

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: REVENUE BUDGET 2023/24

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

- 1.1. Cabinet is required to recommend a budget for 2023/24 to Council for their consideration and approval. The budget considers the following:
- The funding that the Council should expect to receive in 2023/24 and an estimate of future years funding
 - The forecast net spend required to enable the continued delivery of the Council services in 2023/24 and beyond
 - The estimation of lost income and additional spend in relation to the continuing recovery from 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 Cabinet recommends the following to Council:

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 £2.5 million is recommended.
- 2.3. Notes the net revenue savings that are likely to be required in future years, combined with the Chief Finance Officer's commentary on the reliability of estimates and the resilience index.
- 2.4. Approves the revenue savings and investments as detailed in Appendix B.
- 2.5. Approves a net expenditure budget of £18.123m, as detailed in Appendix C.
- 2.6. Approves a Council Tax increase of 2.99%, which is in line with the provisions in the Medium Term Financial Strategy.

- 2.7. Approves that the revenue investment for leisure centre condition surveys (as detailed in Appendix B, reference R13) is brought forward so that it can be spent in 2022/23.

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that all relevant factors are considered in arriving at a budget and Council Tax level for 2023/24. To ensure that the budget is aligned to Council priorities for 2023/24 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 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.

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. There have been some changes to these proposals since the budget workshops, and these changes are highlighted in this report.
- 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 This report does not contain a recommendation on 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 (and review by the Finance, Audit and Risk Committee). 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.

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. Cabinet agreed to all the savings and investments that were presented to the budget workshops. They also considered the following:

- That the Overview and Scrutiny Committee will require additional Officer support to help it to be more effective. The current expectation is that this can be afforded from previous savings identified from a restructure in a different part of the Legal and Community directorate.
- That the outdoor pool season at Letchworth Outdoor pool be extended by 4 weeks (2 weeks at the beginning and end of the season) in 2023. A timed wrist band system will be introduced during the school holidays to reduce queuing and maximise income. Season ticket pricing will also be reviewed. The net impact is a budget pressure of up to £25k in 2023/24, but could be lower.
- Noted that Hertfordshire County Council (HCC) 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 (AFM). 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. It will then reduce to zero in 2024/25, which will be a budget pressure of around £400k.

8.6 Excluding the decision by HCC to end AFM support, at that time it was expected that the adopted proposals would result in medium-term net revenue savings of £284k per year. The impact with the HCC decision was expected to be a net pressure of £116k per year. There have been some additional pressures that have been identified since then, as well as changes to the expected level of some of the savings and investments. This includes changes resulting from the Investment Strategy, which were known would not be finalised until this report, as they would be linked to levels of capital spend and investment return forecasts. These changes are detailed in paragraph 8.24.

General Funding

8.7. The Government provided a policy statement on Local Government funding on 12th December 2023. This was followed by the draft Local Government Finance Settlement on 19th December 2023. The policy statement provided some earlier warning of the principles that were detailed in the draft settlement for 2023/24, as well as some information on funding from 2024/25 onwards. The relevant points for future funding are:

- The baseline amount of Business Rates that Councils can retain will now increase in line with CPI (rather than RPI which is usually higher). Councils will continue to be reimbursed for this inflation even when Government make policy decisions to not increase the amounts that are charged to businesses.
- "Negative Revenue Support Grant" (which would reduce the amount of Business Rates that can be retained) will continue to be eliminated. This is assumed to be for the period until a new funding formula is introduced.

- A new funding formula will not be introduced before 2025/26, and could be later given the work involved.
- District Councils will be able to increase Council Tax by up to 2.99% without the requirement for a local referendum in 2023/24 and 2024/25. It is assumed it will then revert back to 1.99% thereafter.
- Business rate pooling will continue to be available in 2024/25.
- The future of New Homes Bonus will be set out in advance of the 2024/25 settlement, although no detail of how far in advance.
- That all Council's would see at least a 3% increase in their Core Spending Power, before they made a decision on Council Tax increases (but the 3% would be after assumed increases in the Council Tax base).
- Council's should start to receive funding from Extended Producer Responsibility (EPR) from 2024/25. This additional funding will be incorporated into future reviews of Council funding.

8.8. Overall the draft settlement is more positive than the forecasts in the Medium Term Financial Strategy. This is mainly down to the level of New Homes Bonus that we will receive, although the 3% guarantee on Core Spending Power would still have resulted in an increase. However it is necessary to note that the level of funding increases is still far less than inflation over the last two years. Growth in the Council tax base and a 2.99% increase in the rate of Council Tax (which is what will be recommended) also have a positive impact on funding compared with the MTFs position. The table below (table 1) shows a comparison between 2022/23 funding, the MTFs forecast for 2023/24 and the latest 2023/24 forecast. Table 2 provides estimates for future years.

Table 1 – Estimated General Funding comparison (2023/24)

£000 Funding	2022/23 Budget Estimate	2023/24 MTFs Forecast	2023/24 Latest Forecast	Difference between MTFs and latest forecast	Comments
Council Tax	12,248	12,560	12,791	231	Increase due to: (1) recommended 2.99% tax rate increase, rather than £5 for a band D (2) increase in Council Tax base by 1.4% rather than 0.5%.
Council Tax Collection Fund Surplus / (Deficit)	(2)	(54)	138	192	Forecast in-year surplus at January 2023 exceeds required repayment of 20/21 deficit spread amount of £54k. MTFs made no assumption as to in-year surplus / deficit position.
RSG	0	0	152	152	Two specific grants received in this year included in general funding for 2023/24. Confirmed that negative RSG delayed until at least 2025/26
Business Rates baseline	2,726	2,868	2,828	144	Whilst the inflationary increase is lower due to using CPI rather than RPI, we had been even more prudent in the level of inflation that would be applied. The split between these two lines is irrelevant in this context.
Compensation for not increasing the Business Rates multiplier	279	298	482		
New Homes Bonus	295	150	932	782	Forecast in the MTFs was low due to uncertainty over New Homes Bonus. Bonus for 2023/24 is based on growth of 807 band D equivalent properties (of which 332 are empty homes brought back in to use)

Lower Tier Services Grant	125	0	0	0	
Services Grant	188	100	106	6	
3% guaranteed increase in CSP	n/a	0	0	0	The level of New Homes Bonus means that our funding is above the 3% increase, without the need for additional grant
Less: grant funding for Council Tax Support administration grant now within base funding	n/a	0	(132)	(132)	This grant was previously a specific grant not contained with general funding. Amount is what we forecast we would receive as a specific grant.
Less: Council Tax support to Parishes	(39)	(39)	(39)	0	
	15,820	15,883	17,258	1,375	

Table 2 – Estimated General Funding forecasts

£000 Funding	2024/25	2025/26	2026/27	2027/28	Comments
Council Tax	13,239	13,570	13,909	14,257	Assumed 2.99% increase in rate in 2024/25, 1.99% thereafter. Net 0.5% increase in tax base
Negative RSG (or equivalent)	0	(500)	(1,000)	(1,000)	Confirmed that new funding formula delayed until at least 2025/26. Assume net decrease of £1m, with half the impact in the first year.
Business Rates income (including compensation for not indexing the multiplier)	3,543	3,614	3,686	3,759	Assume 2% inflation
Other funding	350	350	350	350	New Homes Bonus will not continue at the 2023/24 level, but to provide the same impact as the promised one-off 3% Core Spending Power there would need to be ongoing funding of £250k per year. Also add in Services Grant at £100k.
Less: grant funding for Council Tax administration grant now within base funding	(132)	(132)	(132)	(132)	This grant was previously a specific grant not contained with general funding
Less: Council Tax support to Parishes	(39)	(33)	(28)	(28)	Reduces to reflect introduction of negative RSG (or equivalent)
	16,950	16,858	16,774	17,195	
% Change on previous year	-1.82%	-0.54%	-0.50%	+2.51%	

8.9. The numbers in the table above are just estimates, and we will not get any certainty until at least 2025/26. These will be used for modelling future budget positions and therefore savings requirements, as they provide a realistic scenario. However overall, we will need to be ready to adapt to changes in funding levels.

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 3 below, noting that this is not an exhaustive list:

Table 3 – Forecasts in relation to grants and other contributions

Grant/ Contribution	Amount in 2022/23 (£000)	Risk/ Opportunity
Healthy Hub funding	35	HCC have confirmed funding for the Healthy Hub Service in 2023/24 of £35k. Funding for future years however has not been confirmed, so there could be a budget pressure if the service were to continue in its current form.
Homelessness Prevention Grant	340	Funding has been confirmed from DLUHC for the next two years of Homelessness Prevention grant. £364k in 2023/24 and £382k in 2024/25. Confirmation of two year funding gives the opportunity of planning and committing to schemes/projects.
Rough Sleeping Initiative Grant	203	DLUHC have confirmed amounts awarded for 2023/24 of £189k and 2024/25 of £157k for projects to address rough sleeping. Confirmation of two year funding provides the opportunity of planning and committing to schemes/projects.
Alternative Financial Model (AFM)	125	See paragraph 8.1. The last payment will be in 2023/24 (for performance up to the end of Q1 in 2022/23). The budget for this income will be completely removed from the service budget from 2024/25 onwards.
Housing Benefit Administration Grant	268	Notification has been received of the provisional Housing Benefit Administration grant for 2023/24 of £248k. The £20k reduction in grant reflects the reduction in case load due to working age clients transferring to universal credit. As there is no corresponding reduction anticipated in administering Housing Benefits in the next financial year, the budget pressure from this grant reduction is included in the budget estimates at Appendix C.
Council Tax Administration Grant	132	As referenced in tables 1 and 2, this funding has been incorporated into general funding, so will no longer be received as a separate grant. This creates a budget pressure which is reflected in the table 1 and 2. The service budget will be adjusted to remove this income.

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 2023/24 had been accepted for Hertfordshire County Council and five other Districts (including North Hertfordshire). The Pool had 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 achievement of a 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) had 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. At the time

of writing the report, it had been decided not to go ahead with the Pool. This is due to Business Rates revaluation that has taken place which has seen significant increases in rateable value for certain properties, particularly warehouses and film studios. This affects the levy rate that will be applied to the pool and also could make it more likely that there will be rates appeals. The response provided to Government in relation to the Pool detailed the reasons why it could not go ahead, and that the Business Rates revaluation was not revenue neutral (which was supposed to be the case). The response left it open for the Government to put in place a levy rate that was revenue neutral. In that case, we would then reconsider a Business Rate Pool for 2023/24, although would still need to consider the risk around potential appeals.

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, the 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 In the policy statement (12th December) reference was made to reviewing the level of Council reserves and gaining a better understanding of what they are being held for. The table below (table 4) demonstrate the reasons why reserves are being held, as well as forecasts of future balances. Apart from the MHCLG Grants reserve, all the balances are held for a specific purpose. The table below already notes that the MHCLG Grants reserve will mainly be used to smooth the impact of funding which has not kept pace with the level of inflation.

Table 4 – Specific Reserves

Name of Reserve	Purpose of Reserve	Balance at 1 April 2022	Estimated Balance at 31 March 2023	Estimated Balance at 31 March 2024
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 2023/24 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.	46	6	0
Churchgate Development Reserve	Additional income over and above that necessary to off-set the treasury income that would have been generated from the capital used to purchase the shopping centre freehold will be set aside in a reserve to support the planning and delivery of Churchgate regeneration project. The money will provide necessary professional advice via consultants, architects, quantity surveyors etc.	0	164	Unknown
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.	21	18	15
Growth Area Fund Reserve	Holds the revenue grant awarded. With the Local Plan now in place, this reserve is anticipated to be drawn down to fund relevant projects and activities.	32	20	0

Name of Reserve	Purpose of Reserve	Balance at 1 April 2022	Estimated Balance at 31 March 2023	Estimated Balance at 31 March 2024
Homelessness Grants Reserve	To help prevent homelessness in the district. The grant is earmarked for different homelessness projects or resources.	502	542	351
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.	1,016	906	727
Information Technology Reserve	To ensure the Authority has adequate resources to purchase hardware and software items when they are required.	23	23	Unknown
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. In recent years has been used for additional administration costs and software upgrades.	36	24	Unknown
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.	68	Unknown	Unknown
Leased Vehicles and Equipment Reserve	The incorporation of the accounting standard IFRS 16: Leases in the accounting code, effective from April 2023, 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 2023/24. 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. As detailed and explained in the MTFs, a total of £3m will be released into the General Fund to help bridge the forecast funding gaps in the coming years, as shown in Appendix C..	9,367	6,357	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.	14	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.	120	115	95
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

Name of Reserve	Purpose of Reserve	Balance at 1 April 2022	Estimated Balance at 31 March 2023	Estimated Balance at 31 March 2024
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 at the end of this financial year.	640	0	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 has agreed to house Syrian Refugees 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.	566	575	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	7	Unknown
Town Centre Maintenance	For the implementation of the Town Wide Reviews and ad hoc town centre maintenance.	69	77	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.	381	376	371
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.	836	836	Unknown
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.	1,341	1850	2,456
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.	614	547	Unknown

8.17 As at the 31 March 2022 there was a total of £2.493m held as long-term provisions. These are comprised of:

- Business Rates appeals - £2.463m - the Council's estimated share of outstanding business rates appeals
- Insurance - £30k - covers the uninsured aspect of outstanding insurance claims.

8.18 We do not want to be in a position where we are holding such a high level of provision in relation to Business Rates appeals, but it reflects the number of outstanding appeals which need to be dealt with by the Valuation Office Agency (VOA). Until those appeals are resolved, the Council can not use these amounts for another purpose, nor can they go back to businesses.

8.19 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 £18.1million, 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 £13.9m and therefore an additional allowance of £400k will be added.

- 8.20 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 5 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 8.22 below.

Table 5- Budget Risks in 2023/24

Category	Number of Risks	Forecast Value of Impact (£000)	Risk Allowance (£000)
Low	14	3,634	0
Medium	14	1,238	310
High	10	1,810	905
Total	38	6,682	1,215

- 8.21 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £2.5million should be maintained. This is what is recommended by the s151 Officer (Chief Finance Officer).

Covid-19 financial risk

- 8.22 A central contingency budget was created in 2022/23 to cover the estimated costs (including lost income) of Covid-19. An amount was set aside for 2022/23, with a lower amount set aside in 2023/24, and then reducing back to zero impact in 2024/25. Table 6 below details the amounts that were set aside in the MTFS, with comments against these and any further adjustments:

Table 6- Covid-19 central contingency

Type of spend/income	Normal budget (£000)	Basis of contingency for 2023/24 (MTFS)	Amount of contingency budget in 2023/24 as per MTFS (£000)	Comments	Revised contingency budget 2023/24 (£000)
Leisure Centre management fee income	820	20% of management fee	160	Based on the performance in 2022/23, the contract may return to paying a full management fee in 2023/24, but seems prudent to retain a provision of 10%	80
Pay as you use parking income	2,020	5% of annual income	100	Forecast shortfall in 2022/23 of around £200k, so maintain a 5% allowance	100
Hitchin Town Hall	230	20% of annual income	40	Performance to date in 2022/23 indicates a faster recovery in demand following the pandemic than anticipated. Contingency in 23/24 can therefore be removed.	0

Trade Waste income	1,010	5% of annual income	50	Based on current monitoring expected to be at normal levels in 2022/23	0
Homeless costs	80	50% increase	40	Temporary accommodation costs have returned to pre-pandemic levels over the last few months and no additional government requirements remain. While costs may increase in 23/24, no longer linked to Covid-19 so should be removed.	0
Car park season tickets	320	20% of annual income	60	Continuing shortfall believed to be due to changes to working patterns, so retain contingency at previous estimate	60
Recyclable materials	290	50% increase	150	High variability but no longer linked to Covid-19 so should be removed.	0
AFM income	420	50% of annual income	210	As HCC will ending payment of AFM, this is expected to cover the majority gap between the budget and what will be received in 2023/24. The shortfall is still mainly due to Covid-19 impacts.	210
			810		450

Expenditure Forecasts

8.23 The starting point for forecasting net expenditure for future years is the previous year's budget, as set in February 2022. 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 7 below. The budgets requested to be carried forward and the ongoing impacts are included in the budget estimates detailed in Appendix C, while the forecast General Fund outturn of £17.28m for 2022/23 informs the opening general fund reserve balance shown in Appendix C.

Table 7- Summary of forecast variances (amounts £000)

Budget Area	Current Working Budget	Forecast Outturn	Variance	Explanation for variance	Carry-Forward requested	2023/24 Budget impact
Social Care Levy Central Contingency	88	0	(88)	The Local Government Finance Settlement for 2022/23 included £188k Services Grant. This grant was to cover the increased employee costs that the Council faced from the introduction of the Social Care levy from April 2022 (1.25% increase in the employer NI contribution rate), which was estimated to result in an additional cost of approximately £100k in 2022/23. The balance of £88k was set aside as a central contingency should a contribution from the Council towards additional contractor costs be required as a result of the levy. With the measure now reversed from 6th November 2022, the Council does not anticipate a need to drawdown on this contingency in 2022/23.	0	0
Legal & Community Directorate Staffing Costs	1,815	1,774	(41)	Forecast underspend is largely due to vacant posts in Democratic Services and Community Safety.	0	0
Electric Vehicle Charging Points	73	10	(63)	Officers are currently seeking a private sector partner to participate in the provision of EV chargers within the Council's car parks. The future direction of spend for this budget is dependent upon the outcome of this procurement and a Government grant application in the new year. A carry forward of the unspent budget is requested to fund any ongoing and associated work requirements associated with this project.	63	0
Supplementary Planning Documents (SPDs)	167	0	(167)	The new Local Plan was subject to significant delays before being adopted in November 2022. A programme of work for the supporting SPDs is now being prepared. The programme will include the procurement of external consultancy support, hence substantive costs are now unlikely to be incurred before the start of the 2023/24 financial year.	167	0
Town Centre Strategies	80	0	(80)	Town centre strategy reviews form part of the documents supporting the Local Plan. Following the adoption of the Local Plan in November 2022, a programme of work for the Town Centre Strategy reviews is now being prepared. This will require the procurement of external consultancy support, meaning that substantive costs are unlikely to be incurred until 2023/24.	80	0

Budget Area	Current Working Budget	Forecast Outturn	Variance	Explanation for variance	Carry-Forward requested	2023/24 Budget impact
Transport User Group Forum	47	1	(46)	This budget was originally set up for the costs of facilitating the User Forum, such as venue costs and consultant advice. The Forum has recently been amalgamated with the Transport Cabinet Panel meetings, which is now embarking on a new programme of work. It is therefore unlikely that this budget will be spent in the current financial year and it is requested that the budget is carried forward to fund future projects to be discussed at future meetings that may require consultancy/expert input.	46	0
Local Plan Post Adoption Review	35	13	(22)	Revenue investment was approved by Full Council in February 2022 to support work on an early review of the adopted Local Plan. The narrative supporting the budget bid identified that any year-on-year underspend would help mitigate or reduce further growth bids as the Plan reaches key points (e.g. pre-submission and examination) which require significant financial resource in terms of full, up-to-date evidence bases, legal support and inspection costs. Due to the delay in the adoption of the local plan, the majority of work originally identified for 2022/23 will not commence until 2023/24.	22	0
Brexit Grant Funded Expenditure	12	1	(11)	A carry forward of the balance of the Brexit grant expenditure budget is requested to contribute to the cost of a Social Value Portal in the next financial year.	11	0
Total of Explained Variances	2,317	1,799	(518)		389	0
Other Minor Variances	15,469	15,481	+12		0	(1)
Total General Fund	17,786	17,280	(506)		389	(1)

8.24 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. Since then, the following changes have been made, including new proposals:

- The revenue efficiency (reference E9) relating to treasury income receipts has been updated in line with the Investment Strategy (see paragraphs 8.25 and 8.26 below).
- The revenue efficiency (reference E10) relating to the Local Government Pension Scheme contribution rate has been significantly reduced. It had been understood that the Council's percentage contribution rate would drop by 1% and the lump-sum would remain fixed. However the final actuary position is a much smaller reduction in the total contribution that the Council will need to pay.
- The revenue investment (reference R14) relating to waste related telephone payments has been updated to include the expected costs, previously these had been TBC.

- The inclusion of those budget pressures considered at the Cabinet meeting in December in relation to AFM monies from HCC and outdoor pool opening (references R35 and R36).
- Additional consultancy support for leisure contract procurement (reference R37). Expected to be in 2023/24 only. To support this, recommendation 2.7 proposes that the condition survey work is brought forward so that it can be delivered at the end of 2022/23.
- Ongoing additional funding for the toilet cleaning contract which arises from the prices submitted to a recent tender process. The decision on contract award will need to be made by Cabinet in March.
- Inclusion of the additional pressure (reference R39) for the Minimum Revenue Provision required (see paragraphs 8.25 and 8.26 below).
- Ongoing additional funding for maintenance support for the AV equipment in the Council Chamber (reference R40). This will help with the recent issues that have occurred during committee meetings.

The complete final list of savings and investments is included at Appendix B. The cumulative impact of the changes in the list above is an increase in projected spend, and will therefore affect the savings that need to be delivered in future years.

Revenue effects of capital

8.25 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. In line with the Prudential Code (and as set out in the Investment Strategy), the Council plan to borrow internally against revenue balances first, and only when those balances are insufficient would we borrow externally. Borrowing internally is generally 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.

8.26 As identified in the Investment Strategy report, the Council will need to borrow in the medium-term. The revenue costs of that borrowing, alongside the impact of using reserves to fund revenue expenditure (i.e. lost investment interest), need to be reflected in the revenue budget. Table 8 shows the amounts that need to be incorporated in to revenue spend forecasts:

Table 8- Revenue impacts from the Investment Strategy

£000		2023/24	2024/25	2025/26	2026/27	2027/28
Forecast external borrowing costs (existing borrowing)		37	36	35	33	32
Forecast interest income from investments		(1,618)	(1,048)	(555)	(502)	(480)
Forecast MRP requirement		0	24	189	225	241
Net budget requirement		(1,581)	(988)	(331)	(244)	(207)
Current allocated budget*		(594)	(668)	(673)	(617)	(617)
Change in budget required		(987)	(320)	342	373	410

* The current budget includes an adjustment at Quarter 1 (and in the Medium Term Financial Strategy) which increased the ongoing investment income budget by £500k on an ongoing basis. This was a prudent estimate for 2024/25 and 2025/26, but further analysis has shown that it was an over-estimate in later years (as available balances reduce and interest rates are expected to move back to around 2%).

Reliability of estimates

- 8.27 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 generally been adopted, especially in relation to income where it is only included where there is a high degree of certainty over it being achieved. There are no in-year unidentified savings required.
- 8.28 There are still significant uncertainties in relation to the following:
- Pay Inflation
 - Other inflation
 - Covid-19 recovery
 - Future funding
 - Contract renewal
 - Waste policy changes
- 8.29 The forecast included for the 2023/24 pay award is an average increase of 4%, and then 2% each year thereafter. Due to the delay in agreeing the 2022/23 pay award, the Unions have not yet announced their position on the 2023/24 pay award. In turn this means that the employers (Councils) have not yet considered their response to any proposal. An average 4% pay award (as with the 2022/23 pay award) could mean that the lower paid get a greater percentage increase, and the higher paid a smaller percentage increase. Every additional 1% pay award is an additional ongoing cost of around £200k per year.
- 8.30 Inflation on our contracted services has been estimated for 2023/24 based on the terms of each contract and current/ forecast inflation rates (depending on the date each year that inflation is determined). For 2024/25 onwards it is assumed that inflation will return to around 2% and therefore contract inflation is estimated at this level going forward. The cost of inflation for 2023/24 is around £1.3million.
- 8.31 The impact of Covid-19 remains a significant uncertainty, as detailed in paragraph 8.22 above. It is felt that setting aside a central contingency in 2023/24 is a prudent response to this uncertainty. There remains uncertainty as to whether certain income sources (e.g. parking, especially long-stay) will ever fully recover. Given that there is general improvement towards normal levels of cost/ income, it is considered a return to normal is a feasible outcome. Therefore at this time a permanent adjustment is not included. This will kept under review through budget monitoring reports and in setting future budgets.
- 8.32 Whilst the ministerial statement provided some indication of what funding to expect in 2024/25, the further delay to a new funding formula means that there is no certainty for 2025/26 onwards. In the medium-term we have to work on the prudent assumption that a new funding formula would have a similar impact to 'negative RSG', even if the financial impact transpires in a different way. The 2023/24 Local Government settlement provided a 3% guaranteed increase in Core Spending Power (essentially the main sources of funding). As we got a large amount of New Homes Bonus it is uncertain how this will affect future allocations if (as is most likely) our allocation from New Homes Bonus (or a replacement funding mechanism) drops next year. As the 3% related to inflation that has an ongoing impact, it would seem unfair to let that fully reduce without a partial compensatory increase in another grant. So that is what has been assumed in the forecasts in table 2.
- 8.33 The Council has two large contracts that will be retendered over the next few years, i.e. the waste and street cleansing contract, and the leisure contract. The waste contract will also be subject to Government policy changes in relation to waste collection (see next paragraph). The leisure contract has been affected by Covid-19 but is recovering

well. The Council has also invested in a soft-play facility at North Herts Leisure Centre which should help boost income generated. Whilst there is risk in assuming that net income will stay at the same level, it is considered to be a reasonable assumption.

8.34 Government have consulted on a series of proposals in relation to waste collection. These include:

- Introducing consistent waste collection across all areas of the country (e.g. same materials in the same types of bins) and being stopped from charging for garden waste collections.
- Introduction of a Deposit Return Scheme (DRS), which would have an impact on what we collect at the kerbside. It is likely to mean that higher value recycling materials would be taken to deposit return locations, leaving us to collect the remainder. This would negatively affect the net costs of disposal for recycling materials.
- Extended Producer Responsibility (EPR), which places the financial burden for waste on those that are producing it at source.

The full details of what will be adopted (and when) is still not yet known. Income generated from EPR should come to Councils. It has been said that Council funding will be reviewed in the light of ERP, with the implication being that Government are assuming that if left unchanged the additional income would be more than the additional costs incurred. It is assumed that the Council will be fully compensated for any financial impacts from service changes, DRS and EPR. This budget includes a proposal to change garden waste charges which in the medium term will increase our annual income. This budgeted increase has been set aside to off-set future additional costs of the waste service. A similar approach has been taken in respect of the Cabinet decision to move to 3-weekly residual waste collection. Whilst it will reduce costs, this saving has also prudently been assumed to off-set future additional costs.

8.35 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).

8.36 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

8.37 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.

8.38 Appendix C also includes a forecast of the remaining savings that the Council still needs to deliver by 2027/28 (i.e. £2.5m in total, with £100k to be delivered in 2024/25, a further £1m in 2025/26, a further £1m in 2026/27 and a further £400k in 2027/28). The better than forecast position on funding for 2023/24 needs to be tempered by the need to make prudent assumptions around funding in later years. Also the changes detailed in

paragraph 8.24 off-set the increase in the medium-term, noting that treasury and capital negative impacts are greater in later years. It is therefore recommended that the capital programme is further reviewed and challenged during 2023/24.

- 8.39 The improved position on funding does mean that over the next couple of years the drawdown on reserves will be lower. This supports the approach that the Council can choose to deliver the majority of its savings (which are likely to involve service change and reduction) after the impacts of high inflation have hopefully subsided, and when there is some greater certainty over future funding (i.e. 2025/26 onwards)
- 8.40 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. It is expected that future Government forecasts of our required funding will assume that we have increased our Council Tax by the maximum amount allowed (without a local referendum).
- 8.41 The profile of savings set out in appendix C (and paragraph 8.38) is forecast to require a reduction in specific reserves of £3m (i.e. use of the MHCLG grants reserve). This means that the General Fund balance is expected to be retained at around £10m. Whilst this is substantially in excess of the minimum recommended level, a failure to deliver the target savings would see a forecast general fund balance at the end of 2027/28 of just over £4m, and a remaining annual budget gap of over £2.5m. The General Fund balance also provides some mitigation against the impact of future risks relating to contract retenders.

9 LEGAL IMPLICATIONS

- 9.1 Council will exercise the following function in accordance with TOR 4.4.1 *“approving or adopting the budget.”*
- 9.2 Section 16 of the Council’s Constitution sets out the Budget and Policy Framework Procedure Rules. TOR 16.1 confirms that the Council will be responsible for the adoption of its budget and that once a budget is in place; *“it will be the responsibility of Cabinet to implement it.”*
- 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 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

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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>