

<b>FINANCE, AUDIT AND RISK COMMITTEE</b>
--

<b>7 JANUARY 2026</b>
-----------------------

<b>*PART 1 – PUBLIC DOCUMENT</b>
----------------------------------

**TITLE OF REPORT: REVENUE AND CAPITAL BUDGETS FOR 2026/27 ONWARDS**

REPORT OF: *SERVICE DIRECTOR: RESOURCES*

EXECUTIVE MEMBER: *RESOURCES*

COUNCIL PRIORITY: SUSTAINABILITY

**1. EXECUTIVE SUMMARY**

Government have committed to a new funding formula (known as Far Funding 2) and providing a 3-year funding settlement to Councils. When Council considered the Medium-Term Financial Strategy in December, a verbal update was provided on the expected funding position following a policy statement from Government in November. On 17 December 2025 the provisional Local Government settlement was released by Government. This provides much greater certainty over our funding for the next 3 years.

The budget workshops at the start of November considered:

- resident feedback from the budget consultation that we carried over the summer,
- budget proposals for 2026/27 onwards,
- setting our budget priorities, and how we would make substantial savings if they were needed to balance our budget.

This report updates on changes to our spend and funding forecasts since the Medium-Term Financial Strategy, and seeks approval from Cabinet on the revenue and capital proposals that should be incorporated into the final budget report in February. It also seeks approval for the level of Council Tax increase to be assumed in that report.

**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 2026/27.
- 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 agree which proposals (revenue and capital) should be taken forward as part of the budget-setting process for 2026/27

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 To ensure that all relevant factors are considered in arriving at a proposed budget and level of Council Tax for 2026/27, to be considered by Full Council on 26 February 2026.

#### **4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 The Medium-Term Financial Strategy (2026-30) set out a range of options that were dependent on the Council's ongoing funding position following the provisional funding settlement.

#### **5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. Councillors were given an opportunity to comment on specific and general budget proposals at the budget workshops. However, it was agreed that (to facilitate open discussion) any comments would not be fed back to Cabinet.
- 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. Residents were consulted over the summer on our general approach to budget setting and priorities. See paragraph 8.1.
- 5.4. 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.
- 5.5. 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 November 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 did not set a savings target due to the uncertainty over future funding. However, the broad strategy was that no significant savings would be delivered during 2026/27, and (to the extent necessary) reserves would be used to balance the budget. There would need to be a plan to deliver a balanced budget in the medium-term, although

not all savings would need to have been delivered before April 2028 (current timetable for vesting to new Unitary Council arrangements).

## **8. RELEVANT CONSIDERATIONS**

### **Resident Budget Survey**

- 8.1 The Council ran a budget survey over the summer (6 June to 1 August) which had the following aims:
- To find out more about which services residents value the most.
  - To gauge resident views on increasing fees and charges, implementing new fees and charges and reducing services in the future.
  - To use the findings to inform our approach to meeting our savings targets and achieving a balanced budget.
- 8.2 Appendix A details the questions that were asked and the responses to those questions. The services included were just those that were a net cost to the Council.
- 8.3 The responses show a correlation between awareness/ use of our services with the importance that is attached to them. There is also some correlation between cost and the importance that is attached to services. The exceptions to this were Community Safety and Environmental Crime (high importance compared with budget and familiarity with the service) and North Herts Museum and Hitchin Town Hall (low importance relative to the usage and awareness). The result for the Museum and Town Hall is likely to reflect that it is more accessible to those in and around Hitchin, compared with those in the rest of the district. This was reflected in some of the comments in the final question which asked for any other thoughts.
- 8.4 The preference was to use reserves as the first step towards balancing the Council's budget (35% of responses). As this can only be a short-term solution, the next preferences were for increasing current charges (25%) or introducing new charges (22%). The two least popular options were reducing the frequency of services (15%) and reducing the quality of services (3%).
- 8.5 The final question was for any final thoughts. The areas that received multiple responses (that have not been covered above) were:
- Community Safety and Environmental crime should be a police responsibility.
  - Reduce pay, pension and Councillor allowance costs.
  - Look at differential pricing at peak times (e.g. charge more for parking on Saturdays).
  - Go back to more frequent bin collections.
- 8.6 There were also questions as to what our reserves were for. The Council's General Fund reserves, when they are at the minimum level, are to provide a buffer for unexpected costs and risks. When they are above the minimum level, they give time to react to any longer-term reductions in funding, increases in costs or falls in income (fees and charges). If a medium-term balanced budget can be achieved, then some of the excess reserves could be available for investment in the district.

### **Government funding announcements**

- 8.7 Government published their funding policy statement on 20 November 2025. This included several updates on how Fair Funding 2 would be calculated. This has given enough information for LG Futures, an expert in Local Government funding that we use, to refresh their forecasts. There appeared to be fewer unknowns so the estimates seemed more certain. Those estimates put the Council's funding from Government at around £6-£6.5m, compared to the previous range of £5-7.5m that was included in the MTFS.
- 8.8 On 4 November 2025, the estimated amount of Extended Producer Responsibility (EPR) payments that the Council would receive in 2026/27 was provided. This was £7.787m, which is higher than the 2025/26 amount of £1.435m. In the MTFS the assumption was that the income from EPR would drop by 20% per year to try and reflect the impact of producers reducing the amount and costs of collection and disposal of packaging. It still seems prudent to assume a drop-off in future years, which will be retained at 20%. For 2025/26 the EPR payments were guaranteed, but this is not the case for 2026/27 onwards.
- 8.8 On 17 December, Government released the Local Government provisional settlement. As was promised, this covers the period from 2026/27 through to 2028/29. Although the amounts for 2027/28 and 2028/29 are indicative. The results of this for 2026/27 (compared with 2025/26 and previous forecasts) are:

Funding source (£000)	Comparative Totals 25/26	Provisional Settlement 26/27		Provisional Settlement (Council latest estimates) 26/27	MTFS (Council Estimates) 26/27
Council Tax	13,613	14,122		14,150	14,150
General Funding	6,241	6,728		6,728	5,640 to 6,510
Grants rolled in to CSP*	446	0		0	0
Homelessness, Rough Sleeping and Domestic Abuse Grants	593	871		0	0
<b>Total (CSP)</b>	<b>20,893</b>	<b>21,721</b>		<b>20,878</b>	<b>19,790 to 20,660</b>
Other- Parish support for CTRS	(37)	(37)		(37)	(37)
EPR	1,435	1,787		1,787	1,150
<b>Total (after other items)</b>	<b>22,291</b>	<b>23,471</b>		<b>22,628</b>	<b>20,903 to 21,773</b>
<b>Change</b>	<b>+1,180 (+5.3%)</b>			<b>Compared to highest MTFS estimate +855 (+3.9%)</b>	

Notes:

- (1) General Funding for 2025/26 includes Business Rate growth above baseline, which has not previously been part of our base funding.
- (2) Homelessness, Rough Sleeping and Domestic Abuse grants shown as zero in Council estimates as will be allocated to specific service areas rather than used to fund general spending.

8.9 The funding estimates for 2027/28 and 2028/29 are:

<b>Funding source (£000)</b>	<b>Provisional Settlement (CSP) 27/28</b>	<b>Provisional Settlement (CSP) 28/29</b>		<b>Council estimated funding 27/28</b>	<b>Council estimated funding 28/29</b>
Council Tax	14,650	15,199		14,650	15,160
General Grant	6,689	6,622		6,689	6,682
<b>Total</b>	<b>21,339</b>	<b>21,821</b>		<b>21,339</b>	<b>21,842</b>
Other- Parish support for CTRS				(37)	(37)
EPR				1,429	1,143
<b>Total (after other items)</b>				<b>22,731</b>	<b>22,948</b>

### Changes to cost estimates

8.10 On 24 November 2025 the Council received notification of provisional pension contribution rates for the next 3 years (2026/27 to 2028/29). This was from the latest triennial valuation and reflected the strong performance of the pension fund over the last period. The rates that the Council will need to pay have dropped significantly from 19.5% of pay + a lump sum of £1.03m, to 16.9% of pay and no lump sum. This is estimated to be an annual saving of £1.28 million.

8.11 The Quarter 2 budget monitoring report is also being presented to this meeting. That report identifies ongoing additional costs of £147k, which would need to be reflected in budget estimates.

### Budget proposals

8.12 There have been some minor changes to the budget proposals that were presented to the budget workshops. The budget workshops were not asked to provide any formal comments on the proposals. The current revenue and capital budget proposals are attached at Appendix A and B.

8.13 The proposal in relation to Local Government Reorganisation (LGR) is for a transfer to a specific reserve. Funds from the reserve will be spent during 2026/27 and 2027/28, but the exact amounts and timings are uncertain. The intention is that would be used for the following:

- A proportionate contribution towards County-wide set-up and transition costs.
- Additional resource so that the Council has capacity to contribute towards workstreams or specific North Herts preparations for LGR.
- HR and training budgets to support staff through change and provide training to help them through the process.

## Current summary and Council Tax proposals

- 8.14 The table below details the current forecasts of funding and spend. This incorporates all the information above and the previous MTFS estimates. These amounts will be subject to change as Officers go through the detailed budget work.

£000	2026/27	2027/28	2028/29
Estimated spend from MTFS	23,300	24,110	24,100
Savings from pensions	(1,280)	(1,280)	(1,280)
Additional costs from Q2 monitoring	147	147	147
Impact of revenue budget proposals	1,498	1,172	(107)
<b>Revised spend (General Fund impact) estimate</b>	<b>23,665</b>	<b>24,149</b>	<b>22,860</b>
Estimated funding	22,628	22,731	22,948
Surplus/ (deficit)	(1,037)	(1,418)	88

- 8.15 The table above shows that on current assumptions, the Council can achieve a balanced budget without needing to make any substantial savings. The use of General Fund reserves in 2026/27 and 2027/28 is affordable (total £2.455 million) and most of this (£2 million) relates to allocations for Local Government Reorganisation. Cabinet still needs to indicate whether all the budget proposals should be taken forward to be incorporated into the next stage of the budget process.
- 8.16 The table above is based on Council Tax being increased in line with Government funding assumptions, i.e. at the maximum increase allowed without a local referendum. That is an annual increase of 2.99%. This is also in line with the assumptions in the agreed MTFS.

## 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 "[a]ssist 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 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).

- 10.3 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.
- 10.4 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 2026/27 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 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.

## **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- Results from budget consultation

16.2 Appendix B - Revenue budget proposals

16.2 Appendix C - Capital budget proposals

## **17. CONTACT OFFICERS**

17.1 Ian Couper, Service Director: Resources, [ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk); ext 4243

17.2 Natasha Jindal, Deputy Monitoring Officer, [natasha.jindal@north-herts.gov.uk](mailto:natasha.jindal@north-herts.gov.uk)

17.3 Reuben Ayavoo, Policy and Community Manager, [reuben.ayavoo@north-herts.gov.uk](mailto:reuben.ayavoo@north-herts.gov.uk), ext: 4212

## **18. BACKGROUND PAPERS**

18.1 *Medium Term Financial Strategy* <https://democracy.north-herts.gov.uk/ieListDocuments.aspx?CId=136&MId=3817&Ver=4> agenda item 7