

FINANCE, AUDIT AND RISK COMMITTEE
10 February 2026

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: BUDGET 2026/27 (REVENUE AND CAPITAL BUDGETS)

REPORT OF: THE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR RESOURCES

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

1.1. Cabinet recommends a budget for 2026/27 to Council for their consideration and approval. The budget considers the following:

- The funding that the Council should expect to receive in 2026/27 and an estimate of future years funding.
- The forecast net spend required to enable the continued delivery of the Council services in 2026/27 and beyond.
- 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.
- The availability of General Fund reserves and the opportunities that provides.

2. RECOMMENDATIONS

That Finance, Audit and Risk comments on the budget process, assumptions and risks contained within this report, in the context that Cabinet recommend to Council that:

- 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 £3.5 million is recommended.
- 2.3. Notes 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 £27.321m, 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.

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| 2.8. Approves bringing forward the capital budget for pool covers at the outdoor pools to 2025/26. |
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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 2026/27. To ensure that the budget is aligned to Council priorities for 2024-28 as set out in the Council Plan.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. The proposed budget includes some use of revenue reserves to fund one-off revenue spend and capital projects. This reflects that revenue reserves are significantly above the recommended minimum level and is an option to invest in the district. The Council could choose to retain those reserves.
- 4.2. The proposed budget includes setting aside a specific reserve for the cost of Local Government Reorganisation (LGR). The Council could look to capitalise some of the spend on LGR, which would be any spend that is directly related to the design of new operating models and the transition towards them being implemented. This capitalisation option is discounted due to the available General Fund reserve and helping to put a new Unitary Council in a better financial position. The Council could also choose to not incur costs to help create capacity to support LGR and/or not support training and development of staff. This is discounted as LGR is a massive period of change and people are our most important asset.
- 4.3. Cabinet and Council can recommend changes to the revenue savings, revenue investments (both Appendix B) and capital proposals (Appendix C) as long as any changes consider the overall affordability.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. All Councillors were given an opportunity to review the revenue savings, revenue investment and capital proposals (as they were at the time) at the informal budget workshops in early November.
- 5.2. Over the summer, when the position in relation to future funding was much less certain, residents were consulted on their service and spend priorities. They were also asked to set out their preferred approach to achieving a balanced budget. The detail of this consultation is included at Appendix F.
- 5.3. Business Ratepayers will be consulted on the proposals within this report before the budget is discussed at Full Council on 26 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.
- 5.4. If any saving proposal is anticipated to have a particular impact on a specific area (or areas) then it would be referred to the relevant Community Forum(s).
- 5.5. 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.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1. The Medium Term Financial Strategy (MTFS), which provides the financial background for the Corporate Business Planning Process, was approved by Council in November following recommendation by Cabinet (and review by the Finance, Audit and Risk Committee). The budget estimates within the MTFS included several 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.

8. RELEVANT CONSIDERATIONS

Decisions made to deliver Council services and priorities

- 8.1 The Council's Medium Term Financial Strategy (MTFS) set a general approach to achieving a balanced budget that reflected the high uncertainty over future funding and costs. This reflected that there would not be sufficient time between the provisional Local Government settlement (mid-December) and setting the 2026/27 budget (end of February) to have a full set of savings proposals (if they were required). Therefore, there was no specific savings target for 2026/27, and the focus was on having an implementable plan for the 2027/28 budget, and to use General Fund reserves to address the expected 2026/27 funding shortfall.
- 8.2 At its meeting in January, Cabinet considered the outcomes of the provisional Local Government settlement and reviewed the revenue and capital budget proposals. In that meeting the following additions to the revenue and capital budgets were proposed. These have been incorporated into the relevant appendices for revenue (Appendix B) and capital (Appendix C) proposals, and into the overall forecasts.
- Learner Pool in Royston. Capital funded from a revenue contribution.
 - Digital and other signage for car parks in Hitchin, to promote better use of car parks. Capital funded from a revenue contribution.
 - Additional water play features at North Herts Leisure Centre. Capital funded from a revenue contribution.
 - If required, Churchgate project consultancy costs to get to the point of setting a capital budget. Some costs will be funded from existing specific reserves and surplus lettings income. Revenue cost.
 - Planting at Broadway Gardens, Letchworth. Revenue cost.
 - Feasibility work on remodelling of Grange Recreation Ground in Letchworth. Revenue cost.
 - Work to determine feasibility for additional allotment provision in Great Ashby. Initially a revenue cost to determine the scope of the work required.
 - One-off additional funding for Community Forums.
 - Consider additional funding for organisations receiving funding via Memoranda of Understanding.
 - Outreach work in relation to the museum storage project. Revenue funding to carry out some work on this if a grant bid is unsuccessful.
 - Marketing support for Hitchin Town Hall and District Museum.

- 8.3. Additional costs have also been added in for an early estimate of the Business Rates amounts that the Council will need to pay. This is due to the new ratings list, but is subject to change depending on eligibility for any reliefs or if the Council decides to appeal any ratings valuations. As detailed in table 3 there is also likely to be an additional allocation for Herts Futures to support county-wide economic development.

General Funding

- 8.4. Government published their funding policy statement on 20 November 2025. This included several updates on how Fair Funding 2 would be calculated. This started to narrow the expected Government funding that the Council would receive.
- 8.5. 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 £1.787m, 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.
- 8.6. On 17 December, Government released the Local Government provisional settlement. The relevant factors from this were:
- As expected, the Fair Funding 2 formula has been used to set how much funding Councils need. This covers the period from 2026/27 through to 2028/29, although the amounts for 2027/28 and 2028/29 are indicative.
 - The Fair Funding formula calculates total funding need and then deducts an assumed amount that will be received from Council Tax. The Council Tax amount assumes that rates will be increased in line with referendum principles and sets an assumed increase for growth in tax base. Councils retain Council Tax income above the assumed level and equally have to make up any shortfall.
 - The funding from Government is split between Government Grant (around 55%) and retained Business Rates (around 45%) and overall is referred to as baseline funding. The Government Grant element will increase by inflation each year. The retained Business Rates element gives the potential for higher growth, but also has some risk.
 - The potential for Business Rate growth is still constrained by a levy being applied to growth, but this is now more generous at higher levels of growth. Growth will also be less likely as Councils will have just gone through a reset. Councils can retain 10% of any growth in baseline funding that is up to 10%. For growth up to an extra 100% of baseline funding, then 30% can be retained. For growth above an extra 100%, then 45% can be retained. Based on previous experience, North Herts is unlikely to see the higher rates of growth.
 - The potential for Business Rates losses is still constrained by a safety net. In 2026/27 this safety net is set at 100%, so there will be no losses below the baseline funding level. In 2027/28 it will move to 97%, so losses of up to 3% are possible. From 2028/29 it will move to 92.5% and then stay at that level. This means losses of up to 7.5% are possible, and this is the amount that it has previously been set at. We will continue to set our budget based on the baseline level.
 - District Councils will be able to increase Council Tax by up to 2.99% without the requirement for a local referendum.
 - New burdens (e.g. costs of weekly food waste collections) are included within Fair Funding 2, and there will not be any additional allocations.

- Homelessness, rough sleeping and domestic abuse grants now form part of Core Spending Power (the headline funding for Councils) although it still subject to restrictions on how it is spent. The funding available has increased. This is shown as part of our general funding, with an off-setting pressure for the matching spend.

8.7. The final Local Government settlement is due late January/ early February, so was not available at the time of writing this report. Estimates are therefore based on the provisional settlement.

8.8. The position on our general funding is detailed in the tables below. Homelessness and rough sleeping prevention funding has previously been provided as a ring-fenced specific grant. It now forms part of core spending power and is notionally within general funding. However, it still has funding conditions, so to enable fair comparisons it has been excluded from the table below. It has been included in the detailed funding table in Appendix E, and is off-set by a spending pressure within the revenue budget proposals in Appendix B.

Table 1 – Estimated General Funding comparison (2026/27 with 2025/26)

£000 Funding	2025/26 Budget	2026/27 Latest Forecast	Comments
	£'000	£'000	
Council Tax	13,613	14,211	Increase in rate (2.99%) and increase in base of 1.36% (number of properties)
Council Tax Collection Fund Surplus/ (Deficit)	144	251	
Business Rates and General Grant funding	4,900	6,728	Based on Fair Funding allocation, including New Burdens and inflationary growth
Extended Producer Responsibility funding	1,435	1,787	Based on notification of estimated amount.
Less: Council Tax support to Parishes	(39)	(39)	Maintained at previous levels.
	20,053	22,938	

Table 2 –General Funding forecasts for 2027/28 and 2028/29

£000 Funding	2027/28	2028/29	Comments
Council Tax	14,709	15,225	Assumed 2.99% increase in rate. Net 0.5% increase in tax base
Other funding	6,680	6,613	Based on Fair Funding totals. Whilst this is a multi-year settlement, the amounts in years 2 and 3 are not guaranteed.
Extended Producer Responsibility funding	1,430	1,144	Assumes a reduction of 20% per year based on producers being incentivised to reduce packaging
Less: Council Tax support to Parishes	(39)	(39)	Retained at same amount.
	22,780	22,943	

Specific Funding

8.8 The Council also receives grants and contributions for specific purposes. Generally, these are built into service budgets and have therefore already been taken into 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. Those grants that are ongoing (or have previously been ongoing) have been reviewed and the main risks and

opportunities are detailed in table 3 below. This is not intended to be an exhaustive list, and does not include any short-term grants or grants in their first year:

Table 3 – Forecasts in relation to grants and other contributions

Grant/ Contribution	Amount expected in 2026/27 (£000)	Risk/ Opportunity
UK Shared Prosperity Fund (SPF)	0	Expecting that the 2025/26 allocation will be the last year of UK SPF funding. It has been mostly been used for one-off/ time limited projects as known that it would come to an end. It has also been used to fund Herts Futures to provide county-wide economic development. This is identified as an investment proposal for 2026/27 (amount TBC).
Homelessness Prevention and Rough Sleeping Grant	0	As detailed in paragraph 8.5, now within general funding. Paragraph 8.7 details how it is reflected in the budget. Allocated each year to meeting priorities. Does not create any spend pressures.
Domestic Abuse Safe Accommodation Grant	0	Was included in general funding last year. A budget pressure was created last year to reflect the spend on an ongoing basis. Does not create any further spend pressures.
Housing Benefit Administration Grant	253	In line with current year allocations, so no budget pressure created.

Business Rates and Council Tax Collection Funds

- 8.9 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 our General Fund and to the other precepting bodies. For Council Tax an accumulated surplus of £251k can be transferred in to the General Fund and is included in table 1 above. 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 available balances in this reserve are detailed in table 4 below.

Review of balances and reserves

- 8.10 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.
- 8.11 The table below (table 4) shows the reasons why reserves are being held, as well as forecasts of future balances (where they can be estimated). Apart from the Business Rates Grants reserve, all the balances are held for a specific purpose. The result of this analysis is that there is more likely to be additional funding available, rather than any shortfalls that need to be addressed.

Table 4 – Specific Reserves

Name of Reserve	Purpose of Reserve	Balance at 1 April 2025	Estimated Balance at 31 March 2026	Estimated Balance at 31 March 2027
Children's Services Reserve	Had been used to help fund Active Communities projects in the district funded from grant income and/or external contributions. Remaining services are now funded from base budget.	1	0	0
Churchgate Development Reserve	Additional income above the treasury income that would have been generated from the capital used to purchase the shopping centre freehold. Intention was that those funds will be set aside in to support the planning and delivery of Churchgate regeneration project. The money will contribute towards necessary professional advice via consultants, until we get to the stage of setting a capital budget. Expected now to be used in the year that the income is received and may require additional revenue funding.	11	0	0
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.	20	15	10
Council Tax Hardship Grant Reserve	Money received from Government to fund the costs of a localised Council Tax support scheme to help low-income and vulnerable households. Our Council Tax Reduction Scheme has not required use of this funding. There is no condition on the grant received that requires unspent funding to be returned but should be used for the intended purpose. To look at fair ways to use this but maybe over a few years. May be called upon to support what we have put in place to support the Marie Curie initiative to avoid dying in poverty/	269	269	TBC
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. May be added to by additional awards of New Burdens funding.	121	93	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. The increase is due to additional New Burdens funding for Renters Reform Act, which will not all be spent in this year.	15	24	Unknown
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. The Fair Funding review provided some greater certainty over homelessness funding, which should help with planning how grants are spent.	275	148	Unknown
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.	832	784	595
Insurance Reserve	Used to finance potential claims for risks that are not covered by external policies together with higher excesses currently being borne by the Authority. It is good financial management practice to have an insurance reserve. The future balances will depend on the claims received and the level of relevant insurance.	34	Unknown	Unknown
Land Charges Reserve	Reserve originally established to help meet the potential cost should the financial risk of the repayment of personal search fees occur. In recent years some of this has been used for additional administration costs and software upgrades.	12	12	Unknown

Name of Reserve	Purpose of Reserve	Balance at 1 April 2025	Estimated Balance at 31 March 2026	Estimated Balance at 31 March 2027
Leased Assets Reserve	Changes to accounting rules in 2024, affected how the Council treated lease vehicles. They are now treated as assets. 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.	63	55	Unknown
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.	33	33	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. £3.5m will be released into the General Fund in 2026/27 as part of investing in the District. In 2026/27 the Council will receive the funding from previous Business Rate surpluses of £2.2m. This will be released in to General Fund (as part of investing in the District) in 2027/28. This is included in Appendix E. The remaining balances reflect the expected amounts needed for deficit contributions, levy payments and a risk allowance.	6,227	4,893	3,200
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.	121	115	Unknown
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
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). To also try and identify other uses for the funding that are compliant with the grant conditions.	758	782	Unknown
Taxi Reserve	Any surplus from the taxi service will be transferred to the earmarked reserve where it can be used to offset any future deficit or to fund investment in the taxi service.	11	11	Unknown
Town Centre Maintenance	For the implementation of the Town Wide Reviews and ad hoc town centre maintenance.	93	101	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.	367	359	349
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 waste contract procurement. Future spend may be required for options around a new waste depot.	836	836	Unknown
Waste Vehicles Reserve	As repayment of the finance lease principal embedded within the waste contract is funded from the Council's cash reserves, the saving on the revenue account is transferred to this reserve to fund the purchase of new vehicles. The Council capital funded new vehicles in 2025/26 in line with the new contract.	3,178	0	0

Name of Reserve	Purpose of Reserve	Balance at 1 April 2025	Estimated Balance at 31 March 2026	Estimated Balance at 31 March 2027
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.	358	245	214

8.12 As at the 31 March 2025 there was a total of £732k held as long-term provisions. These are comprised of:

- Business Rates appeals - £704k - the Council's estimated share of outstanding business rates appeals. This has reduced significantly as fewer appeals were received than expected.
- Insurance - £28k - covers the uninsured aspect of outstanding insurance claims.

8.13 We do not want to be in a position where we are holding provisions 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.

8.14 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 £27.3 million, this means a minimum balance of about £1.37million. 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 £14.3m and therefore an additional allowance of around £430k is added.

8.15 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 2026/27

Category	Number of Risks	Forecast Value of Impact (£000)	Risk Allowance (£000)
Low	15	2,184	0
Medium	13	1,178	295
High	14	2,775	1,387
Total	42	6,137	1,682

8.16 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £3.5 million should be maintained. This is what is recommended by the s151 Officer (Chief Finance Officer).

Expenditure Forecasts

- 8.17 The starting point for forecasting net expenditure for future years is the previous year's budget, as set in February 2025. 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.
- 8.18 Budget proposals were put forward for discussion at Group workshops in November. These have been subject to amendment as better estimates or information has become available. The budget report considered by Cabinet in January highlighted the improved pension fund position, which has allowed large decreases in the amounts the Council needs to contribute each year. This combined with the positive outcome from Fair Funding has allowed a balanced budget to be forecast without a significant savings requirement. This gives the Council the opportunity to invest some of the reserves in the district. The proposals in relation to this are detailed in paragraph 8.2.
- 8.19 The draft budget report considered by Cabinet in January forecast a medium-term (in 2028/29) small budget surplus of £88k. This is now forecast to be a surplus of £242k. One of the main reasons for the increase in the surplus is a reduction in estimated revenue costs of capital, and it is still expected that those costs will increase in the longer term.

Capital Programme and the revenue effects of capital

- 8.20 Due to capital spend in 2025/26, the Council now has 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 (MRP) charge. This is why the greater linkage between capital expenditure and revenue costs; means it is sensible to consider the two together.
- 8.21 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 paragraph 8.2. These additional capital items are being funded from a revenue contribution. As with any capital expenditure that is immediately funded (e.g. funded from grants, capital receipts or s106 contributions), these items do not increase the Capital Financing Requirement and therefore do not add to the MRP charge.
- 8.22 When capital budgets are set (same also applies to new revenue budgets) then they can only be spent in the year that they are allocated. For new proposals the allocation is for the following year (i.e. 2026/27) or later. Two of the new proposals relate to new pool covers for the outdoor pools. It is requested (see recommendation 2.8) that Council approve this spend being brought forward into the current year (2025/26) as this then allows the covers to be replaced in advance of the outdoor pool season starting.
- 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 Capital spend can be funded from sources which include grants, capital receipts and revenue. 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).

- 8.25 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).
- 8.26 The changes to the revenue costs of capital are included in Appendix B.

Reliability of estimates

- 8.27 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

- 8.28 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 three years, including the impact on the General Fund balance. A three-year medium-term period is used as this covers the period of the multi-year settlement. On current Local Government Reorganisation (LGR) timescales, it also covers the first year of the new Unitary Councils. This is deemed a more realistic planning horizon than the usual five-year period.
- 8.29 There are no additional unidentified savings that need to be delivered to achieve a medium-term balanced budget. There are risks (as identified in the section 25 report) to this, and there is a need for ongoing budget monitoring and re-forecasting. To enable investment in LGR work there is a budget shortfall in 2026/27 and 2027/28. This will require a use of reserves, but this is affordable with the level of reserves that the Council has. There is an ongoing assumption 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 has an ongoing (and increasing) impact on this Council and any successor Unitary Council. For example, a Council tax freeze for just one year would affect funding by just over £410k in the first year, and that would increase to over £470k after 5 years. Future Government funding is linked to the assumption that Council's will increase Council Tax by the maximum allowed (without a referendum).

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. Capital funding (including borrowing) **cannot** be used for revenue expenditure. Revenue funding can be used for capital.

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 The risks in relation to future funding have significantly reduced with the Fair Funding outcome and three-year settlement. There is an over-arching financial risk in the Council Delivery Plan, which will be reduced as part of the next update.
- 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.

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 Some of the budget proposals identified in Appendix B and Appendix C are put forward to have a positive influence on the Council’s environmental impact (e.g. additional climate change resource, new pool covers). There will also be the continuation of previous proposals that will have a positive environmental impact (e.g. decarbonisation projects, use of HVO fuel). For other proposals 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.

15.2 The funding set aside for LGR is intended to help manage the impact of the additional work it creates. However, as highlighted in the Council Delivery Plan, there is still expected to be a negative impact on overall resources and will increase pressure on staff.

16 **APPENDICES**

16.1 Appendix A – Financial Risks 2026/27

16.2 Appendix B – Revenue Budget Savings and Investments

16.3 Appendix C – Capital Programme 2026-36

16.4 Appendix D - Section 25 report

16.5 Appendix E - Budget Summary 2026/27– 2028/29

16.6 Appendix F- Budget consultation results

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18 **BACKGROUND PAPERS**

- 18.1 Medium Term Financial Strategy <https://democracy.north-herts.gov.uk/documents/s29462/Appendix%20A-%20Medium%20Term%20Financial%20Strategy%202026-30.pdf>