

**CABINET
17 DECEMBER 2019**

PUBLIC DOCUMENT

TITLE OF REPORT: DRAFT BUDGET 2020/21

REPORT OF THE SERVICE DIRECTOR- RESOURCES

EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 Subject to the final Local Government Finance Settlement, there is a high degree of certainty over the scale of the funding that the Council will receive in 2020/21. However the delay to a multi-year spending review and funding reforms means that there is very high uncertainty for 2021/22 onwards. The Council is therefore forced to take a prudent view, and plan its medium-term spending accordingly. Cabinet are asked to consider the draft budget for 2020/21 and the impact on Council Tax levels. Cabinet is also asked to consider their approach to setting a balanced budget for 2021/22 onwards.

2. RECOMMENDATIONS

- 2.1. That Cabinet note the funding forecasts for 2020/21 onwards, and that (especially significant for 2021/22) these will be subject to change.
- 2.2. That Cabinet note the comments made at the budget workshops, and comment on the inclusion of the revenue savings and investments in the draft budget.
- 2.3. That Cabinet note the comments made at the budget workshops, and comment on the inclusion of the capital investments in the draft budget.
- 2.4. That Cabinet note the risk in relation to the timing of capital receipts and that this might result in a need to borrow for capital purposes, which would result in additional revenue costs to those already reflected.
- 2.5. That Cabinet confirm that Council Tax increases for 2020/21 will be in line with the Medium Term Financial Strategy (i.e. the maximum amount allowed without the need for a local referendum).
- 2.6. That Cabinet approve that the funding surplus in 2020/21 be transferred to a funding equalisation reserve. This reserve will then be released in future years to help balance the budget.
- 2.7. That Cabinet note the need to start budget planning for 2021/22 (and beyond) early in the new financial year (2020/21), and comment on the proposed process.

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that all relevant factors are taken in to consideration when arriving at a proposed budget for 2020/21, to be considered by Full Council on 6 February 2020.
- 3.2. To ensure that the medium term impacts of decisions are considered, and how a balanced budget will be set for future years.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. During the autumn, political groups were asked for savings ideas (including efficiencies, income generation and service changes) that they wanted Officers to investigate further. This was combined with savings ideas generated by Officers.
- 4.2. The investments are 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.
- 4.3. As detailed within the body of the report, there is a need for Cabinet and Council to consider how (based on current funding forecasts) it will deliver a balanced budget in the medium term. Therefore all savings should be taken forward and discretionary investments should be reviewed.

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. The comments from these workshops are provided as Appendix B.
- 5.2. This report is the first draft of the budget and a further report to Cabinet will follow in January. Both of these reports will also be considered by the Finance, Audit and Risk (FAR) Committee.
- 5.3. Business Rate Payers will be consulted on the proposals within the January report. This is the only statutory consultation that is required. It is intended that this consultation will be via the website/ e-mail, as previous consultation events have not been very well attended.
- 5.4. If any saving proposal had a particular impact on a specific area (or areas) then it would be referred to the relevant Area Committee(s). However it is considered that this does not apply to any of the savings included.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on setting a draft budget which is a key Executive decision that was first notified to the public in the Forward Plan on the 1 July 2019. The budget for 2020/21 will need to be approved by Full Council in February.

7. BACKGROUND

- 7.1. The Medium Term Financial Strategy (MTFS), which provides the financial background for the Corporate Business Planning Process, was approved by Full Council in September following recommendation by Cabinet. The Council Plan was recommended by Cabinet in October, and was due to be considered by Full Council on 21 November 2019.
- 7.2. A verbal update was provided by the Executive Member for Finance and IT when the MTFS was presented to Full Council. This reflected the outcomes of the Spending Review, which was announced by the Chancellor on 4 September 2019. The key components of this announcement were:
- Negative Revenue Support Grant (RSG) would not be applied in 2020/21, which maintains the Councils funding at a level that is £1m higher than what was forecast.
 - The Business Rate baseline would continue to be increased in line with inflation.
 - Legacy New Homes Bonus payments would be honoured but would be reviewed for future years.
 - Referendum principles in relation to Council Tax would be set at 2%.
- 7.3. On 3 October 2019, the Ministry for Housing, Communities and Local Government launched a technical consultation on the Local Government finance settlement for 2020/21. This consultation closed on 31 October 2019. The consultation results will feed in to the provisional and final Local Government funding settlements. The timing of the provisional settlement is unknown, but it would be optimistic to think that it would be soon after the General Election. However the technical consultation provided the following indications of funding for 2020/21:
- It is likely that the referendum limit will be set at 2% or £5 for District Councils.
 - New Homes bonus would be paid in 2020/21 for one year only. Legacy payments would continue to be honoured.
- 7.4 For 2019/20, the Council is part of a Hertfordshire Business Rate Pilot. This is still expected to generate significant additional income for the Council, but it is for one year only and is subject to any volatility in Business Rates income across the County. For 2020/21 a Business Rates Pool application has been accepted for Hertfordshire County Council and five other Districts (including North Hertfordshire). This is expected to generate additional funding but again this will be one-off. It is not expected that the Council will be able to benefit from pooling arrangements under the new business rates funding system, at least not in the short to medium term. Therefore future forecasts do not include any ongoing gains from this.

8. RELEVANT CONSIDERATIONS

General and specific funding

- 8.1. Based on the positions described in section 7, the following assumptions are made in relation to funding for 2020/21 onwards:
- The Business Rates Baseline will continue to increase by inflation, but will be subject to a cut of £1.1m (also increasing by inflation each year) from 2021/22 onwards. This is equivalent to the expected negative RSG, but is actually likely to take the form of a cut to the Councils assessed need through the new funding formula.
 - It is assumed that the Council will continue to collect Business Rates such that the net amount it retains is in line with the Business Rates baseline. There is a risk that funding from this source could be lower than this (although would be subject to a safety net) or could be higher (although only for a period of time that will depend on the frequency of resets).
 - New Homes Bonus funding will be received as follows. In 2020/21, the Council will receive 4 years of payments relating to 2020/21, 2019/20 2018/19 and 2017/18. For 2021/22, the Council will receive 2 years of payments, 2019/20 and 2018/19. For 2022/23, the Council will receive 1 year of payments, 2019/20. From 2023/24, there will be no New Homes Bonus received.
 - Whilst there should be a replacement for New Homes Bonus (as funding was a top-slice from Revenue Support Grant when it was created) it is unknown what this will be. Given the uncertainty over any bonus payment as a funding source, the Council should aim for it not to be used for base funding (i.e. only for short-term investment funding).
 - Council Tax can be increased by £5 per year (band D equivalent). There is a risk that the referendum limit could be set lower (e.g. 2%).
- 8.2. The following assumptions are also made:
- The Council Tax base will increase by 1% each year. Subject to the adoption of the Local Plan and increased certainty over housing demand, it is likely that growth could be greater than 1% in later years. However the timing of this is unknown and higher levels of growth may create off-setting cost pressures.
 - In 2019/20 (as a result of the first delay to the implementation of negative RSG), the Council budgeted a surplus of funding over net expenditure. This was on the basis of the expected decline in future funding and the need to maximise Council Tax income in the medium term. This surplus was put in to a 'funding equalisation reserve'. It was intended that this would be released in 2020/21. Given current forecasts it is actually expected that these will actually be added to in 2020/21 and released in future years.
 - Previous pooling gains of £368k are being held in a revenue reserve. It has previously been stated that these will be released to the General Fund as part of the 2020/21 budget.
- 8.3. This gives the following forecasts of funding for 2020/21 onwards. Forecasts are shown for 4 years on the basis that the Council should be balancing net expenditure and funding within the medium-term:

Table 1- Estimated general funding

£000 Funding	2020/21	2021/22	2022/23	2023/24
Council Tax	11,755	12,125	12,501	12,884
Negative RSG (or equivalent)	0	(1,136)	(1,170)	(1,205)
Business Rates baseline	2,763	2,846	2,931	3,019
New Homes Bonus	850	350	131	0
Council Tax support to Parishes	(39)	(24)	(24)	(24)
Funding equalisation reserve	68	0	0	0
Release of pooling gains held in reserve	368	0	0	0
	15,765	14,161	14,369	14,674

- 8.4. In recommendation 2.1, Cabinet is asked to note the funding forecasts for 2020/21 onwards, and that (especially significant for 2021/22) these will be subject to change.
- 8.5. The Council still receives some funding from specific grants. These grants are held in the services that they relate to, and are usually matched by expenditure. There is a risk that specific grant funding will be reduced, which will either require a reduction in the corresponding expenditure or create a pressure that has to be met from general funding. Announcements on specific grant amounts are often made in December/January, so an update will be provided as part of the report in January.

Revenue Savings and Investment proposals

- 8.6. The MTFS highlighted a need to make £900k of net savings (efficiencies, income generation and service changes) over a 4 year period i.e. by the end of 2023/24. Whilst the funding situation for 2020/21 has significantly improved, the medium-term position is actually worse due to the reduction in the New Homes Bonus forecast.
- 8.7. The revenue savings and investment proposals were presented to Political Group workshops in early November. The comments made by the two Groups (i.e. Labour and Co-operative/ Liberal Democrat Joint Administration and Conservative) are shown in Appendix B. The full list of revenue savings and investments is attached as Appendix A. This full list includes the impact of previous decisions, such as previous budget decisions made by Full Council and the ongoing impact of budget variances that have been reported to Cabinet since the 2019/20 budget was set. It also shows the initial position as presented at the workshops (see 8.10 below)
- 8.8. As well as the specific comments, the Conservative Group also wanted to highlight a general concern over the level of new ongoing spend being created when there is a need to save money to balance the medium-term budget.

- 8.9. The savings against E6 are shown as TBC as they are dependent on the capital investment being agreed and are subject to specific acquisitions, which will depend on the properties available. The financing costs (interest and minimum revenue provision) against R27 are also shown as TBC. The prudent assumption is that undertaking property investment would put the Council in a net position where borrowing would be required. However any borrowing would be for the wider capital programme and not directly related to property acquisitions. However it will be a requirement that any property acquisition will provide a return that both exceeds the notional cost of funding from borrowing and compensates for the risk involved. If the capital amount is agreed, then when properties are acquired it will be possible to incorporate net returns in to the budget. At the moment incorporating both sides as TBC is a prudent net-zero position.
- 8.10. At the Joint Administration workshop additional items were added, i.e. R29 to R32 on the final page Appendix B. The Conservative Group have not had an opportunity to comment on these proposals.
- 8.11. The Joint Administration has held meetings since the budget workshop to try to reduce the level of investments and therefore ongoing spend. The comments in Appendix B reflect the combined discussions across these meetings. The numbers presented in Appendix B reflect the changes made by the Joint Administration (as the draft budget belongs to the Administration) during this process.
- 8.12. The net position of the new savings and investments is shown in the table below. As line R10 is time limited (£40k ceases after 2024/25) the net ongoing impact is an increase in annual spend of £170k. This is against the target in the MTFS of a net reduction of £900k. Cabinet should note this in considering recommendation 2 below. It should also be noted that the Quarter 2 Revenue Monitor report that is also being considered at this meeting identifies a further ongoing pressure of £46k.

Table 2- New savings and investments (amounts are cumulative impacts on annual budget)- from Appendix B

£000	2020/21	2021/22	2022/23	2023/24
New savings	(642)	(440)	(379)	(353)
New investments	758	749	608	548
New net investments (increased spend)	116	309	229	195
Net change year on year	116	193	(80)	(34)

- 8.13. **In recommendation 2.2, Cabinet is asked to note the comments made at the budget workshops, and comment on the inclusion of the revenue savings and investments in the draft budget.**

Capital Programme and Funding

- 8.14 This version of the budget does not include the full capital budget, which will be part of the Investment Strategy that will be presented to Cabinet in January for recommendation on to Full Council in February.

- 8.15 The capital budget proposals that were presented for discussion at the Political Group workshops are attached as Appendix C. This includes all capital projects that have budgeted spend in 2020/21 or beyond. It also includes an estimate of spend over the years 2025-30. It does not include any projects that have been reprogrammed from 2019/20 in the Quarter 2 Investment Strategy monitor (also being considered at this meeting).
- 8.16 Funding for capital comes from separate sources to revenue. Over a number of years the Council has been able to use the receipts it received from the housing stock transfer to North Herts Homes in 2003. This has been supplemented by capital receipts from the sale of surplus land. The Council has also received capital grants and can make use of s106 funding for eligible schemes. The budget workshops were provided with a summary of the estimated future capital funding position. This was made up of the capital spend detailed in Appendix C, less any funding from grants, revenue contributions and s106. This was compared against current capital receipts balances and forecast additions (i.e. further sales of surplus land and buildings) in future years. This shows that over the 10 year period the capital programme (excluding property investment acquisitions, see 8.9 above) can be afforded without a need to borrow. However it does show that in the early years this will be very dependent on the timing of capital receipts. This might require some short-term borrowing for capital, which is allowable but would come with additional revenue costs.
- 8.17 There were no comments against the majority of items in the capital programme. The items that did have comments are detailed in table 3 below:

Table 3- Comments against capital proposals

Brief Description of proposal	Total investment (2020/21 to 2024/25) £m	Joint Administration comment	Conservative Group comment
Acquisition of property investments	20	Need to see acquisition strategy	Need to see acquisition strategy
Museum Storage Solution	1.2	Consider building more storage than needed and letting some out. Being looked at and will be updated by January.	
Refurbishment and improvement of community facilities	0.12	If there is a carry-forward of existing budget, programme the spend so it is over 4 years rather than 1.	
John Barker Place	1.1		Need updated development agreement to ensure getting value for money
Northern Transfer Station	1.6		Amend description to make it clear that NHDC will only pay for items that it is responsible for (i.e. depot/ recycled waste transfer)
Flume at North Herts Leisure Centre	0.15		Carry out usage analysis before replacing

General	n/a		Very tight on capital funding at the end of 2020/21
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8.18 In recommendation 2.3, Cabinet is asked to note the comments made at the budget workshops, and comment on the inclusion of the capital investments in the draft budget.

8.19 In recommendation 2.4, Cabinet is asked to note the risk in relation to the timing of capital receipts and that this might result in a need to borrow for capital purposes, which would result in additional revenue costs to those already reflected.

Summary position

8.20 The table below forecasts the net revenue spend for the next four years. This builds in assumptions around inflation on pay, general expenditure and income. There are two significant uncertainties in the short term, which are pay inflation and pension costs. Pay inflation is assumed at 2% per year but this will be dependent on the results of national pay bargaining. The settlement of this may not be reached until some point during 2020/21, and could be in excess of 2%. Pension costs are revalued on a triennial basis with the results of the latest review expected soon, based on the position as at 31st March 2019. It is expected that the percentage contribution rate for current service will remain unchanged. However it is possible that there will be an inflationary increase in the lump sum contribution that the Council is required to make for past service costs (i.e. the costs of pensions accrued in the past). The assumption in the estimates in table 4 is however that the annual lump sum requirement will remain unchanged at £1.006million.

Table 4- Forecast net revenue spend and funding

£000	2020/21	2021/22	2022/23	2023/24
Net expenditure brought forward	14,627	14,702	15,177	15,496
Net new investments (table 2)	116	193	(80)	(34)
Others savings and investments (previous decisions)	(289)	(32)	79	4
Estimated changes in costs of existing staffing	237	250	250	250
Current forecast changes in pension contribution rates	0	0	0	0
Net general expenditure and income inflation	11	64	70	55
Net expenditure carried forward	14,702	15,177	15,496	15,771
Estimated Funding	15,765	14,161	14,369	14,674
Funding shortfall to be met	(1,063)	1,016	1,127	1,097

8.21 The table above demonstrates that, whilst the funding position in 2020/21 is forecast to be a net surplus, based on assumptions for future years this will swap to being a significant deficit from 2021/22 onwards. The Council is therefore justified in increasing Council Tax by the maximum amount allowed without the need for a local referendum. This is expected to be a £5 increase (band D equivalent).

- 8.22 In recommendation 2.5, Cabinet as asked to confirm that Council Tax increases for 2020/21 will be in line with the Medium Term Financial Strategy (i.e. the maximum amount allowed without the need for a local referendum).**
- 8.23 Table 4 shows that incorporating all the proposed savings and investments (as table 2) creates a budget surplus in 2020/21, and is therefore a legitimate budget for that year. This budget surplus is partly created by the transfer of the pooling gains that are currently being held in a specific earmarked reserve.
- 8.24 In recommendation 2.6, Cabinet are asked to approve that the funding surplus in 2020/21 be transferred to a funding equalisation reserve. This reserve will then be released in future years to help balance the budget.**
- 8.25 Whilst the funding shortfall in 2021/22 onwards is primarily caused by reductions in funding, the proposed investments in Appendix A do limit the extent to which progress has been made in addressing this shortfall. Based on current forecasts the Council will need to reduce its net annual expenditure by £1.1m. Due to the creation of the funding equalisation reserve proposed above and fairly high general fund balances, this could be achieved over a four year period. The profile of net savings that are needed to be delivered would then be £400k in 2021/22, a further £400k in 2022/23 and another £300k in 2023/24. This is a net savings requirement and any new investments will increase the level of gross savings required, therefore there is very limited scope for any new investments (unless they are genuinely time-limited). Some of these savings could be delivered from commercial opportunities, including property investment acquisitions. However these can only be built in as savings when there is a known project with a business plan and evidence that it can be delivered. Even then commercial and property income is inherently risky and the Council will need to have a contingency plan as to how it will deal with any shortfall. As a result of the time it can take to implement savings, there is a need for Cabinet to start budget planning early in the new financial year. As the opportunity for any further efficiencies is expected to be very limited, it is proposed that this will include a review of all current spend identifying those areas which are discretionary services or services that are delivered in excess of the statutory requirement. This will be used to identify areas where service changes could be made. There will be public consultation on the results of this to determine which areas of spend residents value the most and therefore areas where service levels can be reduced. However it should be noted that the majority of the Council's spend is on statutory services and therefore given the scale of expenditure reductions required, it is possible that the continuation of discretionary services, at least in their current form, might be quite limited.
- 8.26 In recommendation 2.7, Cabinet are asked to note the need to start budget planning for 2021/22 (and beyond) early in the new financial year (2020/21), and comment on the proposed process.**

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 These are covered in the body of the report.

11. RISK IMPLICATIONS

- 11.1 The funding risks are highlighted in section 8. The next iteration of this report will be presented to Cabinet in January, and this version will include a full review of the adequacy of estimates that have been made and of reserve balances. This includes a view from the Service Director- Resources (as the Council's Chief Finance Officer) of the minimum level of General Fund reserves. The margin between actual and the minimum General Fund reserve levels provides a proxy for the level of financial risk that the Council faces, and its ability to deal with changes.
- 11.2 Managing the Council's Finances is a Corporate Risk.

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.

13. SOCIAL VALUE IMPLICATIONS

- 13.1. The Social Value Act and "go local" requirements do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 Some of the 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.
- 14.2 Some of the investment proposals involve the employment of new posts.

15. APPENDICES

- 15.1. Appendix A- Full list of Revenue Savings and Investments
- 15.2. Appendix B- Comments on new Revenue proposals from budget workshops
- 15.3. Appendix C- Full proposed Capital Programme

16. CONTACT OFFICERS

- 16.1 Ian Couper, Service Director: Resources, ian.couper@north-herts.gov.uk; ext. 4243
- 16.2 Antonio Ciampa, Accountancy Manager, Antonio.ciampa@north-herts.gov.uk; ext 4566
- 16.3 Reuben Ayavoo, Policy and Community Engagement Manager, reuben.ayavoo@north-herts.gov.uk; ext. 4212
- 16.4 Tim Everitt, Performance and Risk Officer, tim.everitt@north-herts.gov.uk, ext 4646

17. BACKGROUND PAPERS

- 17.1. Medium Term Financial Strategy – Council - 12 September 2019.