

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: BUDGET 2025/26 (REVENUE BUDGET AND INVESTMENT STRATEGY) ADDENDUM

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

1.1. Cabinet recommends a budget for 2025/26 to Council for their consideration and approval. The budget considers the following:

- The funding that the Council should expect to receive in 2025/26 and an estimate of future years funding.
- The forecast net spend required to enable the continued delivery of the Council services in 2025/26 and beyond.
- Choices to support the delivery of a balanced budget in the medium-term.
- Choices on spend that are aligned to the Council Plan.
- Capital budget proposals and the revenue costs of capital of those proposals.
- The 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.
- Strategy for the investment of surplus cash and approach to future borrowing.

2. RECOMMENDATIONS

That Cabinet recommends to Council that it:

- 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 £2.6 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 section 25 report (Appendix D) which provides a commentary on the risks and reliability of estimates contained in the budget.
- 2.4. Approves the revenue savings and investments as detailed in Appendix B.
- 2.5. Approves the capital programme as detailed in Appendix C.
- 2.6. Approves a net expenditure budget of £22.792m, as detailed in Appendix E.
- 2.7. Approves a Council Tax increase of 2.99%, which is in line with the provisions in the Medium Term Financial Strategy.

- 2.8. Approves the Investment Strategy as detailed in Appendix F.
- 2.9. Approve the adoption of the four clauses in relation to the Code of Practice on Treasury Management (as detailed in paragraphs 8.32 to 8.35).

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that all relevant factors are considered in arriving at a budget (revenue and capital) and Council Tax level for 2025/26. To ensure that the budget is aligned to Council priorities for 2024-28 as set out in the Council Plan.
- 3.2. The Council's Investment Strategy is set to comply with relevant statutory guidance, including the CIPFA Prudential Code. The Strategy also sets out the Council's approach to risks in relation to the investment of surplus cash.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. In seeking to address the funding gap detailed in the Council's Medium Term Financial Strategy for 2025-30, Political Groups and Officers have been asked for savings (reductions in costs and additional income) ideas and these are included in appendix B to this report.
- 4.2. The budget is based on the use of reserves to allow time for us to get greater certainty over our medium-term funding and carry out public consultation on our spend priorities. An alternative approach would be to seek to make savings more quickly and retain those reserves from any options for one-off investment in the district. However that strategy would need to be focused on reductions in service levels and/ or further increases to fees and charges.
- 4.3. Investments will generally be 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. Given the overall budget position, any ongoing investments should only be where there are unavoidable cost pressures (e.g. delivery of statutory services).
- 4.4. Capital spend is a combination of necessary expenditure to maintain and improve Council assets (to allow the continued delivery of services) and choices over investment in our communities and delivery of our priorities. From the decision at the Council meeting on 15th January 2025 investment towards decarbonisation is a priority for the Council. However, there is an option to only focus on necessary capital works. This would reduce capital spend and therefore also reduce the revenue impacts of capital spend.
- 4.5. The Council could take a different (but still compliant) approach to the investment of surplus cash. The proposed approach is considered to be a reasonable balance of risk with the generation of investment yield.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. All Councillors were given an opportunity to comment on the revenue efficiency, revenue investment and capital proposals at the budget workshops.
- 5.2. Business Ratepayers will be consulted on the proposals within this report before the budget is discussed at Full Council on 27 February. Any feedback will be made available at the Council 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 Community Forum(s). The proposal for parking charges will be subject to consultation, including the Community Forums.
- 5.4. The Finance, Audit and Risk Committee review this budget report which allows them to comment on the governance of the budget setting process, the risks within the budget and the robustness of estimates and assumptions. At their meeting in January they recommended that Cabinet (and Council) should be provided with additional information on the revenue investment proposals, detailing whether they related to a statutory service and the implications of not providing the investment funding. This detail is attached at Appendix G.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key Executive decision. It was referred to in the Forward Plan published on 18 October 2024 as the updated revenue monitoring can identify variances that are reported to Cabinet and are key decisions. However (as detailed in paragraph 8.19) no variances have been identified.

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 Spetmeber 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. This final budget still contains 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 January, which has resulted in the proposals contained within this report.

8. RELEVANT CONSIDERATIONS

Decisions made to deliver Council services and priorities

- 8.1 The Council's Medium Term Financial Strategy (MTFS) did not set a specific target for savings in 2025/26 as part of this budget process. Instead, the aim was for a net-nil impact budget (i.e. any ongoing investments would as a minimum be balanced out by any ongoing savings). However, this has been impacted by the following which relate to resourcing capacity to deliver existing services and commitments:
 - The staffing capacity in Environmental Health needs to be increased to ensure the delivery of statutory services.
 - Planning resource to support Local Plan work (review of the current Plan and delivery of transport projects)
 - The capacity of Leadership Team as identified by the Corporate Peer Challenge.
 - Investment in delivering Climate Change actions, made up of staffing resource (Climate Change and Sustainability Project Manager) and capital investment (decarbonisation phases 1 and 2).
- 8.2 At its meeting in January, Cabinet considered the feedback from the Budget Workshops. This resulted in the following changes being made relation to those proposals:

- Charging for parking on Sundays, evenings and Bank Holidays. This would be subject to consultation but supported the principle. The amount would be left as TBC as need to carry out more work on how and when it would be implemented. Any additional income in 2025/26 would be reflected in the quarterly budget monitoring reports.
- Environmental Health staffing. Given the concerns over the delivery of this statutory service, agreed to go with the higher level of staffing investment (i.e. not the revised prioritisation that was worked on following the budget workshops).
- Civic Secretary to Chair of Council. To be removed due to feedback from current and previous Chair that they would carry out the relevant tasks themselves.
- Central Grants Pot. To be removed as wanted to keep all grant considerations at a local level.
- Service Director capacity. Noted that the underspend on the inflation estimate for the 24/25 pay award could be notionally allocated towards this investment bid.
- Interactive Water Feature at North Herts Leisure Centre: Would be removed as not a key investment for the pool, especially in the context of other significant investment in our Leisure facilities.
- Royston Learner Pool. Whilst it is still a strong aspiration to deliver this project, there is not currently a viable plan for it. There will be a focus on trying to identify alternative funding sources to bridge the viability gap. It is also too late to add the works to the decarbonisation and gym extension project. So any works on a learner pool would have to take place after that project is completed.

8.3 In separate reports to the January Cabinet meeting, the following were agreed:

- Agreement in principle (subject to agreeing detailed terms) to an agency agreement for our Leisure services. This would provide a financial saving but the amount will be kept as TBC (and therefore in budget terms having a zero impact) as the legal details still need to be resolved and it is currently commercially confidential. The actual impact will be picked up through budget monitoring reports during 2025/26.
- A garden waste charge of £55 per year (with concessionary discounts) from April 2025. The impact of this is reflected in the revenue budget proposals in Appendix B.

8.4 The following are also updated in the budget proposals:

- Officers are still trying to reach agreements with businesses on the Solar for Business initiative. The savings of this will therefore be matched to the revenue costs of capital of the Council funded investment. This is estimated at around £21k per year. If there is no or limited take-up, then the capital allocation and assumed savings will be removed, with no net revenue budget impact.
- There are various terms in the new waste and street cleansing contract for inflation and adjustments to actual baseline costs for pay and fuel. These still need to be worked through in advance of the May start date. The current estimate is that the total provision that was allocated in the 2024/25 budget is reasonable. This was made up of ending the transfer to reserves to fund future waste vehicles and a very prudent capital allocation for the new vehicles. The capital allocation in the 2024/25 budget was for £8.5 million (based on contract estimates at the time), and has now reduced to £5.27 million. The reduction in effective Minimum Revenue Provision is estimated at around £300k. This is added to the revenue budget as a pressure, but the overall net impact is zero compared with last year. This is reduced by the cost of customer service staff that have already transferred to the Council (from the current contractor) and are already included in pay forecasts.
- The capital allocation for the phase 2 Decarbonisation project (Hitchin Town Hall and Museum, District Council Offices and North Herts Learner Pool) has been shown as a TBC value previously. This value has now been added in the capital

programme proposals. There may be increased energy costs from the works, but these will be kept under review. The works will not go ahead as scheduled if the grant bid is not successful.

- The budget workshop proposals had a TBC impact from lost leisure income during the decarbonisation works. The work on developing the proposals around the larger sized heat pumps (Council decision on 15th January) has meant that it has not been possible to get an estimate of this impact. It is therefore be included as a budget risk.
- The expected cost impact of the increased rate for employer National Insurance contributions. This is for Council employed staff only.
- The expected capital cost of machines outside the Windows environment (to use in case of a cyber attack) has reduced from £25k to £15k.
- As agreed in the July Council report on decarbonisation of our leisure centres, the one-off cost of exiting the CHP (combined heat and power) has already been added in to the revenue forecasts for 25/26.

General Funding

8.5. The Government provided a policy statement on Local Government funding on 28th November 2024. On the same day they also published guaranteed allocations (for 2025/26 only) for Extended Producer Responsibility (EPR) payments. This was followed by the draft Local Government Finance Settlement on 18th December 2023. The policy statement provided some earlier warning of the principles that would be applied. The relevant points for future funding are:

- The baseline amount of Business Rates that Councils can retain will continue to be increased in line with Consumer Price Index (i.e. inflationary increase). 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.
- District Councils will be able to increase Council Tax by up to 2.99% without the requirement for a local referendum. It is looking like this threshold will now continue at 2.99% so our forecasting assumptions will now reflect this.
- New Homes Bonus will continue in 2025/26 using the same method as applied in 2024/25 (i.e. one year reward only with a 0.4% baseline applied).
- That all Council’s would not see a decrease in their Core Spending Power, but unlike previous years this would be after assumptions around increases in Council Tax rates (i.e. that increases would be at the referendum limit). This guarantee is in cash terms, so there could be a decrease in real terms. Due to the targeting of funding to social care and areas with higher deprivation, our Core Spending Power is the same as 2024/25.
- Our allocation of EPR funding is £1.435 million, and is not ring-fenced.
- The promised National Insurance funding for the increase in the employers rate and cost for directly employed staff will be notified as part of the final settlement.

8.6. The final Local Government settlement was published on 3rd February 2024. This was unchanged apart from notifying us of funding for the employer National Insurance increase. This is £157k for 2025/26, and it is assumed that this will be ongoing funding.

8.7. The position that has been taken by the Government on Core Spending Power is less generous than had been predicted in our budget assumptions. We had been assuming a small increase in cash terms, although still a reduction in real terms.

8.8. The allocation of EPR is guaranteed for 2025/26, and the actual amount received could be higher. There is no certainty over EPR in future years, and it could be incorporated in

to general funding and therefore be subject to any commitments around Core Spending Power. Government should provide us with new burdens funding for food waste and separate fibre (card and paper) collections. For budgeting purposes, it is assumed that our ERP funding will continue, even if it effectively becomes our allocation for new burdens.

Table 1 – Estimated General Funding comparison (2025/26)

| £000 Funding | 2024/25 Budget | 2025/26 MTFS Forecast | 2025/26 Latest Forecast | Comments |
|--|----------------|---------------------------|-------------------------|---|
| | £'000 | £'000 | £'000 | |
| Council Tax | 13,147 | 18,409 (not split out) | 13,613 | Increase in rate (2.99%) and small increase in base compared to 2024/25 |
| Business Rates, including compensation for under-indexing the multiplier | 3,686 | | 3,766 | Inflationary increase |
| Other general grant funding (including New Homes Bonus and Core Spending Power guarantees) | 1,490 | | 977 | Reduction as off-sets the increases above |
| National Insurance funding | n/a | n/a | 157 | Not announced at time of writing this report |
| Extended Producer Responsibility funding | n/a | n/a | 1,435 | New funding stream |
| Less: Council Tax support to Parishes | (39) | (39) | (39) | Maintained at previous levels. |
| | 18,284 | 18,370 | 19,909 | |

Table 2 – Estimated General Funding forecasts

| £000 Funding | 2026/27 | 2027/28 | 2028/29 | 2029/40 | Comments |
|---------------------------------------|---------------|---------------|---------------|---------------|---|
| Council Tax | 14,090 | 14,584 | 15,095 | 15,625 | Assumed 2.99% increase in rate. Net 0.5% increase in tax base |
| Other funding | 4,423 | 3,929 | 3,418 | 2,888 | Included together as there will be a Business Rate reset which will affect retained Business Rates. Assume that Core Spending guarantee will continue at 0% |
| EPR/ New burdens funding | 1,435 | 1,435 | 1,435 | 1,435 | |
| Less: Council Tax support to Parishes | (39) | (39) | (39) | (39) | Retained at same rate |
| | 19,909 | 19,909 | 19,909 | 19,909 | |

8.9. The numbers in the table above are just estimates, and we will not get any certainty on medium-term funding until later in 2025. The continuation of EPR as a separate funding stream seems unlikely, and waste new burdens funding may be much less than has been assumed. These will be used for modelling future budget positions and therefore savings requirements, as they provide a potentially realistic scenario. However overall, we will need to be ready to adapt to changes in funding levels.

Specific Funding

- 8.10 The Council also receives grants and contributions for specific purposes. Generally, these are built into 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 expected in 2025/26 (£000) | Risk/ Opportunity |
|--|-----------------------------------|--|
| Healthy Hub funding | 39 | Whilst HCC have allocated Healthy Hub funding, they seem to have changed the specification of what they expect to be delivered, with a focus on more specialist Public Health services. Subject to ongoing discussions there may be a need for further funding in 25/26 to continue the valued preventative work. There may be an opportunity for this to come from the UK SPF (below). |
| UK Shared Prosperity Fund (SPF) | £400k Revenue £99k Capital | The parameters for 2025/26 are that there should be increased local flexibility on how this is spent. There are three priorities (Communities and Place, Supporting Local Business, and People and Skills) with five themes and 12 sub-themes. |
| Homelessness Prevention and Rough Sleeping Grant | 986 | Funding has been confirmed from MHCLG of the 2025/26 allocations. This is broadly in line with the amount expected. |
| Domestic Abuse Safe Accommodation Grant | 0 | The New Burdens grant funding received in 2023/24 and 2024/25 to ensure that victims of domestic abuse and their children can access the right support in safe accommodation when they need it has been rolled into the Settlement funding calculation for 2025/26 (additional £36k included in 'other general grant funding' in table 1). Budget provision for the expenditure has therefore been added to the list of pressures in appendix B. |
| Housing Benefit Administration Grant | 244 | Notification is awaited from government of the grant allocation for 2025/26. Amount expected is based on the grant receipt for the current financial year. |

Business Rates and Council Tax Collection Funds

- 8.11 The 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 our General Fund and other precepting bodies. The Fund is required to break even over time and any surplus or deficit is transferred to the our fthGeneral 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 E.

Review of balances and reserves

- 8.12 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.

- 8.13 The Government have referred to Councils having high levels of reserves and that these should be used, rather than asking for more funding. The table below (table 4) demonstrate the reasons why reserves are being held, as well as forecasts of future balances. Apart from the Business Rates Grants reserve, all the balances are held for a specific purpose. The table below already notes that the Business Rates 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 2024 | Estimated Balance at 31 March 2025 | Estimated Balance at 31 March 2026 |
|-------------------------------------|--|--------------------------------|---|---|
| Childrens Services Reserve | Used to help fund Active Communities projects in the district funded from grant income and/or external contributions. Drawdown of the remaining balance is planned in the current year to support the activities of the Healthy Hub service. | 10 | 0 | 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 (expected at around £175k per year) 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. | 123 | 27 | Unknown |
| Climate Change Grant Reserve | Grants 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. | 17 | 18 | 13 |
| Elections Admin Grant | Holds funding provided from government to support the delivery of the policies of the Elections Act 2022, which focused on the introduction of voter ID and improvements to accessibility for disabled voters. The reserve will be used to fund anticipated additional expenditure associated with the Act in administering future elections | 67 | 67 | Unknown |
| Environmental Health Grants Reserve | Holds funding amounts received for specific initiatives relating to the Council's Environmental Health service, such as air quality and housing checks. The reserve is used to finance the undertaking of the relevant initiatives and to help manage staffing and workload pressures within the service. | 118 | 0 | 0 |
| 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. | 24 | 24 | Unknown |
| Homelessness Grants Reserve | To help prevent homelessness in the district. The grant is earmarked for different homelessness projects or resources. | 398 | 230 | 105 |
| 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. This has also been previously added to by additional income from 20% increase in statutory planning fees. | 691 | 600 | 511 |
| 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 |

| Name of Reserve | Purpose of Reserve | Balance at 1 April 2024 | Estimated Balance at 31 March 2025 | Estimated Balance at 31 March 2026 |
|--|--|--------------------------------|---|---|
| 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 some of this has been used for additional administration costs and software upgrades. | 12 | 12 | Unknown |
| Leased Assets Reserve | The incorporation of the accounting standard IFRS 16: Leases in the accounting code, effective from April 2024, means that 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 2024/25. 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 | 92 | 179 |
| Leisure Management Maintenance Reserve | To help 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 £15k, 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. This reserve currently includes amounts that have been set-aside at the end of the SLL contract period. SLL are going through a liquidation process. | 308 | 293 | Unknown |
| 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. A total of £5.4m will be released into the General Fund to help bridge the forecast funding gaps in the coming years. This is included in Appendix E. | 5,735 | 6,481 | 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 | 14 | Unknown |
| Neighbourhood Plan Reserve | Funds received from Government 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. | 132 | 130 | 110 |
| 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 | 11 | Unknown |
| Shared Prosperity Fund Grants Reserve | Holds the balance of unspent grant funding received to date to support the Council's delivery of the three-year Investment Plan approved by Government in the autumn of 2022. | 27 | 0 | 0 |
| Street Name Plates | To fund Street Name Plates as and when required. | 16 | 16 | 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 based on expected costs and by using Registered Provider housing, the costs incurred are less than the grants awarded. The Council will look to use some of this funding to support linked housing pressures (around £100k per year). | 737 | 835 | 765 |
| 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. | 11 | 11 | Unknown |
| Town Centre Maintenance | For the implementation of the Town Wide Reviews and ad hoc town centre maintenance. | 85 | 93 | 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. | 372 | 367 | 362 |
| Waste Reserve | Alternative Financial Model (AFM, funding from HCC to encourage increases in recycling) were previously transferred to help mitigate any potential risk to the waste service and support future service developments. Has been being spent on various projects., including the new waste contract procurement work and any spend related to options around a new waste depot. There will be no further AFM money. | 836 | 836 | 776 |

| Name of Reserve | Purpose of Reserve | Balance at 1 April 2024 | Estimated Balance at 31 March 2025 | Estimated Balance at 31 March 2026 |
|-------------------------------|--|-------------------------|------------------------------------|------------------------------------|
| 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. | 2,456 | 3,178 | 0 |
| 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. | 455 | 359 | 286 |

8.14 As at the 31 March 2024 there was a total of £2.597m held as long-term provisions. These are comprised of:

- Business Rates appeals - £2.557m - the Council's estimated share of outstanding business rates appeals
- Insurance - £40k - covers the uninsured aspect of outstanding insurance claims.

8.15 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 cannot use these amounts for another purpose, nor can they go back to businesses.

8.16 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 £23 million, this means a minimum balance of about £1.1million. The Council's budget is also reliant on generating income to set a balanced budget, so an additional 3% of budgeted income (excluding Housing Benefit, grants and other contributions) is 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 around £400k is added.

8.17 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.

Table 5- Budget Risks in 2025/26

| Category | Number of Risks | Forecast Value of Impact (£000) | Risk Allowance (£000) |
|--------------|-----------------|---------------------------------|-----------------------|
| Low | 14 | 3,759 | 0 |
| Medium | 12 | 1,128 | 282 |
| High | 11 | 1,590 | 795 |
| Total | 37 | 6,477 | 1,077 |

- 8.18 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £2.6million should be maintained. This is what is recommended by the s151 Officer (Chief Finance Officer).

Expenditure Forecasts

- 8.19 The starting point for forecasting net expenditure for future years is the previous year's budget, as set in February 2024. 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 during December for any additional significant ongoing variances. As the Quarter 2 monitoring report were considered by Cabinet in January (and included information known about after the end of Quarter 2), no further ongoing variances have been identified. Some further carry-forwards have been identified but these will be considered as part of the Quarter 3 monitoring report, which is reported to Cabinet in March.
- 8.20 Budget proposals were put forward for discussion at Group workshops in November. Comments on the proposals made by the Groups were outlined in the draft budget report presented at the December meeting of Cabinet. This has been covered in more detail in paragraphs 8.1 and 8.2 above. The complete final list of savings and investments is included at Appendix B.

Capital Programme and the revenue effects of capital

- 8.21 In previous years the capital programme has been considered as a separate report to the revenue budget report. The Council is due to be in a position where it will have a Capital Financing Requirement (CFR). This means that we will incur greater revenue costs in relation to funding our capital programme, through a Minimum Revenue Provision charge. This greater linkage between capital expenditure and revenue costs, means it is sensible to consider the two together.
- 8.22 The proposed capital programme is attached at Appendix C. This mainly reflects the items considered by the budget workshops. It has been updated for the changes referenced in paragraphs 8.2 and 8.4. It also reflects the increased capital allocation for the phase 1 decarbonisation project (leisure centres) following the decision by Council on 15th January 2025.
- 8.23 The Council incurs some interest costs in relation to historic borrowing for capital purposes. The small cost of this is reflected in budget estimates.
- 8.24 In general, revenue spend should be matched by funding. Although in the short-term it is possible to fund any budget gaps from reserves. This is the current strategy that the Council is adopting, with the need to develop a plan to achieve an in-year balanced budget in the medium term. This therefore means that the revenue budget is having an effect (i.e. reducing) on the balances available for investment.
- 8.25 Capital spend can be funded from sources which include grants, capital receipts and revenue (although usually this is not affordable). It can also be funded from borrowing. This borrowing can be external (e.g. from government or banks) or internal (i.e. against available cash reserves). 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. Where the Council has a need to borrow (either internally or externally, as measured by its Capital Financing Requirement) then it must make a charge to the revenue budget called Minimum Revenue Provision (MRP).

- 8.26 The MRP aims to spread the cost of capital that is funded from borrowing over the expected life of the asset. This means the taxpayers that are getting the benefit of the asset are paying a contribution towards its cost. MRP is charged from the year after an asset is purchased or completed (where it is constructed).
- 8.27 Table 6 shows the amounts that need to be incorporated into the revenue budget to reflect the impacts of capital spend and income from investments:

Table 6- Revenue impacts from the Investment Strategy

| £000 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
|--|--------------|--------------|--------------|--------------|--------------|
| Forecast external borrowing costs (existing borrowing) | 34 | 33 | 32 | 31 | 30 |
| Forecast external borrowing costs (new borrowing) | 0 | 0 | 0 | 0 | 0 |
| Forecast interest income from investments | (825) | (362) | (322) | (259) | (144) |
| Forecast MRP requirement | 402 | 1,841 | 1,834 | 1,635 | 1,418 |
| Net budget requirement | (389) | 1,512 | 1,544 | 1,407 | 1,304 |
| Current allocated budget* | 149 | 732 | 1,080 | 1,255 | n/a |
| Change in budget required | (538) | 780 | 464 | 152 | - |

Investment Strategy

- 8.28 The proposed Investment Strategy is attached at Appendix F. Council are asked to approve this strategy, which includes the following:
- A total capital programme for the period of 2025/26 to 2029/30 of £35.4m.
 - The current assets that the Council has, including investment assets.
 - How the capital programme will be funded, including estimates of capital receipts.
 - A Minimum Revenue Provision (MRP) policy.
 - Adoption of a treasury strategy that covers borrowing and investment forecasts and limits, including prudential indicators.

The strategy itself provides further details of what it includes and why. It also explains the key technical terms.

Code of Practice on Treasury Management

- 8.29 The Code of Practice on Treasury Management requires that a report be submitted to Full Council setting out four clauses which should be formally passed in order to approve adoption of the code. The four clauses are detailed below, including how they are met by the Council. As recommended by CIPFA, where appropriate these are included within the Council's Constitution and Financial Regulations.
- 8.30 Clause 1 relates to creating and maintaining a Policy and practices as a cornerstone for effective treasury management.
- 8.31 Full Council are asked to approve the adoption of the following Treasury Management Policy Statement, which is the same as in previous years:
- That we define our treasury management activities as: "The management of the authority's investments and cash flows, its banking, money market and capital

market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

- That we define the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- That we acknowledge that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

8.32 The Council has adopted treasury management practices (TMPs) which set out how the Council will carry out, manage and control the achievement of the policy above in practice. The majority of the TMPs are unchanged from last year and follow the recommendations contained within the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments are minor and do not result in any material deviation from the Code’s key principles. The TMPs are operationally focused and therefore the themes covered are detailed below, rather than providing the full document. Where relevant the detail is already covered in the Investment Strategy (e.g. approved instruments):

- TMP1- Risk Management
- TMP2- Performance Measurement
- TMP3- Decision making and analysis
- TMP4- Approved instruments, methods and techniques
- TMP5- Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6- Reporting requirements and management information arrangements
- TMP7- Budgeting accounting and audit arrangements
- TMP8- Cash and cash-flow management
- TMP9- Money laundering
- TMP10- Staff training and qualifications
- TMP11- Use of external service providers
- TMP12- Corporate Governance

8.33 Clause 2 relates to the reporting on treasury activities. These are set out in the Investment Strategy on page 3.

8.34 Clause 3 relates to the delegation of responsibility for the implementation and regular monitoring of its treasury management policies. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet (Constitution 5.7.9) and for the execution and administration of treasury management decisions to the Service Director: Resources (Constitution 14.6.12 (b) (iv) and Financial Regulations section 13) who will act in accordance with the Council’s policy statement and treasury management practices and the CIPFA Standard of Professional Practice on Treasury Management.

8.35 Clause 4 relates to the scrutiny of treasury management strategy and policies. The Council nominates the Finance, Audit and Risk Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies (Constitution 10.1.5 (c)).

Reliability of estimates

- 8.36 As part of the budget setting process, the Chief Finance Officer is required to comment on budget risks, the reliability of the estimates made and levels of Council reserves. This is known as a section 25 report. Note that this report is required alongside the budget every year, and is very different to a section 114 report. Although failure to take action on any risks highlighted in a section 25 could ultimately end in the need for a section 114 report. Therefore, Council should note the contents of the section 25 report which is attached at Appendix D.

Cumulative impact

- 8.37 The cumulative impact of all the estimates described in the previous sections is provided at Appendix E. This shows a forecast of funding and net expenditure for the next five years, including the impact on the General Fund balance. This can be updated when we are informed of the funding that Government will provide in relation to Employer National Insurance increase.
- 8.38 Appendix E also includes a forecast of the expected minimum level of savings that the Council still needs to deliver over the next 3 years. The level of savings that the Council needs to deliver have been affected by the additional capital investment in decarbonisation and the net revenue investments. It has been partly off-set by changes in funding assumptions. The forecast level of annual savings required is £2.8 million.
- 8.39 The profile of the savings to be delivered is shown across 2026/27 to 2029/30. This reflects the delivery of those savings. The identification of those savings should happen during 2025/26. The earlier that the savings can be delivered, will mean more of the General Fund balance could be used for investments in the District.
- 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 We should receive more certainty over our funding during 2025, with an expectation that we will have a 3 year budget (up to 2028/29) by January 2026. The plan is to undertake a budget consultation exercise during 2025 to inform savings proposals to be included in the 2026/27 budget. This will enable much greater clarity as to how the Council will achieve a balanced medium-term budget.

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 at 5.7.39 include recommending to Council the annual budget, including the capital and revenue budgets and the level of council tax and the council tax base. They also recommend a treasury management strategy statement (Constitution 5.7.40). Council's terms of reference at 4.4.1 (b) and 4.3 state that the Full Council's responsibilities include approving or adopting the budget recommended by the Cabinet. Full Council can also approve the treasury management strategy statement (Constitution 4.4.1 (cc)).

- 9.3 Finance, Audit and Risk Committee's terms of reference at 10.1.5 (d) include assisting 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. They will also consider the Council's policy in relation to Treasury Management and make recommendations on the Annual Treasury Management and Investment Strategy, and Treasury Management Code of Practice (Constitution 10.1.5 (c)).
- 9.4 Members are reminded of the duty in accordance with the Local Government Finance Act 1992 to set a balanced budget and to maintain prudent general fund and reserve balances.
- 9.5 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.
- 9.6 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 generally covered in the body of the report.
- 10.2 We need to differentiate between revenue and capital spend, as they generally have different sources of funding. Revenue relates to ongoing costs, and any physical item that is purchased would have an expected life of less than one year. Low value items are also treated as revenue spend. Capital relates to the purchase or improvement of assets, which have a useful life of more than one year.

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 budget setting process includes a detailed assessment of financial risks, so these are covered in section 8, appendix A and appendix D.
- 11.3 There are significant uncertainties and risks with regard to the funding of the Council over the medium term. This uncertainty is reflected in our over-arching financial risk.
- 11.4 Capital investment is sometimes needed to mitigate against a risk to the Council. This is detailed to Members when a new investment comes forward. The risk implications of each individual scheme are considered in project plans as the schemes are progressed. The capital programme assumes a level of third party contributions and grants towards the cost of the schemes. There is a risk that not all the contributions are forthcoming.
- 11.5 Investment risks in relation to treasury management are covered in this report and the Investment Strategy. The TMPs (see 8.32) and Financial Regulations provide controls to manage other risks.

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.
- 12.3 The inclusion of banks on our counter-party list will consider the Country that they are in and an objective analysis of the approach to equalities in that Country. This will be in addition to any sovereign (Country) and institution credit rating.

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 The decarbonisation of our buildings would have a positive environmental impact. Some of the savings and investments identified in Appendix B are put forward to have a positive influence on the Council’s environmental impact (e.g. ongoing climate change resource, use of HVO fuel). For others there may be a low level of indirect negative 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 Some of the investments relate to additional staffing resource. Depending on the level of additional work that these entail, these may have a positive impact on staffing capacity. Additional HR support will be needed to help recruit to these posts, but this can be absorbed within the existing team.

16 **APPENDICES**

- 16.1 Appendix A – Financial Risks 2025/26
- 16.2 Appendix B – Revenue Budget Savings and Investments
- 16.3 Appendix C – Capital Programme 2025-35
- 16.4 Appendix D - Section 25 report
- 16.5 Appendix E - Budget Summary 2025 – 2030
- 16.6 Appendix F- Investment Strategy
- 16.7 Appendix G- Revenue Investments- details of statutory services and implications of not investing

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18 **BACKGROUND PAPERS**

18.1 Medium Term Financial Strategy <https://srvmodgov01.north-herts.gov.uk/documents/s26095/Appendix%20A%20MTFS%202025-30.pdf>