOUNTS

The Council continues to have a negative Capital Financing Requirement (CFR), due to the set-aside receipts it received from the housing stock transfer. This is forecast to be £5.7 million at 31st March 2018, although may be higher depending on the rate of spend in delivering capital projects towards the end of the year. Cabinet have confirmed that the use of these receipts is the most affordable and prudent way of continuing to invest in North Herts.

It is estimated that at 31 March 2018 the Council will have a capital receipts balance of £2.3million. 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 new Capital Receipts to fund the revenue costs of reform projects. This flexibility only applies to capital receipts received since the 1st April 2016. By the end of the current financial year, NHDC expect to have generated £1.2m in capital receipts since that date, with further receipts expected during 2018/19, and potential revenue costs have been identified that could be funded under the direction.

Following the recent update to the Prudential Code, the accompanying new guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) last week requires Local Authorities to now prepare and publish annually a Capital Strategy, which must be approved by Council prior to its application. This would be additional to the annual Treasury Management Strategy and would include additional information. While the new guidance applies from April 2018, MHCLG have confirmed that Local Authorities have the option to defer meeting all the disclosure requirements to the following year if it is not practical to do so in time for 2018/19. Given that the guidance was only announced last week, I confirm that it is not practical to incorporate it for this coming year.

CORPORATE BUSINESS PLANNING AND GENERAL FUND ESTIMATES 2018/2019

The priority-led budgeting principle continues to be used. This approach seeks to ensure that policy drives financial planning and gives members choices on their budget priorities. However at the same time policy also has to consider the available resources of the Council. The Corporate Business Planning process began early in the year, due to the extent of the efficiencies required to balance the budget over the medium term. The planning also had to consider the future funding uncertainties, particularly in relation to longer-term funding beyond the current national parliament term.

The Council's Medium Term Financial Strategy adopted by Full Council on 31st August 2017 indicated that to balance expenditure and funding the Council would need to find and deliver on-going annual efficiencies of around £4.2million by 2021/22. As only £1.9million had been identified where it was expected to come from, the assumed phasing of these savings allowed time for the identification, development and implementation of initiatives. This meant that over this period there would be a need to use £2.8 million of reserves.

The strategy recognised that the ability to be more efficient by reducing resources and staffing levels was becoming extremely limited, hence the Council's financial strategy going forward would focus on:

- Transformation of services so that they can be delivered at lower cost. This may involve up-front investment to allow the transformation to take place. This could include sharing of services with other organisations to make best use of resources and realise potential economies of scale.
- Reviewing existing service provision and planned capital investment to ensure there is a strong case for the continued provision of the service, particularly where the service is not statutory.
- Commercialisation and the options available to make use of our assets (e.g. capital resources) to generate revenue income (or reduce revenue costs). This would include increasing investment returns from our assets.

The Corporate Business Planning process allowed for initial high level proposals to be put forward for consideration by each Political group, followed by Member workshops on detailed options in November. The General Fund estimates for 2018/19 include the results of those proposals, with total planned efficiencies of £2.3million and revenue investments totalling £147k incorporated in the proposed budget of £14.6million for financial year 2018/19.

The majority of the total of planned efficiencies expected to be delivered in 2018/19 relate to the new contract awarded for the provision of Waste, Recycling and Street Cleansing services within the District. The contract award was the culmination of a joint procurement exercise with East Herts District Council. While the key services received by residents remain broadly the same, the full year cost to the Council is anticipated to reduce by £1.9million (£1.7million in 2018/19). The new contract will also be supported by a shared client team, with further savings incorporated in the budget estimates from this new way of working. As detailed in the post-script to the Cabinet referral, the savings from the client team were agreed to be recommended to Council at their meeting in December. The impact was included in the totals presented to Cabinet at their meeting in January but it was not included in the appendix that lists all the efficiencies. This error has been corrected in the papers presented to you tonight, and it is included in Appendix B.

The most notable pressure on Council resources in 2018/19 is likely to be expenditure associated with the progress of the District's Local Plan, the inspection of which is ongoing. An extended examination time period or a requirement to make extensive modifications to the submitted plan would be likely to result in significant additional costs, as indicated in the identified financial risks for 2018/19. In addition, resource may be required to challenge the plans of neighbouring areas where there are adverse consequences for North Herts. In seeking to mitigate the financial impact in 2018/19, the Council is planning to transfer resources into an earmarked reserve in the current year.

Last year's budget highlighted a risk in relation to a review that was due to be carried out by the National Joint Council (NJC) on Local Government pay scales. This was in relation to the impact of pay freezes, the increases for the new National Living Wage and that salaries are no longer in line with the general market. Assumptions in the MTFS for 2018-2023 were consequently revised to assume a 3% increase in 2018/19 and 2019/20, followed by a 2% increase each year thereafter. The previous assumption had been 1% wage inflation per year. With the NJC pay offer for 2018/19, published in December 2017, still subject to negotiation and agreement at this point, the assumptions in the MTFS remain in the budget estimates.

The Central Government settlement funding allocation for 2018/19, published in December 2017, is in line with the four year funding allocations for 2016/17 to 2019/20 previously announced in February 2016 and which the Council subsequently signed up to by submitting a sustainability plan. The reduction in settlement funding in 2018/19 represents a lower decrease than in prior years and that expected in 2019/20, when the prospect of 'negative RSG' is expected to become a reality. Negative RSG requires the Council to pay over an additional amount of business rates income collected, expected to be £1.1m, to Central Government. Whilst the provisional Local Government Finance Settlement in December 2017 stated that Government would look at "fair and affordable" options for dealing with negative Revenue Support Grant (RSG), the prudent forecast is that this review will unfortunately not lead to a significant change. A further announcement on this is due in the spring, so this will be kept under review. Beyond the end of the four year settlement period it is highly uncertain what the Council's funding will be. The introduction of increased Business Rates retention within Local Government and a Fair Funding review are both expected. As a worst case, this could result in additional responsibilities for the Council and also the redistribution of funding to other areas and to social care Authorities.

New Homes Bonus is also a significant element of the Council's funding. Changes announced last year to how the Bonus is calculated mean that the expectation of under £1.3m in 2018/19 is considerably lower than the almost £2 million received in the current year (and £2.7 million in 2016/17). The confirmed total for 2018/19 is however in line with the estimates in the Council's MTFS for 2018-23 and hence has not impacted on the level of efficiencies required. There remains scope for New Homes Bonus to be reduced or even withdrawn in the future. The baseline of 0.4% that was introduced last year can be increased at any time, which reduces the number of homes that the Council receives a bonus for. There has also been a consultation on not paying the bonus for any homes that are built on appeal.

The draft Council Tax referendum principles for 2018/19 were published on 19 December 2017. The Principles include the option for Local Authorities to increase Council Tax by up to 3% or £5 (for Band D properties), whichever is the greater amount, without the requirement for a referendum. 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" and therefore Cabinet resolved at its meeting on the 23rd January 2018 to recommend to Council a 2.99% increase in the District Council Tax.

BUSINESS RATES

Locally retained business rates give Local Authorities some limited financial incentive to promote growth in the business base of the district. 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 of successful appeals.

As of the 1 April 2013, 50% of the collectible Business Rates are retained by Local Government with the remaining 50% paid to central government. NHDC then passes 20% of the retained 50% to the County Council and then, as a tariff authority, pays around 80% to Central Government to reflect the fact that our anticipated income from Business Rates is higher than our assessed need. The outcome is that for every £1 collected in Business rates, NHDC keeps approximately 7p. The introduction of Negative RSG would see this drop below 5p.

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. North Hertfordshire will be part of a Hertfordshire Business Rates pool in 2018/19. The financial benefit from being in the pool is a reduction in the levy required to be paid to Central Government (compared to being outside a pool). As any gain is uncertain and would be a one-off, we have not forecast for it in the budget. If it does materialise, then we will review how this funding can be invested in North Hertfordshire.

As in previous years, and in accordance with the Local Government Finance Act 1992, I arranged a consultation meeting with representatives of Business Ratepayers on 29 January 2018.

DISTRICT COUNCIL REQUIREMENTS 2017/2018

The budget proposals were put together after taking into consideration the comments and recommendations from the various consultation meetings and reflecting on the priorities of the Council.

The overall estimates considered by the Cabinet at its meeting on 23 January 2018, indicate a net expenditure for the Council's own requirements in 2018/19 of £14.6million. In response to feedback and consultation, the Cabinet made several changes to the proposed budget, including ceasing the annual review of the Council's Apprenticeship scheme. This will mean that this scheme will now be invested in on an ongoing basis. Council will be asked to approve this evening further amendments to the budget, which relate to initiatives previously approved by Council and therefore require Council's authority to amend. These include the removal of the saving in relation to four yearly District Council Elections and deferring for a year the savings in relation to an NHDC Lottery and an alternative format for Area Committees. Table 8 in the budget report summarises the impact on the budget estimates from these changes.

If these changes are approved then it will increase General Fund expenditure by £115k in 2018/19, and by £89k on an ongoing basis from 2020/21. This will increase projected net expenditure in 2018/19 up to £14.7 million, and therefore increase forecast use of reserves. This, combined with the changes made by Cabinet at their January meeting, mean that the savings that are forecast as needing to be identified and delivered by 2021/22 will need to increase. Based on current forecasts, to achieve a balance between funding and expenditure in 2021/22, the required additional savings will increase from £150k up to around £400k.

The revised projected net expenditure of £14.7million in 2018/19 is a notable reduction from the 2017/18 original budget of £16.5million. The planned implementation of £2.3m of efficiencies identified for next year mitigates the growth pressures facing the Council in the year ahead and the reduction in Central Government funding to the extent that the Council is currently anticipating making a small contribution to reserves from General Fund activities in 2018/19. This contribution will help to cushion the impact of the significant further reduction in funding expected in 2019/20.

An assessment of the risks faced in the coming year has identified items where the financial impact is not wholly known and prudence would therefore indicate the need to set the General Fund balance substantially higher than 5% of net expenditure. The full list of all the identified financial risks is attached to the budget report as appendix C. Although the total assessment of risk is £7.5million, the level of risk varies low to high. Taking a proportion of the risk into account would mean it would be prudent to maintain balances that are £1.4million above the minimum level. As required by the Local Government Act 2003, the Chief Finance Officer, must give an assurance on the robustness of the estimates and the adequacy of reserves allowed for in the budget. The Head of Finance, Performance and Asset Management advises that a General Fund minimum balance of £2.15million for 2018/19 is necessary.

Returning to the generality of the report, even the revised level of additional savings to be identified and delivered by 2020/21 is still relatively small. In the light of this, it could be argued that the level of proposed general reserves that the Council was carrying was not necessary. However, this needs to be considered alongside:

- The general uncertainty surrounding Local Government finance mentioned previously
- That the significant savings that have been identified still need to be delivered, and:
- The need for the Council to find new ways of financing its activities, such as commercialisation. These activities may need investment from reserves during the early years. They also fundamentally increase the risk profile of the Council, such that the 5% base assumption may need to be reviewed.

The proposed level of reserves is still significantly below the maximum CIPFA recommended level.

Cabinet recommend that a 2.99% increase on Council Tax (average band D of £223.45) be levied upon the Collection Fund for 2018/19. The make-up of funding for a band D property is shown below (prior to any budget amendments agreed this evening):

DISTRICT COUNCIL TAX AT BAND D

		Change from 2017/2018
	£	%
NHDC Budget	297.91	-12.27
Contribution to / (from) reserves	3.88	
Less:		
Government Grant & Business Rates	(52.59)	-3.36
New Homes Bonus	(25.75)	-36.92
NHDC (All Areas)	223.45	+2.99

The Council Tax requirement for the Council's own purposes (excluding Parish precepts) is £10,975,529. Parish Precepts, as listed in the addendum report tonight, total £1,095,531. Therefore, the total District Council Tax requirement including Parish Precepts is £12,071,060.

Formal notification of precept requirements from the Hertfordshire Police and Crime Commissioner and Hertfordshire County Council are expected shortly. The Police and Crime Panel reviewed the recommendations by the Police and Crime Commissioner on the 1 February and raised no objections. Formal notification is therefore expected shortly. The County Council will meet to set their budget on 20 February. The NHDC formal Council Tax Resolution will be presented to the Council Tax Setting Committee for approval on 28 February 2018.

CAPITAL PROGRAMME 2018/19 – 2021/22

Total capital expenditure planned for 2018/19 amounts to £12.5million, and £17.1million for the four year period to 2021/22.

The Cabinet at their meeting on 23 January 2018 considered the proposed capital programme and resolved to recommend approval of the programme. The budget allocations for each capital scheme are provided as an appendix to the capital report, alongside the forecast funding arrangements.

The capital report shows that on current forecasts the Council would use up all its capital reserves during 2018/19. This would result in having to borrow or using revenue reserves. The Council is forecasting to generate £8.5 million of capital receipts over the next four years, however this forecast could be affected by the inspection and adoption of the Local Plan. Achieving this level of receipts also involves the sale of the majority of the Council's remaining land that is suitable for residential development. Beyond this four year period, in common with most Councils, it is inevitable that the Council will need to borrow to fund its ongoing capital investments in the District.

Included within the capital programme is a commitment to fund extension to the Hitchin Swim Centre car park. The Council was advised recently of the outcome of a public enquiry in to carrying out restricted works on Common Land. The inspector decided against the proposal. The implications of this decision will be reviewed and for now the capital funding allocation will be kept. The detailed review of the decision may mean that there is no financially viable case for this work that can be made, and if this is the case the item will be removed from the capital programme.

Finally I would like to thank all the officers across the Council, for their hard work and commitment in producing the budget information under such continued difficult financial circumstances.

As Presented by COUNCILLOR Julian Cunningham.
Executive Member for Finance & IT