

CABINET
13 December 2022

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: DRAFT BUDGET 2023/24

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: Sustainability

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 2023/24. 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 2023/24 onwards and the significant uncertainty that still remains.
- 2.2. That Cabinet confirm that it is necessary to increase Council Tax by 3% (the maximum amount now allowed without a local referendum) as this is what will be assumed by Government in determining the Business Rates that the Council can retain.
- 2.3. That Cabinet confirm that the Council should be part of a Business Rate pool in 2023/24, but delegates to the Service Director: Resources, in consultation with the Executive Member for Finance and IT, authority to withdraw from the pooling arrangement if there are significant changes that would make it likely that the Council would suffer a financial loss from pooling.
- 2.4. 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.
- 2.5. 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 2023/24, to be considered by Full Council on 23 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 2023-28, 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 effectively 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).

6. FORWARD PLAN

- 6.1. The majority of this report relates to the Council's budget that will be considered by Council at its meeting in February. There are some aspects of the report that contain a recommendation on a key Executive decision and was therefore referred to in the Forward Plan that was first notified to the public on 7th October 2022.

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 2027/28. In the shorter term the budget will be balanced through the 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 2023/24 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 2023/24. The anticipated benefit, based on 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. The deadline for any withdrawal is 28 days from the announcement of the Local Government Finance settlement. At the time of writing this report it is unknown when the Finance settlement will be announced, but it is likely to be mid-December. It is possible that the settlement announcement will be that no Councils will be allowed to Pool. If pooling is allowed then it is expected that it will be beneficial, so Cabinet are asked to confirm that the Council should be part of the Pool. Recommendation 2.3 provides a delegation to the Service Director: Resources (in consultation with the Executive Member for Finance and IT) in case there is a change that would make it not worthwhile (e.g. too much risk of a pooling loss). As has been the practice for a number of years, a level of pooling gain is not assumed in the budget estimates.

8. RELEVANT CONSIDERATIONS

Council Tax base

- 8.1. The Medium Term Financial Strategy assumed that the Council's tax base (the number of Band D equivalent properties that pay Council Tax, after deducting those eligible for Council Tax Reduction, other discounts and applying a 99% collection rate) for 2023/24 would increase by 0.5% from the 2022/23 level. The Council's tax base at the end of September 2022 was 1.25% higher than the previous year. It is likely that the building of new properties will further increase the tax base before the start of, and during, 2023/24. But it is also likely that, with the cost of living crisis, eligibility for Council Tax Reduction will increase. Therefore the forecast tax base will be based on a 1.25% increase.
- 8.2. For the years after 2023/24 it was assumed that the Council Tax base would grow by a net 0.5% per year. This assumed a prudent level of growth in new properties, partly offset by an allowance for the additional costs of providing services (e.g. waste collection) to those new properties. Whilst the Council has now adopted a Local Plan for the period up to 2031, the prudent assumption of 0.5% will be retained for this budget cycle and will be reviewed as part of next year's Medium Term Financial Strategy.

Autumn Statement

- 8.3. The most significant announcement from the Chancellor's Autumn Statement was a change to the rules on Council Tax increases without the need for a referendum. Previously this limit has been the higher of £5 (band D equivalent property) or 2%. The announcement in the Autumn Statement was that this will be 3% from 2023/24 for non-Social Care Authorities. At the time of writing this report it is not completely whether this is just for 2023/24, an ongoing change or subject to a different time limit (although some indications that it will be in place for 2 years). As some forecasts are that inflation will return back to around 2% by 2024, the prudent assumption is that it will just be for one year. Whilst the Council can choose to increase Council Tax by less than the limit, it must be noted that the Government are very likely to assume that Councils have increased their Council Tax by the maximum allowed when determining the remainder of their funding (in our case the level of Business Rates that can be retained). Therefore an increase of less than 3% would mean in later years that higher levels of savings would need to be found, and therefore more services would need to be cut or reduced. Cabinet

are recommended to confirm that the draft budget should include an increase in Council Tax by 2.99% for 2023/24. In making this decision, it is worth noting that the District Council element of Council Tax is only around 12% (excluding Parish precepts, based on 2022/23) and that the County Council element (which makes up about 75%) is likely to increase by 5%. Furthermore, the proposed new Council Tax Reduction Scheme (subject to agreement by Council in January) will provide a 100% discount to the poorest households in the District.

- 8.4. The forecast impact of the increase in Council Tax Base and increasing the Council Tax rate by 3% (both in 203/24 only) is set out in the table below. As set out above it is assumed that Tax rate increases will then revert back to 2% per year, and tax base growth will then be 0.5%. Even though the changes are only in 2023/24 it has an ongoing impact in successive years:

£ millions	2023/24	2024/25	2025/26	2026/27	2027/28
Previous Council Tax income forecast	12.560	12.875	13.197	13.527	13.865
Revised Council Tax income forecast	12.774	13.092	13.419	13.755	14.098
Increase in forecast	0.214	0.217	0.222	0.228	0.233
- Proportion of increase due to change in tax base	0.117	0.118	0.121	0.124	0.127
- Proportion of increase due to Council Tax increasing by 2.99% (rather than 2%)	0.097	0.099	0.101	0.104	0.106

- 8.5. The Autumn Statement also confirmed that the National Insurance increase (to fund Social Care) will not take place. The Council had received some additional grant funding to cover this. It is assumed that the additional funding will be stopped from 2023/24, so there is no net budgetary impact of that change.
- 8.6. The Autumn Statement 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.

Local Government Settlement

- 8.7. The date of the draft Local Government Settlement will be week commencing 19th December. We have been told that some information may be provided earlier, and that the Settlement will confirm any elements that will continue in to 2024/25, to give some additional budget planning certainty. In the meantime, the assumptions in the Medium Term Financial Strategy will be used.

Pay and Price Inflation

- 8.8. Since the Medium Term Financial Strategy, the pay award for 2022/23 has been settled (at £1,925 for each pay-point). Negotiations on the 2023/24 pay award have not commenced yet.
- 8.9. Overall inflation is still very high, but also still in line with what was envisaged when the Medium Term Financial Strategy was written. So at this time there is no need to amend any of the inflation forecasts. These will be revisited again as part of the January Cabinet report.

General Reserve balances

- 8.10. The Medium Term Financial Strategy was set based on a General Fund balance at the end of 2022/23 (start of 2023/24) of £9.55million. The Quarter 2 budget monitor estimates that this will now be around £9.8million. This means that the Council can continue with the strategy set out for 2023/24.

Revenue Savings and Investment proposals

- 8.11. The Medium Term Financial Strategy highlighted a need to make at least £2.6million of net savings (efficiencies, income generation and service changes) over a five-year period i.e. by the end of 2027/28, which included the assumption that £200k of savings would be identified during the 2023/24 budget process.
- 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.
- 8.13. The proposals presented to the budget workshops resulted in medium-term net revenue savings of £284k per year. The joint administration workshop were content with all the proposals put forward. The Conservative Group asked a number of questions about the proposals but did not make any comments or recommendations to Cabinet.
- 8.14. Since the Budget Workshop it has been identified that the Scrutiny Committee will require additional Officer support to help it to be more effective. It is not currently clear how much additional support will be required. It is likely that this can be afforded from previous savings identified from a restructure in a different part of the Legal and Community directorate. Therefore, at this stage a budget pressure bid does not need to be added.
- 8.15. A further change since the Budget Workshop is that Hertfordshire County Council are looking to withdraw the support that they provide to Districts and Boroughs to minimise residual (i.e. non-recyclable) waste. This funding was provided through a mechanism known as the Alternative Financial Model. The amount that we will receive will reduce in 2023/24 (which is a payment based on performance in 2022/23), although it is expected that it will be broadly in line with the budget, after adjusting for the potential ongoing impacts of COVID-19 (as detailed in the Medium-Term Financial Strategy). It will then reduce to zero in 2024/25, which will be a budget pressure of around £400k. This will add to the savings that need to be identified and delivered in later years.
- 8.16. Another change is a proposal to extend the outdoor pool season at Letchworth Outdoor pool by 4 weeks (2 weeks at the beginning and end of the season) in 2023. Based on experience of usage and to minimise the financial impact to the council, the opening hours will be restricted to peak periods. A timed session wrist band system is also being introduced during the school holidays to reduce queuing and maximise income. A review of season ticket pricing will also be undertaken prior to the new season. The overall impact is expected to be an additional cost of up to £25k in 2023/24.

Capital Proposals

- 8.17. At the Budget Workshops, the Political 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 also faces a revenue cost of capital spend. The cash that is spent would otherwise be invested to generate a return. As interest rates have increased, the cost (through lost investment income) increases. In the medium term, the Council will also

move to being in a position where it has to use borrowing (either internal or external) to fund its capital programme. This further increases the cost of capital spend.

- 8.18. In addition to the list at Appendix B, it was also verbally highlighted that there would be a bid (amount currently unknown) for the replacement of the CCTV cameras that the Council will be retaining. This reflects that a number of cameras are getting old and need to be replaced with more modern technology. As well as providing better image quality, the new cameras may also allow revenue savings (e.g. in the way that they connect to the CCTV Control Room and the data link costs).
- 8.19. The joint administration workshop was content with all the capital proposals put forward. It was highlighted that they were looking to redevelop Charnwood House in to a community facility, but there was still too much uncertainty over the cost to include an amount in the capital programme at this stage. The cost that the Council would fund would be affected by the final design and also any funding from third parties.
- 8.20. The Conservative Group asked a number of questions about the proposals but did not make any comments or recommendations to Cabinet.

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) which has a moderate 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. Guidance from CIPFA (the Chartered Institute of Public Finance and Accountancy) strongly encourages 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. Medium Term Financial Strategy: [Agenda for Council on Thursday, 22nd September, 2022, 7.30 pm | North Herts Council \(north-herts.gov.uk\)](#)