

FINANCE, AUDIT AND RISK COMMITTEE
17 December 2018

PUBLIC DOCUMENT

TITLE OF REPORT: DRAFT BUDGET 2019/20

REPORT OF : *SERVICE DIRECTOR- RESOURCES*

EXECUTIVE MEMBER : COUNCILLOR JULIAN CUNNINGHAM

COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To consider the draft budget for 2019/20 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level. To consider the appropriate level of Council Tax that will be recommended to the meeting of the Council on the 7 February 2019.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the significant uncertainty around Central Government funding levels in 2019/20 and beyond, and that the estimates provided could be subject to significant change.
- 2.2 That Cabinet notes the estimated position on the Collection Fund and how this will be funded.
- 2.3 That Cabinet confirms that Council Tax increases for 2019/20 should be in line with the Medium Term Financial Strategy.
- 2.4 That Cabinet notes and comments on the inclusion of the savings and investment proposals in the draft budget. To include any additional savings or investments.
- 2.5 That Cabinet notes and comments on the inclusion of the capital investment proposals. To include any additional capital investments.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure that all relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2019/20.
- 3.2 To ensure that the Cabinet recommends a balanced budget to Council on 7 February 2019.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 During the Autumn Political Groups were asked for savings ideas that they wanted Officers to investigate further. These have been combined with ideas generated by Officers. The total value of the ideas presented is less than the funding gap that needs to be met over 4 years. This means that currently there are not any alternative options available.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 All Councillors were given opportunity to comment on the efficiency and investment proposals at the Budget Workshops.
- 5.2 The Cabinet will consult on the proposals in this report with the Business Rate Payers Group in January 2018. This is the only statutory consultation that is required.
- 5.3 If any savings that have an impact on a specific area (or areas) will be referred to that Area Committee(s) during January. This is not considered to be the case for any savings included within the proposals.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 12th October 2018.

7. BACKGROUND

- 7.1 The Medium Term Financial Strategy (MTFS), which provides the financial background to the Corporate Business Planning process for 2019-2024, was adopted by Full Council on the 6 September 2018 following recommendation by Cabinet.
- 7.2 The MTFS included a number of assumptions, which will be updated as better information becomes available. The final budget will still contain some assumptions, and this is why monitoring reports are provided to Cabinet on a quarterly basis.

- 7.3 In anticipation of the decline in future funding, the Council has increased the level of general fund reserves. This allows for some cushioning in the delivery of savings.
- 7.4 Significant savings have been delivered in recent years. This means that the opportunity for savings from being more efficient have now generally all been taken. Instead the focus is now on income generation, service transformation, joint working, making best use of capital assets and justifying delivery of services above statutory levels.
- 7.5 The Council's funding is split between revenue (i.e. the day-to-day running costs) and capital (i.e. creating and improving assets). The general rule is that capital funding can not be used for revenue expenditure. However in the 2015 Spending Review, the Chancellor announced the "flexible use of Capital Receipts direction". Subject to certain conditions this allows Local Authorities to use Capital Receipts to fund the revenue costs of reform projects.

8. RELEVANT CONSIDERATIONS

8.1 Central Government funding

- 8.1.1 On the 29 October 2018, the Chancellor made his Budget Statement. The Budget included an update on the current state of public finances and the latest economic forecasts. None of the announcements provided details of specific impacts on the Council's funding.
- 8.1.2 The Provisional Local Government Finance Settlement was due to be announced on 6th December. However on the 5th December it was announced that this would be delayed for an unspecified period due to the ongoing Brexit debates in parliament. It was expected that this would have provided information on:
- The position in relation to negative Revenue Support Grant (RSG) in 2019/20. A consultation earlier in the year had suggested that this would no longer be applied. This would increase the funding available to the Council by around £1m in 2019/20. For the purposes of the estimates below, it is assumed that there will **not** be a negative RSG.
 - Whether Hertfordshire had been successful in its application to form a Business Rates pilot. Whilst it is expected that there will be a benefit from being part of a pilot, it is not intended to build any assumptions in to the budget.
 - Details on changes to New Homes Bonus, including the level of baseline to be applied. For the purposes of the estimates below, it is assumed to be broadly in line with 2018/19 (rounded down from previous estimates). An increase in the level of the baseline would reduce the funding available and if there was a shortfall this will need to be met from reserves.
 - The extent to which Council Tax can be increased without the requirement for a local referendum (see 8.2.5 below).

8.1.3 In any event it was not expected that there would be any announcements about funding from 2020/21 onwards. This means that it continues to be difficult to forecast beyond the next financial year. From 2020/21 it is expected that 75% Business Rates Retention and a new Fair Funding Formula will be introduced. It is also expected that there will be a significant change to New Homes Bonus. Estimates for 2020/21 and beyond are therefore based on:

- The new fair funding formula will build in a reduction equivalent to the amount that the Council was due to lose through the introduction of the negative RSG. In line with previous totals published by the Ministry for Housing, Communities and Local Government (MHCLG) that the Business Rates Baseline and negative RSG will increase by 3% per year.
- That New Homes Bonus will continue at the same level of £1.1m. It is likely that this funding will reduce or be replaced, but there has been no further information on this. If it was completely eliminated then the annual savings target would increase by £1.1m.

8.1.4 Based on the above, this gives the following funding estimates:

Table 1: Estimated Non-specific Funding, excluding Council Tax (All amounts in £000)

2018/19		2019/20	2020/21	2021/22	2022/23
0	Revenue Support Grant	0	-1,103	-1,136	-1,170
2,622	Business Rates Baseline (share of income less tariff)	2,680	2,761	2,844	2,929
2,622	Funding Assessment	2,680	1,658	1,708	1,759
1,264	New Homes Bonus	1,100	1,100	1,100	1,100
3,887	Total non-specific funding, excluding Council Tax	3,780	2,758	2,808	2,859
	Change on previous year	-2.7%	-27.0%	+1.8%	+1.8%

8.1.4 Cabinet is asked in recommendation 2.1 to note the significant uncertainty around Central Government funding levels in 2019/20 and beyond, and that the estimates provided could be subject to significant change.

- 8.1.5 NHDC also receives grants for specific purposes. These grants are built in to service budgets and have therefore already been taken in to account when determining spend forecasts, so can not be used towards funding the base budget. These grant amounts are often uncertain, and reductions in the amount can result in spending pressures that would need to be met from the General Fund. As these grant announcements tend to take place in January, further details will be provided in the next iteration of this budget report in January.

8.2 Council Tax and Business Rates

- 8.2.1 NHDC is required to maintain a Collection Fund to account for the income received and costs of collection for Council Tax and Business Rates. Estimates of the net income are made at the start of the year and based on this money is transferred out of the Collection fund to the NHDC General Fund and other precepting bodies. The Fund is required to break even over time and any surplus or deficit is transferred to the NHDC General Fund and other precepting bodies.
- 8.2.2 The total amount of Council Tax that is collected is dependent on the actual number of properties, eligibility for paying a reduced amount (Council Tax Reduction Scheme) and the success in collecting what is owed. The amount of Business Rates that are collected is dependent on the number and type of business premises in the area, the success in collecting what is owed, eligibility for relief and the number and value of successful appeals. Assumptions on these factors are made in forecasting the level of income from Council Tax and Business Rates in future years.
- 8.2.3 Current forecasts are that the Business Rates collection fund will have a deficit at the end of the year. This is due to the level of appeals and rate reliefs. NHDC will need to fund its share of the deficit. The section 31 grant that NHDC receives for business rate reliefs and caps will be used for this purpose. It is expected that the Council Tax collection fund will have a small surplus.
- 8.2.4 **Cabinet is asked in recommendation 2.2 to note the estimated position on the Collection Fund and how this will be funded.**
- 8.2.5 It is expected that the Provisional Local Government Finance Settlement will confirm that for 2019/20 Local Authorities can raise Council Tax by the greater of 3% or £5 (band D equivalent) without the need for a local referendum. In future years (for 2020/21) onwards it is expected that the limit will return back down to the greater of 2% or £5 (band D equivalent). The Medium Term Financial Strategy (agreed by Council in September) proposed that the Council should increase Council Tax by as much as it is allowed to without triggering a referendum. Therefore a 2.99% increase is used to forecast Council Tax income in 2019/20, with £5 increases in the following years. Table 2 shows the level of Council Tax by year and the forecast level of income to the Council. Cabinet can recommend either a lower or higher rate of Council Tax increase to Full Council. The expected removal of the negative RSG in 2019/20 means that the Council will be able to

provide a contribution in to a funding equalisation reserve, which would be used to cushion the impact of future expected funding reductions. Whilst it could be tempting to increase Council Tax by less than the maximum allowed, this will reduce the Council Tax base for future years and therefore increase the expected funding gap in those years. It is therefore not recommended.

- 8.2.6 The Council is required to produce a Council Tax Base estimate in November for the following year, and this has been used for the 2019/20 forecast. For future years a 1% growth per year is estimated. Based on the above, table 2 provides a forecast of future Council Tax income.

Table 2: Forecasts of Council Tax level and income

2018/19		2019/20	2019/20	2020/21	2021/22
223.45	Band D Council Tax (£)	230.13	235.13	240.13	245.13
2.99%	Increase as a %	2.99%	2.17%	2.12%	2.08%
49,119	Estimated Council Tax Base	49,498	49,993	50,493	50,998
1%	Increase as a %	0.8%	1%	1%	1%
10,976	Council Tax income to NHDC (£000)	11,391	11,755	12,125	12,501

- 8.2.7 It should be noted that this only represents the District Council element of the Council Tax bill for households. Table 3 below shows the constituent elements of the 2018/19 Council Tax bill for a Band D property (excluding any Parish precept).

Table 3: Band D Council Tax 2018/19 (excluding Parish precepts)

	2017/18	Share of bill
	£	
District	223.45	13.1%
County Council	1,224.67	71.7%
County Council- Social Care Precept	95.79	5.6%
Police and Crime Commissioner	164.00	9.6%
Total	1,707.91	

- 8.2.8 Cabinet is asked in recommendation 2.3 to confirm that Council Tax increases for 2019/20 should be in line with the Medium Term Financial Strategy.

8.3 Balances and Reserves

- 8.3.1 In setting its budget, the Council needs to consider the level of its reserves. This consideration includes specific reserves, provisions and general fund reserves. A full consideration of these will be provided as part of the next iteration of this budget report in January. As detailed in paragraph 8.2.5 it is expected that the Council will be able to make a budgeted contribution to a funding equalisation reserve in 2019/20. This is alongside keeping other reserves and provisions at appropriate levels. Whilst the detailed work has not been carried out, the Chief Finance Officer considers that the forecast General Fund Balance at the end 2019/20 will continue to be significantly above the calculated minimum level.

8.4 Savings and Investment Proposals

- 8.4.1 The Medium Term Financial Strategy highlighted the need to find at least £700k of savings within 4 years. However this was dependent on future announcements on funding and also finalising estimates (e.g. Council Tax base and inflation estimates). The £700k is a net total, so any proposals for increased spend (e.g. investments) would increase the amount of savings required.
- 8.4.2 Budget proposals were put forward for discussion at Group workshops in November (appendix A). To give the full context, these proposals included both savings and investment proposals. The comments made by the Groups are included as appendix C. Only specific comments have been provided.
- 8.4.3 Updates since the workshop are as follows:
- Full Council (22nd November 2018) agreed to an extension of the current 12 month payment period for green waste collection, for a further period of 3 months. The loss of income in 2019/20 based on 52% uptake is approximately £290k.
 - Full Council (22nd November 2018) agreed an increase in the budget for opposition group leaders allowances based on the increases in the size of the opposition groups. This is an increase of £1.5k.
 - Full Council (22nd November 2018) agreed a new budget of £1.5k to provide honoraria payments for Independent Remuneration Panel members (3 panel members at £500 each).
 - The Quarter 2 monitoring report (as reported to this meeting) shows an ongoing reduction in forecast expenditure of £300k per year from 2019/20 onwards.
- 8.4.4 **Cabinet is asked at recommendation 2.4 to note and comment on the inclusion of the savings and investment proposals in the draft budget. To include any additional savings or investments.**

8.5 Capital programme and funding

- 8.5.1 This version of the budget does not include the full capital programme.

8.5.2 The Budget proposals that were put forward for discussion at Group workshops (appendix B) in November also included the full proposed capital programme for 2019/20 onwards. This did not include any capital schemes from 2018/19 that might be reprogrammed in to 2019/20. The comments made by the Groups are included as appendix C.

8.5.3 As referenced in paragraph 7.5, there are generally separate funding sources for Revenue and Capital. Where possible, external funding sources are sought for capital projects (e.g. developer contributions and grants), but the majority of the capital programme is funded from capital reserves. These reserves are made up of set-aside and capital receipts, and totalled £13.3million at the start of 2018/19. Set-aside receipts are the amounts that the Council received from the stock transfer of housing to North Herts Homes. Capital receipts are amounts that the Council receives when it sells surplus assets. By the end of 2018/19 it is expected that total capital reserves will fall to around £7m. Based on the proposed capital programme, the Council will become reliant on generating further capital receipts from the sale of surplus land to fund its capital programme.

8.5.4 Cabinet is asked at recommendation 2.5 to note and comment on the inclusion of the capital investment proposals. To include any additional capital investments.

8.6 Overall summary

8.6.1 Table 4 provides a summary of the forecast General Fund impact of the factors referenced in the previous sections of this report. This shows that based on current forecasts there are still around £600k of cumulative savings still to be identified. Although as referenced previously this amount is likely to increase as a result of changes in future funding.

Table 4: Forecast General Fund Position (All amounts in £000)

	2019/20	2020/21	2021/22	2022/23
Non-specific funding, excluding Council Tax	3,780	2,758	2,808	2,859
Council Tax	11,391	11,755	12,125	12,501
Council Tax Collection Fund accumulated surplus	257	0	0	0
CTR Funding to Parishes	(39)	(24)	(24)	(24)
Total funding	15,426	14,489	14,909	15,336
Net expenditure brought forward	14,549	14,666	14,794	15,037
Latest expenditure and income inflation estimates	398	401	396	385
Savings and investments included within Budget workshop proposals	(361)	(79)	(103)	87
Proposed budget carry-forwards	87	(87)	0	0

Allowance for future investments	0	150	150	150
Decisions from Full Council (22.11.18)	293	(290)	0	0
Qtr 2 Monitoring Report (Cabinet 18.12.18)	(300)	133	0	0
Savings still to be identified	0	(100)	(200)	(300)
Planned contribution to funding equalisation reserve	723	0	0	0
Net funding position	0	305	128	23
General Fund reserve b/f	7,171	7,171	6,866	6,738
General Fund reserve c/f	7,171	6,866	6,738	6,715

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.

10. FINANCIAL IMPLICATIONS

- 10.1 As outlined in the body of the report.

11. RISK IMPLICATIONS

- 11.1 The funding risks are heightened in section 8. As highlighted in paragraph 8.3.1 there will be a full review of the minimum General Fund balance in the next iteration of this budget report in January. The actual level of the General Fund reserve when compared with the minimum level 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 The proposals for efficiencies within this report do not unduly disadvantage one individual group within our local community more than another, although proposals relating to the staff, their terms and conditions or future employment will need to be subject to individual equality analysis in due course, as for any organisational or service restructure.
- 12.4 For any individual proposal comprising either £50k growth or efficiency, or affecting more than two wards, an equality analysis is required to be carried out; this has either taken place or will take place following agreement of efficiencies or growth.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and “go local” policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 A number of efficiency proposals will directly affect staff. It is important that all affected staff are consulted and supported at the earliest opportunity and the Council’s HR policies and procedures are followed.

15. APPENDICES

- 15.1 Appendix A – Revenue Efficiencies and Investment proposals.
Appendix B – Capital Investment proposals.
Appendix C – Notes of November Member Budget Workshops.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

- 17.1 Medium Term Financial Strategy 2018-23.