

FINANCE, AUDIT AND RISK COMMITTEE

8 JANUARY 2025

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: REVENUE AND CAPITAL BUDGETS FOR 2025/26 ONWARDS

REPORT OF: *SERVICE DIRECTOR: RESOURCES*

EXECUTIVE MEMBER: *FINANCE AND IT*

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

The Council's budget setting process starts with proposals that are developed by Officers and Executive Members. These proposals are considered by the Political Liaison Board, in the context of the Council's forecast overall financial position. The selected proposals are then taken to the two budget workshops (administration group and opposition groups). Feedback from those workshops is considered by Cabinet in this report to determine those proposals that should be taken forward to set the 2025/26 budget.

On 28 November, Government published a Local Government Finance policy statement. On the same day the funding allocations for Extended Producer Responsibility (ERP) were announced. The allocation of £1.4 million of funding for ERP for 2025/26 was positive, as this will be guaranteed and be in addition to Core Spending Power. The remainder of the policy statement was less positive as it highlighted that future funding would be focused on deprivation and those areas with a low Council tax base.

On 14 December, Government announced the provisional Local Government finance settlement. The Council's Core Spending Power for 2025/26 will be £18.323 million (a 0% change from 2024/25). It is forecast that the Council's overall funding for 2025/26 will be £19.721 million (7.9% more than 2024/25). This increase will help reduce the use of reserves to balance the 2025/26 budget.

2. RECOMMENDATIONS

That Finance, Audit and Risk Committee comment on the recommendations to Cabinet which are:

- 2.1. That Cabinet notes the Council's expected funding for 2025/26.
- 2.2. That Cabinet confirms (in line with the Medium-Term Financial Strategy) that budget forecasts should be based on increasing Council Tax by 2.99% (the maximum amount allowable without a local referendum). Noting that Government have assumed Council Tax will increase by the maximum allowed in calculating Core Spending Power.
- 2.3. That Cabinet notes that the Council may see real-term reductions in its funding in future years.
- 2.4. That, in the context of the above, Cabinet agree which proposals (revenue and capital) should be taken forward as part of the budget-setting process for 2025/26.

3. REASON 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 2025/26, to be considered by Full Council on 27 February 2025.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Council's Medium Term Financial Strategy (2025-30) sets out a plan for the 2025/26 budget that would not require any substantial savings, but that any pressures should be off-set by reductions in spend/ increases in income. The proposals in this report include significant pressures that are not currently matched by savings. This is mitigated by the funding that is provided by ERP, but will still require a use of reserves. There could be a decision to push forward more quickly with the identification and delivery of savings proposals. This would help reduce the spend against reserves.
- 4.2 Officers have already been asked for their savings proposals and these are included within this report. There will be other proposals (e.g. ones that require changes to service provision) that may need to be taken forward as part of future budgets to help achieve a balance of in-year net spend and funding.
- 4.3 Political groups were asked for budget ideas (especially spend reduction and income generation) at the budget workshops. No ideas have been provided. If they are put forward then they would be considered.

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 February. Both reports will also be considered by the Finance, Audit and Risk (FAR) Committee. The final budget reports will be approved by Council.
- 5.3. Business Ratepayers will be consulted on the proposals within the February report. This is the only statutory consultation that is required. This consultation will be via the website/ e-mail.
- 5.4. If any saving proposal is anticipated to have a particular impact on a specific area (or areas) then it can be considered by the relevant Community Forum(s). Any comments could be referred to Cabinet when they are considering the budget to be referred on to Full Council.

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 Full Council in September following recommendation by Cabinet. The budget estimates within the MTFS included several assumptions. These will be updated as better information becomes available and further updates will be made prior to the presentation of the budget to Cabinet in February. 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 the next 5 years. This is to ensure progress is made towards balancing the Council's budget, with the aim of achieving a substantially balanced budget (net expenditure = funding) by 2027/28. In the shorter term the budget will be balanced using 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. Where there is a sufficient buffer between actual and minimum General Fund reserve levels, and a balanced budget can be achieved on an ongoing basis, then that could provide scope for one-off investments in the District.
- 7.3. The target savings for 2025/26 was a net zero ongoing budget impact. That means no savings needed to be identified, but any growth in spend should be off-set by corresponding savings.

8. RELEVANT CONSIDERATIONS

Budget Workshops

- 8.1 The Council's budget setting process starts with proposals that are developed by Officers and Executive Members. These proposals are considered by the Political Liaison Board, in the context of the Council's forecast overall financial position. The selected proposals are then taken to the two budget workshops (administration group and opposition groups) which took place at the beginning of November. The items that were presented are detailed in Appendix A (revenue proposals) and Appendix B (capital proposals).
- 8.2 At both workshops there were questions and discussion about the proposals that were presented. There were no additional saving ideas put forward. There was no formal feedback from either of the opposition groups.
- 8.3 The administration group provided the following feedback (references relate to the Appendices):

Revenue budget proposals:

- E6. Agreed to the principle of charging for all car parks on Sundays and in the evening (subject to consultation), to help manage demand and seems equitable. Any assumed financial impact in 25/26 should be assumed to be small as there would be implementation costs and would take some time to consider and implement an appropriate charging structure.
- E7. Agreed to an increase in the charge for garden waste (with concessionary discounts) to reflect increases in costs from May 2025, reflecting charges by other Councils and continuing to encourage home composting.

It was noted that the charge would need to be agreed ahead of the budget process (i.e. at January Cabinet) as it was necessary to enable new sign-ups from February.

- R4-R11. Requested whether there could be a scaled back option for the staffing investment in Environmental Health, whilst also noting the importance of this statutory service.
- R14. Civic Secretary to Chair of Council- felt that the work should be carried out by the Chair themselves and could not justify this expense in the context of the overall pressures on Council funding.
- R16. Central Grants pot- felt that the amount was not sufficient to cover all the requests that came to multiple Community Forums and also did not want to lose the local involvement in grant decisions.
- R18. Additional Service Director capacity- supported the principle, but queried whether there were any unfilled posts that could be released to provide some of the funding. Or alternatively whether it would be possible to extend the vacancy factor (currently a 3% top-slice on pay budgets that reflects that overall, there will always be some gaps in staffing).

Capital Budget proposals:

- NCP2 (25 machines outside the Windows environment) – noted that this may be removed if an alternative approach can be identified (e.g. purchase or rental only if needed).
- ECP29 (Museum storage)- to be kept at £4m profiled across 25/26 (some) and 26/27 (majority) but noted that the cost would change depending on the option selected (subject to later Cabinet report).
- NCP6 (Air Con at Hitchin Town Hall)- also still investigating alternatives that provide cooling through ventilation. Also to make sure that links in with potential decarbonisation works.
- ECP6 (Walsworth Common Pavilion)- noted that the cost was likely to be a lot higher (£500k-£600k). Desire to progress with this even if requires a Council contribution, but to fully assess the potential for grants and contributions.
- ECP23 (interactive water feature)- supported removal from the capital programme.
- ECP22 and ECP24 (wet change and flume)- supported being brought forward to 25/26 so that it happens at the same time as the closure due to decarbonisation works. Noted that a decision on this would form part of the 2024/25 Q2 Investment Strategy review as needed to confirm this sooner than the budget process, so that it could feed in to the works programme.
- NCP9 (Phase 2 Decarbonisation)- noted that a grant bid had been made for the District Council Offices, Hitchin Town Hall and District Museum and North Herts Leisure Centre Learner Pool. The proposed capital allocation would reflect total costs of just over £3 million, with a Council contribution of just under £2 million.
- Royston Learner Pool (in the 24/25 capital programme)- agreed that still an aspiration and would still try and identify funding but would be removed from the capital programme until a defined viable plan was available.

- 8.4 The Service Director for Housing and Environmental Health has reviewed the staffing investments in Environmental Health and has determined that the following proposals are a lower priority than the others: Empty Homes Officer and Air Quality Officer (R4), Private Water Supply Officer (R5), Senior Food Officer (R7) and the year 4 funding for the apprentice post (R9). These were lower priority as they were not directly related to statutory services or could be delivered within the revised team structure.

Their removal would mean that there would be minimal opportunity for the team to deliver discretionary services and it would impact on the resilience of the team, but that this reflects the need to make difficult decisions to achieve a balanced budget. The overall impact of removing these requests is an ongoing spend reduction (compared with the original list) of £77k, and a reduction in spend over the next 5 years of £676k.

- 8.5 The finance team have compiled a list of posts that have been vacant for more than a year. These have been reviewed by Leadership Team and in all cases there is a need to recruit to these posts to deliver the current levels of service. They relate to posts that are difficult to recruit to, and in a number of cases there has been a need to use agency staff instead. Any agency staff will cost significantly more than a permanent appointment. The finance team have also reviewed whether it would be prudent to extend the vacancy factor. Whereas in previous years there would often be staffing underspends from vacant posts, there is now often a need to cover vacancies with agency staff. As at Q2 there are no staffing underspends to be reported. This will be further reviewed as part of detailed budget setting.

Local Government Finance Policy Statement and ERP

- 8.6 On 28 November, Government published a Local Government Finance policy statement. On the same day the funding allocations for Extended Producer Responsibility (ERP) were announced.
- 8.7 The policy statement provided some limited indications of funding for 2025/26, but these have generally been superseded by the provisional settlement announcement. Points to note for 2025/26 were:
- No Council would see a decrease in Core Spending Power in cash terms, but that wouldn't provide any funding for inflation. Although most Councils will see a real terms increase in Core Spending Power.
 - Core Spending Power guarantees would be calculated after an assumed increase in the amount of Council Tax charged. This is less generous than previous Core Spending Power guarantees which (for the relevant year) have been calculated before any increase in Council Tax rate.
 - There was a commitment to fund additional employer National Insurance costs for directly employed staff, but not where there are impacts on costs for contracted out services.
 - Funding would be focused on Social Care, those areas with the highest deprivation and those areas least able to raise funding through Council Tax.
 - The referendum limit for Council Tax increases would be set at 3%. In line with our Medium Term Financial Strategy, recommendation 2.2 therefore asks Cabinet to confirm that the budget should assume a Council Tax increase of 2.99%.
 - Allocations of ERP funding for 2024/25 would be guaranteed and would be in addition to Core Spending Power. The ERP announcement stated that our allocation would be £1.4 million. The ERP funding seems to be providing inflationary growth for District and Borough Councils.

8.8 In terms of future funding (beyond 25/26) the following points were made:

- There would be a 3-year settlement for the period 26/27 to 28/29. Not clear whether that would become a rolling 3 year settlement to provide ongoing future funding certainty. However the potential for Local Government reorganisation (as per the White Paper published on 16 December) may make any longer term funding irrelevant.
- There would be a new funding formula that would prioritise funding towards areas of deprivation and provide Social Care funding. Government grant funding would also be prioritised for those areas that were less able to generate funding through Council Tax.
- There would be some transitional protection, although not clear what the scope of that would be.
- Consultation on the above to start alongside the Local Government settlement for 25/26 and continue in to Spring 2025.
- No guarantees in relation to ongoing EPR funding.
- There would be a reset of Business Rate funding.

8.9 The implications for North Herts are that we are unlikely to be a priority area for funding (e.g. low overall deprivation, high Council Tax base). The Business Rates reset will mean that we lose the current additional funding that we get from that, although not part of our ongoing budget assumptions. The approach in relation to ERP funding could be significant in determining any budget growth, including any inflationary growth.

Local Government Provisional Settlement

8.10 On 18 December, Government provided the Local Government Provisional Settlement for 2025/26. The provisional settlement matched what was expected from the policy statement, i.e. the Council's Core Spending Power has remained at the same cash level as 24/25. All the funding growth has come from EPR funding. We will also receive additional funding as compensation for Employer National Insurance Contribution increases, but this will not be announced until the final settlement in January.

8.11 The table below shows a comparison of Core Spending Power (CSP) between 24/25 and 25/26, as well as how our latest funding estimates compare with what was included in the MTFS.

Funding source	Final Settlement (CSP) 24/25	Draft Settlement (CSP) 25/26	Change		Draft Settlement (Council latest estimates) 25/26	MTFS (Council Estimates) 25/26	Difference (latest estimate versus MTFS)
Council Tax	13,147	13,580	433 3.3%		13,609	Not split out due to uncertainty over how funding would be structured	
Business Rates	3,686	3,766	80 2.2%		3,766		
General Grant funding including New Homes Bonus and funding guarantees	1,490	977	(513) (34.4%)		977		
Total (CSP)	18,323	18,323	0		18,352	18,409	(84) (0.5%)
Other- Parish support for CTRS	(37)	(37)	0		(39)	(39)	0
EPR	n/a	1,435	n/a		1,435	Unknown	1,435
Total (after other items)	18,286	19,721	1,435 7.9%		19,748	18,370	1,378 7.5%

8.12 The ERP funding will reduce the required use of reserves in 25/26. The MTFS assumed that we would need to use £1.2 million of General Fund reserves as well as releasing £2.4 million of the retained Business Rates reserve. The future is very uncertain as we don't know what will happen with ERP funding beyond 25/26 and CSP has not increased.

8.13 The Council has also been notified of its allocation of UK Shared Prosperity Fund money for 25/26. This will be £91k of capital funding and £400k of revenue funding. Whilst this is not general funding, the grant terms are fairly broad.

General Reserve balances and summary

8.7. The Medium-Term Financial Strategy was set based on a General Fund balance at the end of 2024/25 (start of 2025/26) of £13.851 million. The Quarter 2 budget monitor estimates that this will now be around £14.401 million. However, the Quarter 2 monitor also includes £317k of additional carry-forward spend (in to 25/26) The net value of the budget proposals is also significant, compared to the assumption that there would be net nil growth. Cabinet can choose to progress with the budget proposals set out in this report but needs to be mindful of the future implications. The implications are that the Council may need to identify and deliver savings of over £3 million in the next 2-3 years.

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.
- 9.4 Finance, Audit and Risk Committee's Terms of Reference include to "Assist the Council and the Cabinet in the development of its Budget and Policy Framework process by in-depth analysis of policy issues pertaining to finance, audit and risk" (Constitution section 10, paragraph 10.1.5 (d)).

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 revenue impact (i.e. the lost interest from investing the cash, currently around 5%). 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 must 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.
- 10.5 When Government provides details of funding to Local Government it uses Core Spending Power (CSP). This is a measure of the total resources available to the Council and includes Council Tax, Business Rates and other general Government funding. There are assumptions made in calculating CSP (e.g. Council Tax base) so the actual funding available to the Council is likely to be different.

11. RISK IMPLICATIONS

- 11.1. Good Risk Management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.

- 11.2 The Council's MTFS set out several risks that will need to be considered when setting a budget for 2025/26 and beyond. The next iteration of this report will be presented to Cabinet in early February, 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. This is a section 25 report in accordance with the Local Government Act 2003. 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.
- 11.3 Potential Local Government reorganisation (as set out in the White Paper published on 16 December) may create uncertainty over future budget planning and management of reserves. It may also impact on the capacity to deliver savings proposals. This will need to be kept under review as part of the ongoing budget planning processes.

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 that is either significant in value, or affects 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" requirements do not apply to this report.

14. ENVIRONMENTAL IMPLICATIONS

- 14.1. There are no known Environmental impacts or requirements that apply to this report.
- 14.2 For any individual proposal that is likely to have significant impacts on the environment, an environmental impact assessment will be carried out, or has already taken place, where necessary.

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 - Revenue budget proposals
- 16.2 Appendix B - Capital programme 2025-30

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

18.1 *Medium Term Financial Strategy* <https://democracy.north-herts.gov.uk/documents/s26095/Appendix%20A%20MTFS%202025-30.pdf>