

EAST HERTS COUNCIL

JOINT MEETING OF SCRUTINY COMMITTEES – 20 JANUARY 2015

EXECUTIVE – 3 FEBRUARY 2015

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

BUDGET REPORT AND MTFP 2014/15 – 2018/19

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

- This report sets out proposals for Council decision on the following:
 - The 2014/15 Revised Revenue Estimates
 - The 2015/16 Revenue Budget
 - 2015/16 Schedule of charges
 - The 2014/15 (Revised) to 2017/18 Capital Programme
 - The refreshed Medium Term Financial Plan (MTFP)
 - The Council's Reserves

RECOMMENDATION FOR JOINT MEETING OF SCRUTINY COMMITTEES:

That:

(A)	Any comments and amendments that the Joint Meeting of Scrutiny Committees wish to make on the proposals detailed within this report be sent to Executive for consideration.
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RECOMMENDATIONS FOR EXECUTIVE: That:

(A)	Any comments and amendments made by the Joint Meeting of Scrutiny Committees be considered: and
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(B)	The 2014/15 Revised Revenue Estimates, 2015/16 Revenue Budget, 2015/16 Schedule of charges, 2014/15 (Revised) to 2017/18 Capital Programme, MTFP, and any changes to the Council's Reserves be recommended to Council for approval.
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RECOMMENDATIONS FOR COUNCIL: That:

(A)	The Revised Revenue Estimates for the current financial year 2014/15 set out in section 4, including the proposed contributions to and from Reserves (4.3) be approved.
(B)	The Revenue Budget underspend for 2014/15 is transferred to the Collection Fund Reserve and the New Homes Bonus Priority Spend Reserve as set out in paragraph 4.5.2 be agreed.
(C)	The 2015/16 Revenue Budget be approved including: <ul style="list-style-type: none">• The new budget growth as set out in section 6,• The new budget savings as set out in section 6,• The Contingency Budget (paragraph 8.3),• The use of Earmarked Reserves (section 9),• Consideration of the advice from the Director of Finance and Support Services on the levels of reserves and robustness of the estimates in setting the budget as required by Section 25 of the Local Government Act 2003 (section 15).
(D)	The East Herts element of the Council Tax Bill is frozen at the 2014/15 rate– section 11 be agreed.
(E)	The proposed 2015/16 Schedule of Charges, as set out in section 7 be approved.
(F)	The discounts in charges being proposed for those Private Hire and Hackney Carriages that are able to transport a wheelchair using person whilst s/he remains in the wheelchair - paragraph 7.6, be approved.
(G)	The new Capital Programme for the period 2014/15 (Revised) to 2017/18, how the programme will be funded, and the consequential revenue budget implications – section 12, be approved.
(H)	The refreshed Medium Term Financial Plan covering 2014/15 (Revised) to 2018/19– section 13, be approved.
(I)	The proposed changes to the Council’s Reserves, as set out in table 10 found in section 14, be approved.

1.0 **Background**

1.1 This new-format budget report replaces the four separate reports that in previous years were tabled at Council discussing the revenue and capital budget proposals. A recent workshop with Members identified certain changes they wished to see in the budget report such as clearer and expanded explanation of the figures, identification of the key budget changes, the use of plain English, and more use of graphs. This new format and content is our response to those requests and hopefully will make the budget proposals easier to understand for both Members and our residents.

1.2 The Council's revenue budget is comprised of five major 'building blocks' as follows:

- **Net Cost of Services:** this heading comprises the direct costs incurred by the Council's customer facing and back office services (less any specific income generated).
- **Corporate Budgets:** These are items that are not service specific or are not so at the point the budget is approved. These include interest income and interest payments and the annual contribution the Council makes to fund the deficit in the Pension Fund. The heading also includes the Contingency Budget and the New Homes Bonus Priority Spend Fund which at the beginning of the financial year are not allocated to specific services.
- **Proposed contributions to/from Reserves:** the next building block shows the amounts that are proposed to be used from Reserves to fund expenditure in the revenue budget. The effect of using reserves is that less income will need to be sought from Council Tax in the year in which they are used. It needs to be remembered however that reserves are a finite source of funding and their use should represent value for money.
- **Sources of Funding:** these income budgets are general and not service-specific income sources. They comprise grant income from central government and Non-Domestic Rate income.
- **Council Tax income:** This is also a general rather than a service-specific source of funding. It is treated as a separate building block in the budget preparation exercise as it is only after preparing all the estimates for the other areas that the amount needed from Council Tax is calculated (this is known as the 'Demand on the Collection Fund').

- 1.3 This budget report uses the classifications described above to navigate the reader through the budget proposals.
- 1.4 The setting of the 2015/16 budget and MTFP is taking place in an environment of high uncertainty and potential risk. The uncertainty is not for the next financial year but for the year 2016/17 and onwards. Whilst the national fiscal deficit position has improved over the life of this government, it has not been eliminated as originally planned. Austerity and a further reduction in public sector expenditure are now anticipated for an additional three year period up to 2018/19.
- 1.5 In his Autumn Statement (3 December 2014) the Chancellor warned that Public Sector expenditure is set to fall up to 2018 at the same rate as that which occurred between 2010/11 and 2014/15. Details of where the savings will be made have not been announced but given the government's position on protecting certain budgets such as schools and the National Health Service the likelihood of further reductions to local government financial support is high. The uncertainty on the future direction of public sector finance is also compounded by the fact that there is a national election next year, and the make-up of the next government will have a bearing on how fast and deep the savings to public expenditure will be made.
- 1.6 East Herts is currently in a relatively healthy financial position compared to some other councils but a cautious note is given in this budget report for the year 2016/17 onwards, particularly in the advice and recommendations made to Council on the use and level of Council reserves.
- 1.7 The process and timetable for the preparation and presentation of the Council's Budget has included appropriate consultation with Officers and Members and linkages with the Council's service planning and corporate strategy process. Significant improvements to the budgeting and service planning process will be made for the next cycle, i.e. to prepare for the 2016/17 budget, including an earlier start to the process and more informal engagement with leading Members on key budget proposals. This would also include early assessment of any key financial messages arising out of the results of national elections.
- 1.8 This budget report has been prepared having particular regard to the following reports:

- Calculation of the Council Tax base – report to Council on 17 December 2014
- Non Domestic Rates Calculation 2015/16 – report to Council on 28 January 2015
- Treasury Management Strategy and Annual Investment Strategy 2015/16’ – report to Council on 18 February 2015.

2.0 **Report**

2.1 This report contains the following sections and Essential Reference Papers:

Section 3	Summary of the key budget proposals
Section 4	2014/15 Revised Revenue Estimates <ul style="list-style-type: none"> • Net cost of Services • Corporate Budgets • Contributions to/from Reserves • Sources of funding (including Council Tax) • Overall forecast outturn position
Section 5	2015/16 Revenue Budget: Net Cost of Services
Section 6	2015/16 Revenue Budget: proposed Growth and Savings
Section 7	2015/16 Revenue Budget: proposed Schedule of charges
Section 8	2015/16 Revenue Budget: Corporate Budgets <ul style="list-style-type: none"> • New Homes Bonus Priority Spend Fund • New Homes Bonus Grants to Town and Parish Councils • Contingency Budget • Interest payments • Interest and investment income • Pension Fund Deficit Payment
Section 9	2015/16 Revenue Budget: proposed contributions to and from Reserves <ul style="list-style-type: none"> • General Reserves • Earmarked Reserves
Section 10	2015/16 Revenue Budget: Sources of Funding <ul style="list-style-type: none"> • Revenue Support Grant • Non Domestic Rate Income (NDR) • Section 31 Grants • (Surplus) / Deficit on Collection Fund • New Homes Bonus
Section 11	2015/16 Revenue Budget: proposed Council Tax

	Demand (East Herts element only)
Section 12	Capital Programme 2014/15 (Revised) to 2017/18 <ul style="list-style-type: none"> • Revised Capital Estimates for 2014/15 • New Schemes/Programmes seeking approval • Proposed capital programme 2014/15 to 2017/18 (and how it will be funded) • Prudential Code and revenue budget implications
Section 13	Medium Term Financial Plan (MTFP)
Section 14	Review of the Council's Reserves <ul style="list-style-type: none"> • Why Councils need to hold Reserves • The national and local context • The Council's current Reserves position • Review of Earmarked Reserves • An analysis of the Council's financial risks
Section 15	Advice from the Director of Finance and Support Services (Section 151 Officer)
Essential Reference Papers	
A	Implications/Consultations
B	Revenue Budget – Medium Term Financial Plan
C	Key variances from the 2014/15 Revised to Original Estimates
D	Summary of Estimates (Net Cost of Services)
E	Pay and price Assumptions in the MTFP
F	Revenue Budget Growth Proposals
G	Revenue Budget Savings Proposals
H	Schedule of Charges for 2015/16
I	Capital Programme 2014/15 – 2017/18
J	Capital Programme Funding Statement
K	The Council's Reserves Position
L	Stress test: Financial Risks facing the Council

M	Budget consultation with business
N	Glossary of financial terminology used in this report

3.0 **Summary of the key budget proposals**

3.1 This Budget Report contains proposals for a gross revenue expenditure budget of £65 million. An analysis of this budget into major 'types' of expenditure is shown in chart 1 whilst chart 2 shows how the budget will be financed.

Chart 1: Analysis of the gross Expenditure Budget 2015/16 (£65m)

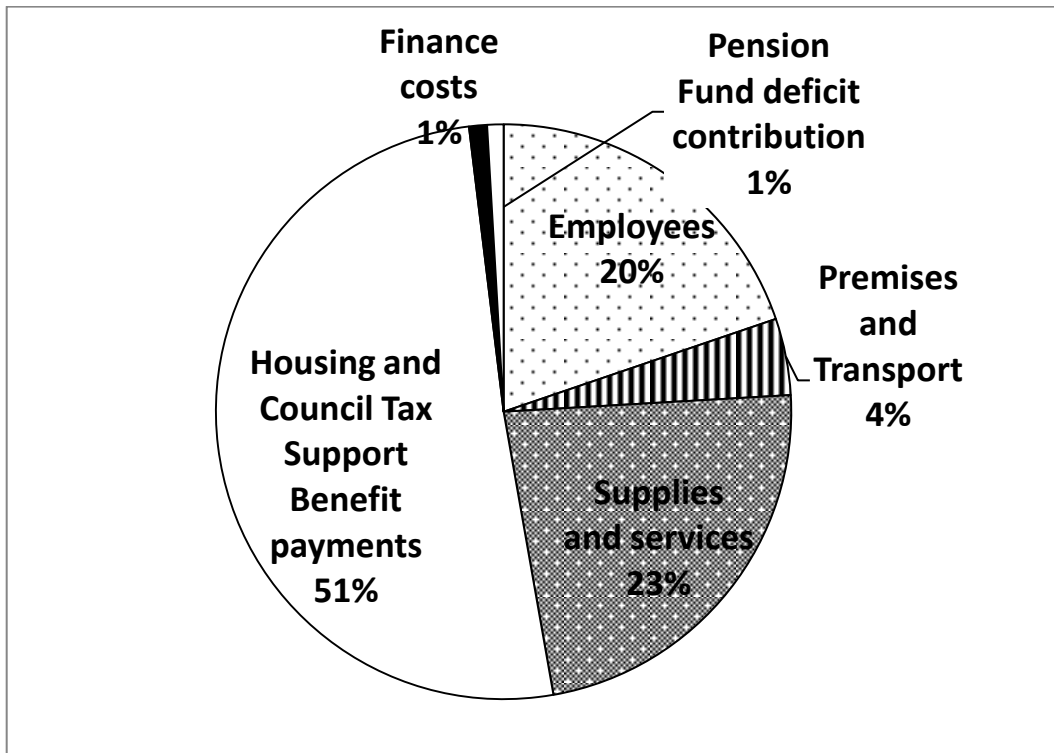
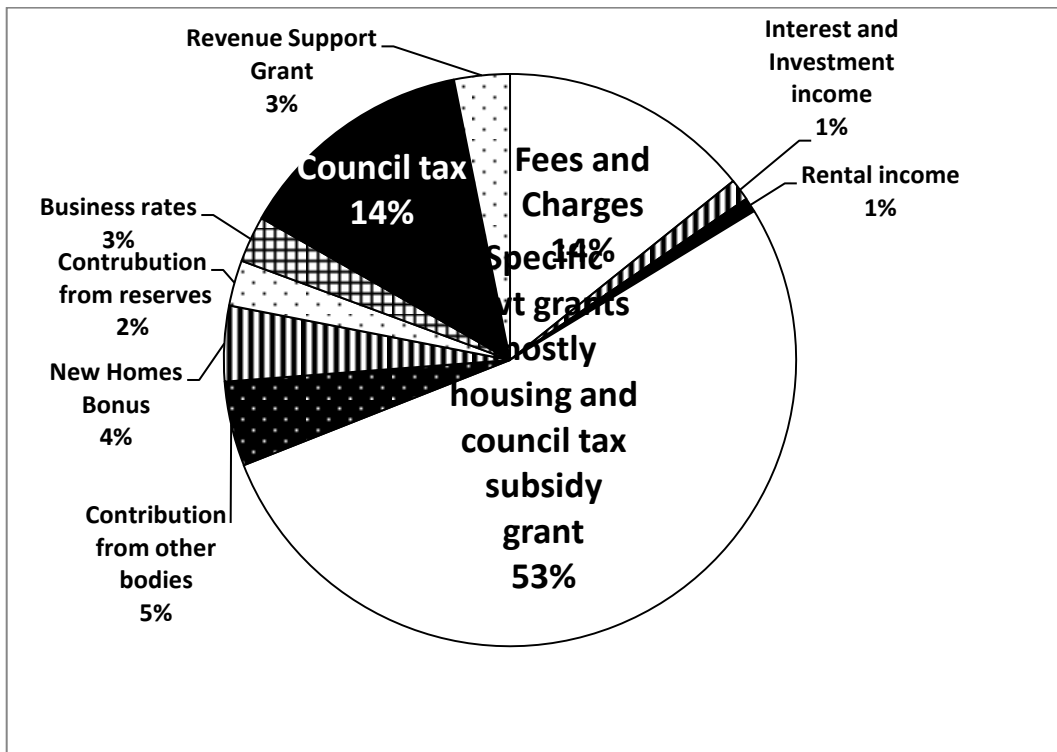


Chart 2: How the revenue budget will be financed



3.2 The key themes of the budget for 2015/16 to 2018/19 found in this report can be summarised as:

- No proposed increase in our element of the Council Tax demand for 2015/16 with a modest rise of 1% included for 2016/17 onwards.
- Investment in some key services to improve outcomes for our residents such as Revenues and Benefits.
- Continuing to protect our vulnerable residents by maintaining our Council Tax Support scheme at the same level.
- Investment in capital schemes on a rolling basis in order to improve our assets and IT infrastructure and to reduce running costs in the longer term.
- Reflection of national government policy at the local level around Business Rate reliefs.
- Consideration of the impact our fees and charges have on our residents by minimising rises whilst at the same time ensuring subsidies are understood.

- Lower charges for the public to park in Bishop's Stortford, Hertford, and Ware.
- Financially prudent, sensible and sustainable budget proposals.

4.0 **2014/15 Revised Revenue Estimates**

4.1 **Net Cost of Services:** The Revised Estimates have been prepared using information gained from the October Health Check budget monitoring process modified by any significant movements from this position identified by Strategic Finance and relevant Heads of Service during December 2014.

4.1.2 Overall the Revised Estimate for Net Cost of Services is higher than the Original 2014/15 Estimate approved by Council on 20 February 2014 by £548k (or 3.8%). This has primarily arisen from an increase in expenditure on staffing, mostly temporary staffing, which is being funded from a variety of sources - see paragraph 4.1.3 below. **Essential Reference Paper 'C'** (Key variances from the 2014/15 Revised to Original Estimates) describes other significant variances (over £20k) between the Revised and Original Estimates. Most of these variances have already been reported throughout the year via the Healthcheck process.

Table 1: The 2014/15 Revised Estimates for Net Cost of Services

Service	2013/14 Actual	2014/15 Original Estimate	2014/15 Revised Estimate	Variance Revised to Original
	£000s	£000s	£000s	£000s
Customer and Community	6,285	5,915	6,199	284
Neighbourhood Services	3,394	3,240	3,419	179
Finance and Support Services	4,694	5,123	5,208	85
Total Net Cost of Services	14,373	14,278	14,826	548

4.1.3 **Salaries Budget:** The Revised Estimate of £12.7m is £843k (or 6.6%) above the Original Estimate, the main reasons for the overspending being:

- Resizing of the Revenues and Benefits service (26 permanent FTEs) costing £179k (50% of which will be recharged to Stevenage in line with the Partnership Agreement). The Revenues and Benefits shared service was scoped using activity data from 2010/11. The demands on the service have changed considerably since then, both in the volume of transactions and the variety of activities that are now required to be carried out. The resizing will make the service fit for purpose so that it can respond appropriately to this new environment.
- £653k for 22 new posts (the majority being temporary posts) and additional hours funded from the contingency budget, Earmarked Reserves, central government grants, and increased fee income as follows:

Table 2: Additional staffing costs in 2014/15 and funding sources

FUNDED FROM CONTINGENCY BUDGET:	£000
Graduate Trainees x 2 (2 year fixed term)	32
Temporary Post Facilities Management	16
New Apprentice Post in Facilities (permanent)	2
Procurement Officer permanent increase in hours	7
Housing Manager permanent increase in hours and Grade	10
4 x temporary posts Community Safety and Health	29
Customer Services Manager permanent increase in hours	7
Information Analyst – temporary post	21
Assistant Waste Services Manager temporary increase in hours to cover maternity leave	8
TOTAL	132
FUNDED FROM COST OF CHANGE RESERVE:	£000
Corporate Project Co-ordinator (3 year fixed term)	39
New permanent post Head of Business Development	6
Leisure Development Manager (2 year fixed term)	11
Head of Strategic Finance permanent increase in hours and restructure costs	84
Head of Governance and Risk Management permanent increase in Grade	8
TOTAL	148
FUNDED FROM LOCAL PLAN RESERVE:	£000
To fund 3 temporary posts, increased hours and overtime to facilitate work on the Local Plan	101
OTHER FUNDING:	£000
2 temporary planning officer posts funded from additional fee income Development Management	80

Temporary staff in Revs and Bens funded from DCLG (New Burdens Grant and DWP)	192
TOTAL	272
TOTAL STAFFING COSTS	653

4.1.4 With regard to pay inflation, the assumption at the start of the year was that pay would increase by 1% from 1 April 2014 (coming after several years of pay freeze). However, a 2.2% national pay award was agreed on the 14 November 2014 by National Joint Council. This award is applied on 1 January 2015 and is the national pay award for 2014-2016. The revised salaries budget also includes the changes to the Local Award which has been reduced from 4% to 2% for eligible staff. Therefore, a pay award of 0.2% will be implemented for those members of staff who receive the Local Award.

4.2 **Corporate Budgets: Essential Reference Paper ‘B’** (Revenue Budget – MTFP) shows on a single page the Revised Estimates for Corporate Budgets. The commentary that follows concentrates only on those budgets that have changed during the financial year.

4.2.1 New Homes Bonus (NHB) Priority Spend Budget: The purpose of this Budget is to fund initiatives that promote the economic prosperity of the District. As at the end of December 2014, 36% or £198k of this budget had been allocated leaving a balance of £353k remaining. If this balance is not used then this amount will become a budget underspend at the year end. The £198k is for funding the part-year anticipated loss of income arising from the Council’s new car parking charging policy approved in August 2014 (see **Essential Reference Paper ‘C’**: key variances from the 2014/15 Revised to Original Estimates).

4.2.2 Contingency Budget. This budget allows for unforeseen events to be funded in-year. The Executive agrees all contingency funding requests through the Health Check monitoring process. The Original Budget approved for the year was £513k. As at the end of December 2014, 77% or £396k of the contingency had been allocated leaving a balance of £117k remaining. If this balance is not used then this amount will become a budget underspend at the year end. A full listing of the items being funded from the 2014/15 Contingency Budget can be found in the ‘Monthly Corporate Healthcheck – October 2014’ report that went to Executive on 2 December 2014.

4.2.3 Interest and Investment Income: This is forecast to be £803k which is £92k or 11% lower than the Original Estimate as it was assumed that the bank base rate would rise this financial year and that interest income would therefore be higher. In addition it was also anticipated that we would be in a position to enact Council's decision to invest in property trust funds during this financial year. This is now been rescheduled for September 2015/16 as there is an investment waiting list. It is proposed that the shortfall in income is financed from the Interest Equalisation Reserve. This reserve was set up to smooth any impacts arising from interest rate fluctuations

4.3 **Contributions to/from Reserves**: It is proposed that £796k of the 2014/15 revenue budget is funded from Earmarked Reserves as follows.

Table 3: Proposed use of Earmarked Reserves in 2014/15

Earmarked Reserve	Balance @ 31/3/14	Planned use 2014/15	Estimated Balance @ 31/3/15
	£000s	£000s	£000s
Interest Equalisation Reserve	2,257	91	2,166
Local Development Plan	734	297	437
Housing Condition Survey	79	36	43
Sinking Fund – Leisure utilities/pension fund	282	51	231
Performance Reward Grant	30	20	10
LAGBI Reserve	94	7	87
Cost of Change Reserve	1,127	155	972
Environmental Pollution - DEFRA	14	14	0
DEFRA Flood Support for local businesses	125	125	0
TOTAL		796	

4.3.1 The two largest contributions are from the Local Development Plan Reserve to pay for staffing and other costs of producing and consulting on the Plan which will be completed in 2016 and the contribution from the Cost of Change Reserve which is funding additional temporary posts (see paragraph 4.1.3 above) as well as the improvements being made to the Civica Financial system.

4.3.2 It is also proposed to make a contribution of £27k from the Revenue Budget to the provision for future whole Council

elections in order to increase the reserve for next year's election costs. This is how we have historically treated the smoothing of election costs.

- 4.4 **Funding Sources: Essential Reference Paper 'B'** (Revenue Budget – MTFP) shows the Revised Estimates for these income budgets. The commentary that follows concentrates only on those budgets that have changed during the financial year.
- 4.4.1 Non Domestic Rate (NDR): The estimate has been changed to reflect a decrease in forecast income of £719k from £2.4 million to £1.8 million. However this loss of income is more than matched by an increase in Section 31 grant income – see 4.4.2 below. The Original Estimate was the government's baseline forecast of what East Herts should receive from both NDR and Section 31 grant income. We have now split out these two income streams so that they can be better monitored and forecast.
- 4.4.2 Section 31 grants: These are government awarded grants to compensate councils for central government policy decisions in respect of rate reliefs, examples being small business, retail, and flooding rate reliefs. At the time of producing the Original Estimate it was uncertain both as to what reliefs would be granted and what exactly the interaction would be between NDR income and Section 31 grants and, as has been explained above, the grant income was included in the NDR income estimate. This whole area of local government funding is very complex and was only introduced in 2013/14 with guidance on the treatment of income and expenditure issued during 2014. We are now able to more confidently forecast income flows and as a consequence we have added a new income budget for these grants into the Revised Estimates totalling £1,307k.
- 4.4.3 (Surplus) / Deficit on Collection Fund: The surplus distribution was agreed by Council in January 2014 and is based on the actual surplus position as at the end of the 2012/13 financial year plus an estimate of the outturn position on the Collection Fund for the 2013/14 financial year. The £307k income is East Herts share of the estimated Collection Fund surplus.
- 4.5 **Overall forecast outturn position**: It is anticipated that there will be an underspend in the revenue budget of £1,243k at the end of this financial year. This could increase to £1.7m if the unallocated amounts in the Contingency Budget (£117k) and New Homes Bonus Priority Spend Fund (£353k) are not used.

4.5.1 This underspend has arisen from three main sources:

- A £318k net increase in the combined total of income from NDR and Section 31 grant income (paragraphs 4.4.1 and 4.4.2).
- The £307k surplus from the Collection Fund that was not included in the Original Estimate (paragraph 4.4.3).
- £618k of extra income and underspend in various budget items within the Net Cost of Services, excluding the salaries budget. These key variances are shown in **Essential Reference Paper 'C'** (Key variances from the 2014/15 Revised to Original Estimates) and most of them have been reported to Executive throughout the year as part of the Health Check budget monitoring process.

4.5.2 It is recommended that the forecast underspend for 2014/15, plus any changes to this underspend position at the year-end, are transferred to the following Earmarked Reserves:

- The Collection Fund distributed surplus of £307k (see paragraph 4.4.3) is transferred to the Collection Fund Reserve (previously known as the Government Funding Risk Reserve) in order to fund a deficit distribution in 2015/16.
- The rest of the forecast underspend for 2014/15 of £936k is transferred to the New Homes Bonus Priority Spend Reserve.

5. 2015/16 Revenue Budget: Net Cost of Services

5.1 These have been prepared jointly by Heads of Service/budget holders and Strategic Finance and then signed off by the relevant service Director.

5.2 The 2014/15 Revised Estimate is used as the starting point (or 'base budget') and any changes for 2015/16 are made to that figure. The changes include pay and price inflation along with any estimated impacts of known or likely changes such as a change in demand for a service or a legislative change. Minor savings, identified through an officer budget challenge process, amounting to £154k across the three Directorates have also been included. The savings have been taken from budgets that have historically underspent and where officers feel that the budget is overstated for the future activity it will fund.

5.3 The salaries budget for the Council is not prepared as described in the paragraph above, but rather is done on a 'zero based

approach' which is best described as starting from scratch and working out the salaries budget by aggregating the salaries of each individual employee. This gives a robust budget estimate for a significant proportion of the Council's revenue budget.

- 5.4 The 2015/16 Original Estimate for Net Cost of Services of £14.476 million is currently £350k less than the 2014/15 Revised Estimate as shown in table 4.
- 5.5 Table 4 does not include the new growth and savings proposals discussed in section 6 below nor does the table include the impact of the proposed 2015/16 Schedule of Charges discussed in section 7. If all of these items are approved by Council then the Net Cost of Services budget for 2015/16 would increase to £15 million. The net cost of Services total does however include growth and savings for 2015/16 that have been previously agreed and the expenditure proposed to be funded from Earmarked Reserves as set out in section 9.

Table 4: The 2015/16 Original Estimate for Net Cost of Services

Service	2014/15 Original Estimate	2014/15 Revised Estimate	2015/16 Original Estimate	Variance Original to Revised
	£000s	£000s	£000s	£000s
Customer and Community	5,915	6,199	6,401	202
Neighbourhood Services	3,240	3,419	3,145	(274)
Finance and Support Services	5,123	5,208	4,930	(278)
Total Net Cost of Services	14,278	14,826	14,476	(350)

The brackets here show that there is a downward movement of spend between 2014/15 and 2015/16

- 5.6 **Essential Reference Paper 'D':** (Summary of Estimates) shows the 2015/16 Original Estimate for each Service in more detail than table 4 provides. As has been the case in previous years' budget reports, these estimates do not include recharges of Divisional and Support Service costs nor do they include capital charges.
- 5.7 Recharges of central support services such as Human Resources, Strategic Finance, and IT to the users of these services, such as Neighbourhood Services are the total cost of these central support services. These are included in the Finance

and Support Services Original Estimate shown in table 4 and the recharges are simply a re-distribution of these costs which does not impact on the Total Net Cost of Services figure shown.

5.8 Capital charges are 'notional' charges for the use of capital assets and are not 'real' cash-backed payments requiring a source of financing. They are therefore irrelevant to the budget decisions Council needs to make and are required primarily for producing the annual Statement of Accounts. The charges will be calculated and put into service estimates before the start of the new financial year.

5.9 The key assumptions and movements contained within the 2015/16 Original Estimate for Net Cost of Services are discussed below.

5.10 Salary Estimate: The total salary budget is £12.4m for 2015/16. The following assumptions and key movements have been included in the figures:

- The full year effect of the National Pay Award (2.2%) and the reduction in the Local Award from 4% to 2%.
- An assumption that turnover in staffing will generate savings in the salary budget of 2% (worth £244k). This is consistent with 2014/15 assumptions.
- National Insurance contributions in the range of 10.4% to 13.8% of salary, the actual rate used being dependent on the level of salary.
- An Employer's Pension Fund contribution of 16.6% of salary cost.
- The full year effect (£300k) of the resizing of the Revenues and Benefits service as reported in paragraph 4.1.3.
- £240k of temporary staffing costs being funded from the Cost of Change Reserve and Local Plan Reserve as follows:

	£000
Corporate Project Co-ordinator	44
2 x Graduate Trainees	62
Leisure Development Manager	46
Information Analyst	26
4 temporary planning officer posts to facilitate work on the Local Plan	62

TOTAL **240**

- £99k of permanent salaries expenditure growth due to the restructure at SMG level.
- £85k further salaries growth across the 3 Directorates as follows:

	£000
New Apprentice in Facilities Management (permanent)	17
Procurement Officer permanent increase in hours	13
Housing Manager permanent increase in hours and Grade	23
Principal Planning Officer contract extended (temporary)	35
Customer Services Manager permanent increase in hours	3
Communications – permanent increase and decrease in hours for 2 officers of different Grades	(6)
TOTAL	85

5.11 Price Inflation: The 2014/15 Revised Estimates have been increased by the price inflation indices shown in **Essential Reference paper ‘E’**: (Pay and Price assumptions in the MTFP). General Price and fuel inflation indices are those reported by the Office for Budget Responsibility in December 2014. The contract indices are those contained within specific Council contractual agreements.

5.12 Customer and Community Services:

- The car parking income budget has been adjusted to reflect the forecast loss of income arising from the Council approving a new car parking income policy in August 2014. The full year estimated loss in 2015/16 is £340k and this has been funded from the New Homes Bonus Priority Fund.
- Inflation has been allowed for on the following as per agreed contractual conditions: Grounds Maintenance £24k, Refuse and Recycling £51k and Enforcement contract £48k.
- The estimates for the Markets have not taken into account any changes that may arise from the tendering process for the management of the Bishop’s Stortford market. In addition the income budget from the markets has been assumed to be £24k lower than the current year. This reduced income is a consequence of trends in retail shopping being experienced nationally as well as locally with internet and out-of-town

shopping centres being favoured over town centre retail outlets.

5.13 Neighbourhood Services:

- It has been assumed that the increase in fees and charges in Building Management and Building Control (the latter coming from the Safestyle UK Partnership) reported in **Essential Reference Paper 'C'** (key variances from the 2014/15 Revised to original Estimate) will continue in 2015/16. The increase built into the estimates is £250k for Development Management and £100k for Building Control.
- The potential financial impact of the new collaborative venture currently being explored for Hertfordshire Building Control services across the County has not been built into the 2015/16 estimates. A Business Case for this proposal is due to go to Council during 2015 and full financial implications will be included in that document.
- The amount expected to be received as Better Care Fund (which funds Disabled Facilities Grants) is £65k lower than this year. This is because the grant is no longer received directly from DCLG but from the County Council who has pooled the grant and redistributed it on a different basis.

5.14 Finance and Support Services:

- There are risks associated with the Council continuing to obtain rental income of £55k from Circle Anglia from their sub-letting part of Charington House and land charges fees of £273k because the service is likely to move away from local authorities to the Land Registry. These are discussed further in **Essential Reference Paper 'L': Stress Test – Financial Risks facing the Council.**
- A one-off budget has been provided of £69k to fund the property investment fund application fees (see paragraph 8.5).
- The Housing Benefits Service contains the largest of the Council's budgets. It has been assumed that rent allowance transfer payments and government subsidy will be based on a similar caseload and amounts as in 2014/15 and as a consequence the net cost of the Housing Benefits Service has fallen by some £470k. The amount to be given by central government as Housing Benefits Admin Subsidy grant has fallen in 2015/16 by £72k from the amount awarded in 2014/15.

6.0 2015/16 Revenue Budget: proposed Growth and Savings

- 6.1 **Essential Reference Papers 'F'** (Revenue Budget Growth Proposals) and **'G'** (Revenue Budget Savings Proposals) show all the growth and savings for 2015/16 categorised into two groups: growth and savings that have already been anticipated and agreed for inclusion in the 2015/16 budget and new growth and savings items needing Council approval.
- 6.2 **New Growth items:** These items total £654k in 2015/16 (of which £214k is only one year growth), £24k in 2016/17 and £1.2k in 2017/18. Full details of the proposals are given in **Essential Reference Paper 'F':** Revenue Budget Growth Proposals.
- 6.3 **New savings proposals:** These items total £107k in 2015/16 and £174k in 2016/17 bringing the total cumulative total of new savings benefiting the budget in 2016/17 onwards to £281k. Full details of the proposals are given in **Essential Reference Paper 'G':** Revenue Budget Savings Proposals.

7.0 2015/16 Revenue Budget: proposed Schedule of Charges

- 7.1 Officers have prepared a recommended Schedule of Charges for application in 2015/16, the details of which are set out in **Essential Reference paper 'H':** Schedule of Charges for 2015/16. Comments relating to the key proposals are set out below.
- 7.2 It is recommended that most of the charges are kept at the current year's level. For some categories of charge it has been recognised that to charge more would be detrimental to our residents and local businesses: for example, charges made for market licences and charges made by Hertford Theatre.
- 7.3 In the case of Licensing, Gambling and Taxi fees there is no proposal to increase these as the fees need to be reviewed in light of recent case law.
- 7.4 Some charges have increased in line with RPI in the range of 2% to 2.5%. Domestic and commercial waste charges are recommended to increase in order to cover the inflationary increase in the costs of providing the service.

- 7.5 Environmental Health has introduced a new statutory charge under the Enterprise and Regulatory Reform Act 2013. This requires that any relevant person failing to belong to a Letting Agency or Property Management work scheme will be fined (the penalty level has been set using DCLG guidelines).
- 7.6 It is recommended that discounts are offered for those Private Hire and Hackney Carriages that are able to transport a wheelchair using person whilst s/he remains in the wheelchair. The proposal is for a 100% discount in the first year for each compliant application and a 50% discount for each subsequent year. This proposal is made in order to promote equality of access and to encourage an increase in the number of Private Hire and Hackney Carriages able to transport a wheelchair using person in this way. The cost of implementing the discounts is estimated to be minimal in the first year of operation rising to some £6.5k in lost income in year three of the new scheme.
- 7.7 The impact of Council agreeing the proposed Schedule of Charges would be an increase in income of £17k. The total fees and charges income budget in 2015/16 is £1.8 million.

Table 5: Extra income arising from the Proposed Schedule of Charges

Service	Average increase in charge proposed	Extra income Generated £000s
Neighbourhood Services		
Licences Environmental Health	2.5%	(0.40)
Environmental Health Promotions	2.5%	(0.05)
Hackney Carriage	0%	0
Development and Building Control	0%	0
Hostels	0%	0
Bed and Breakfast	2.5%	0
Customer and Community		
Hertford Theatre	0%	0
Residents Parking	0%	0
Bulky Waste	2%	(0.77)
Clinical Waste	1.8%	(1.95)
Commercial Waste	2%	(11.8)
Pest Control	2.5%	(0.50)
Markets	0%	0
Finance and Support Services		
Land Charges	0%	0
Legal fees	2.5%	(1.53)

TOTAL		(17.00)
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Note: brackets represent income amounts

8.0 2015/16 Revenue Budget: Corporate Budgets

- 8.1 **New Homes Bonus Priority Spend Fund:** Current Council policy is to put 25% of its estimated New Homes Bonus grant into a Priority Spend Fund which can be used to fund in-year Member-led priority initiatives. The amount to be allocated to the fund using the 25% calculation is £697k. However, £340k of this has already been allocated to fund the anticipated loss of car parking income arising from the Council's new car parking charging policy. The unallocated budget therefore for 2015/16 is £357k.
- 8.2 **New Homes Bonus grant payment to Parishes and Town Councils:** As per current Council policy, agreed in 2011/12, 25% of the New Homes Bonus grant the Council receives is transferred to Town Councils and parishes to help fund local projects and initiatives. The amount to be transferred to Parishes and Town Councils is £697k in 2015/16 which is an increase of £149k from the current year representing a 27% uplift.
- 8.3 **Contingency Budget:** A contingency budget of £476k is proposed for 2015/16 which is in line with the amount originally allocated in the 2014/15 budget.
- 8.4 **Interest payments:** These are fixed payments (£662k) for the medium term so there is no change needed to the level of budget required. The Council has loans totalling £7.7m of which £6m falls due in 2020 and therefore there will be no change to the amount of interest we pay until 2020/21. The cost of paying off these debts early is prohibitive due to early redemption clauses which would cost in excess of £1 million. Officers continue to review this position.
- 8.5 **Interest Income:** The 2015/16 estimate (£867k) is higher than the 2014/15 Revised Estimate (by £64k) but still short of the 2014/15 Original Estimate (by £28k). It is recommended therefore that £28k is taken from the Interest Equalisation Reserve to fund this shortfall. The increase in the forecast from the 2014/15 revised position is because we are anticipating higher returns by investing £20m in Property Unit Trusts. These should generate returns of 3% rather than the 1.12% we are receiving from the money market. It is likely that the £20m will be invested in September 2015 (as there is a waiting list). The 'Treasury Management

Strategy and Annual Investment Strategy 2015/16' gives more detail of this property investment.

8.6 Annual Pension Fund Deficit Payment: This is the annual contribution the Council pays to the Pension Fund. The Local Government Pension Scheme (LGPS) undergoes a financial valuation every three years; this is carried out by the scheme actuary, Hymans Robertson LLP. The triennial valuation is an assessment of the financial health of the Pension Fund and the results are used to determine the contributions the Council will need to pay to the Fund in order that the deficit can be bridged over a twenty year period. The last valuation in 2013 resulted in an agreement that the Council will pay £600k per annum until 2017/18 when the next valuation will take place. The agreement also included an additional lump sum payment of £1.0 million which was paid in 2013/14 from General Reserves and an employer contribution rate to the pension fund of 16.6% which has been included in the salary estimate.

9.0 2015/16 Revenue Budget: proposed contributions to and from Reserves

9.1 General Reserves: It has been assumed that no contributions will be made from General Reserves to fund the Revenue Budget in 2015/16.

9.2 Earmarked Reserves: It is recommended that £1.831 million of Earmarked Reserves shown in table 6 below are used to fund the 2015/16 Revenue Budget.

Table 6: Proposed use of Earmarked Reserves in 2015/16

Earmarked Reserve	Amount to be used in 2015/16 (£000s)	Reason for the use of the Reserve
Interest Equalisation Reserve	28	Interest income forecast to be lower than 2014/15 Original Estimate (see paragraph 8.5)
Local Development Plan	284	To pay for staffing and other costs of producing and consulting on the Plan which will be completed in 2016.
Provision for future whole	72	To pay for the costs of whole Council and national elections

Council elections		in May 2015.
Performance Reward Grant	10	To match forecast expenditure on Community Projects.
Cost of Change Reserve	178	To fund temporary posts: Corporate Project Coordinator, 2 Graduate Trainees, Information Data Analyst and Leisure Development Manager.
DCLG Preventing Repossessions	15	To fund a temporary part-time post in the Housing Options Team.
Collection Fund Reserve	1,244	To fund the Council's share of the 2014/15 Collection Fund deficit – see paragraph 10.5
Total	1,831	

9.3 In addition it is proposed to put £144k into reserves as follows:

- £4k to the Housing Condition Survey Earmarked Reserve.
- £140k to the Collection Fund Reserve so that the reserve contains sufficient funds to enable the Council to fund its share of the forecast Collection Fund deficit over the next three years (2015/16 to 2017/18). The forecast deficit arises from the backdated appeals and additional information on this matter is given in paragraphs 10.5 and 10.6 below.

9.4 Further information on the Council's Reserves and the results of a review of the Reserves position is given in section 14 of this report. It should be noted that the recommendations made in Section 14 have not been included in the proposals shown in table 6 above.

10.0 2015/16 Revenue Budget: Sources of Funding

10.1 A significant amount of work has been undertaken this year by Strategic Finance, with support from other Council officers particularly in Revenues and Benefits, to model the key funding streams the Council receives. All of these income budgets have been reviewed from a zero base starting point with a range of worst and best case scenarios being assessed to help determine the budget figure.

10.2 **Revenue Support Grant:** The Minister for Local Government announced the provisional 2015/16 local government finance settlement in Parliament on 18 December 2014. East Herts provisional allocation is £2.06 million which now includes the Council Tax Freeze Grant. The decrease in resources is £852k which represents 30% of the current year's grant figure.

10.3 **Non Domestic Rate Income (NDR):**

- The income estimate (£1.7 million) assumes that there is no growth in the number of non-domestic properties for next year as the income we are collecting this year does not show any such increase neither is there any readily available data to predict future business growth in the District with certainty.
- The government will apply a 2% cap on the increase to the NDR bill demands (known as the Business Rates Multiplier) as it did for this financial year and the 2% increase has been reflected in the income estimate figures. The increase to the multiplier should have been 2.4% (based on the September 2014 RPI index) however the cap is expected to be revenue neutral to the Council as we should receive additional section 31 grant payment to refund the lost business rate income.
- No new rate relief policies have been assumed in the figures. The Chancellor did however announce in his Autumn Statement that there would be increased support to Small Businesses through higher rate reliefs. These should be revenue neutral as any increase in rate relief will mean a compensatory increase in Section 31 grants
- We have assumed that income not collected from appeals prior to 2013/14 are this Council's risk and that the provision for non-collection in the Balance Sheet, of approx. £1m, is sufficient to fund any lost income. From 2013/14 any losses arising from the appeals process are shared amongst all preceptors. Some prudence has been built into the 2014/15 and onwards figures by observing the volatility of income received from that billed over the last year (this volatility only arises from appeals) and building in a 1.9% reduction in the income forecast.

10.4 **Section 31 Grant:** The estimate (£1.06 million) is based on the government's own formula for calculating the grant owed to councils arising from their policy decisions on rate reliefs. The formula has been applied to our NDR projections. The Autumn Statement included proposals to increase rate relief for small businesses. As a consequence the grant we receive for 2015/16

will be higher than the estimate (offset by a corresponding decrease in the NDR income) but this cannot be calculated at this point in time.

- 10.5 **Collection Fund distributed deficit:** the deficit payment of some £1.2 million is based on the 2013/14 outturn position on the Collection Fund and an estimate of the surplus/deficit for 2014/15. This amount represents East Herts share of the deficit and it is recommended that the deficit is funded by the Council's Collection Fund Reserve. Council will be asked to approve the distribution of the Collection Fund deficit at its meeting on 28 January 2015 as part of the Non Domestic Rates Calculation 2015/16 report.
- 10.6 The larger than expected deficit balance is caused by the Council's decision to fund the provision for backdated appeals (those relating to years prior to 2013/14) over 5 years. As no backdated appeal costs were assumed in the calculation of the surplus to be distributed for 2013/14, the 2014/15 calculation in effect recognises 2 years or 40% of the balance of backdated appeals. In the next few years the surplus/deficit to be distributed will be lower, as 20% of the backdated appeals balance will be recognised each year until the 5 years has elapsed. The recognition of these backdated appeal costs is a one-off occurrence and, if Council approves the contribution of £140k to the Collection fund Reserve as requested in paragraph 9.3 above, the anticipated loss of income arising from these backdated appeals is fully covered by the Earmarked Reserve. From 2014/15, only appeal costs arising in-year will impact on the Collection Fund deficit.
- 10.7 **New Homes Bonus:** On 16 December 2014 DCLG published the provisional allocations for the New Homes Bonus scheme 2015/16. The Council will receive an increase of £540k (or 24%) from the 2014/15 Revised Estimate bringing the total to £2.8 million. The increase reflects the rising number of new homes being built in the local area.

11.0 **2015/16 Revenue Budget: proposed Council Tax demand**

- 11.1 The formal resolution of the Council Tax for 2015/16 (including preceptor amounts), as required by the Local Government Finance Act 1992, will be considered by Council at its meeting on 4 March 2015. This report only considers East Herts share of the Council Tax demand.

- 11.2 The income we receive from Council Tax is the net figure after paying out Council Tax subsidies. It has been assumed that the amounts needing to be paid in 2015/16 will not change from the current financial year as the figures for this year suggest that the demand for such benefits has levelled off and is not increasing.
- 11.3 It is recommended that no change is made to the East Herts element of the Council Tax demand for 2015/16 meaning that the Band D Council Tax will remain at £157.54. Freezing the Council Tax will enable the Council to receive the government's Council Tax Freeze Grant worth £94k (the grant has now been incorporated into Revenue Support Grant). Any 1% increase or decrease in the East Herts element of the Council Tax demand also equates to £94k. Therefore if Council wishes to increase the Council Tax by 1% it would receive an additional £94k income, although it presumably would lose an equivalent amount in Revenue Support Grant. If Council wishes to decrease the Council Tax by 1% then it would need to find £94k in the budget to fund this decision.

12.0 Capital Programme 2014/15 (Revised) to 2017/18

- 12.1 **Revised Capital Estimates for 2014/15:** The proposed Revised Estimate for the capital programme is £2.7m which is £746k or 21% below the Original Estimate (£3.52m) approved by Council on 20 February 2014. Information on the new Capital Programme can be found in **Essential Reference Paper 'I'** (Capital Programme 2014/15 – 2017/18).
- 12.2 Details on the movement of the capital programme are tracked and reported monthly to Executive via the Healthcheck budget monitoring process and it is therefore not proposed to list the detailed movements that have occurred throughout the year in this budget report. At a summary level the 2014/15 programme has changed as follows:
- Addition of 2013/14 approved capital schemes that slipped into 2014/15 (£892k).
 - Slippage of 2014/15 approved capital schemes into 2015/16 and the following year (£1,469k).
 - New schemes approved during the year (£335k).
 - Various savings made in capital scheme budgets (£254k).
- 12.3 In terms of the larger capital schemes that have slipped in this financial year these comprise:

- **Social Housing Grant** - £821k will slip into 2016/17. There is currently no commitment to spend the social housing scheme budget. Registered providers are currently awaiting the outcome of bids to the HCA (Homes and Community Agency). If unsuccessful they may approach the Council for funding and if they do so our first priority is to spend section106 sums which have been collected for affordable housing.
- **Disabled Facilities Grant** - £200k will slip into 2015/16. Referral rates from Hertfordshire County Council (HCC) regarding residents seeking funding have been lower than anticipated this financial year.
- **Hartham Swimming Pool** - £135k will slip into 2015/16. The Pool Hall Air Handling Renewal scheme has been delayed as the procurement process has taken longer than expected because of the complexity of the scheme. The works have now been rescheduled.
- **Castle Weir** - £201k will slip into 2015/16. Revised plans for the Castle Weir Micro Hydro Scheme have been submitted to the Environment Agency however a response has not yet been received which means the scheme has been delayed.

12.4 **New Schemes seeking approval:** Detailed information on the individual programmes and schemes seeking Council approval are found in **Essential Reference Paper 'I'** (Capital Programme 2014/15 – 2017/18).

12.5 New capital schemes total £30k for this current financial year, £827k in 2015/16 and £902k and £1,085k for the next two financial years. Most of the capital programme for 2015/16 and future years comprise of schemes already approved by Council, the details of which can be found in **Essential Reference Paper 'I'**.

12.6 The new schemes include:

- Investment in Swimming Pools and recreation - refurbishing the Teaching Pool at Grange Paddocks (£35k) and enhancing facilities at Hartham Pavilion (£62k).
- Significant new investment over the next three years in our play areas and open spaces – installation of new play areas at Hartham Common (£275k), the Bourne, Ware (£41k), and Grange Paddocks, Bishop's Stortford (£96k), woodland restoration at Presdales Recreation Ground, Ware (£85k),

and open space improvements at Bishop's Park in Bishop's Stortford (£106k).

- Introduction of a £250k per annum rolling operational buildings programme to fund planned preventative capital maintenance and enhancement of the Council's operational buildings.
- A £400k per annum rolling programme for IT which will be used to replace systems that are old and no longer meet business needs and to invest in new systems where there is a business case to do so. For example the Council is seeking to deliver more on-line services that can be provided digitally, twenty-four-seven and in exploring the use of mobile technology so services can be delivered more efficiently to customers.
- A £50k per annum programme for land management which would be used to fund investigations and surveys of any potentially contaminated land in line with the Council's responsibilities under part 2a of the Environmental Protection Act 1990.

12.7 It is proposed that full Business Cases for schemes requiring funding from the IT and Operational Buildings rolling capital programmes would be scrutinised and approved by two officer forums, namely the existing ITSG Group and a soon to be established Strategic Asset Management Group. Officers would take the operational decision of which schemes to progress within the overall budget envelope agreed by Council.

12.8 At this point in time the capital programme does not include a possible large scheme (some £2m) of open space improvements and historical conservation work at Waytemore Castle in Bishop's Stortford. Discussions are currently being held with Heritage Lottery Fund and officers are preparing a bid for significant capital funding from the HLF that will go to Council for approval in February/March of 2015. Should Council agree to submit a formal bid to HLF for the funding of the scheme then it would also need to agree a supplementary capital budget approval for our share of the cost. Officers are also working up proposals for improving the open space around Hertford Castle for possible submission for Heritage Lottery Funding at a later date.

Table 7: Capital Programme and Funding 2014/15 to 2017/18

	2014/15	2015/16	2016/17	2017/18
	£000s	£000s	£000s	£000s
Capital Programme	2,771	2,719	2,987	2,259
To be funded by:				
Capital Receipts	(2,109)	(1,841)	(950)	(400)
Government Grants	(240)	(175)	(175)	(175)
Third party grants, contributions and S106	(397)	(134)	(14)	(275)
Revenue Contribution	(25)	(25)	(25)	(25)
Internal Funding	0	(544)	(1,823)	(1,384)
Total funding	(2,771)	(2,719)	(2,987)	(2,259)

Note: The brackets indicate an income source

- 12.9 **Proposed Capital Programme 2014/15 to 2017/18:** Table 7 summarises the proposals and describes how the capital programme will be funded. Further information on the funding can be found in **Essential Reference Paper ‘J’** (Capital Programme Funding Statement).
- 12.10 It should be noted that the capital receipts funding (income from the sale of Council property) is from estimated new property sales. There is therefore some risk that the Council may not achieve the estimated receipt from the sale or for the receipt to be delayed. In such cases more of the capital programme would need to be funded internally.
- 12.11 The Council currently funds a significant proportion of its capital programme from its cash resources (this is known as Internal Funding). This funding has a cost as for every £1m that is used to fund the capital programme the Council will currently receive £12k less interest income from its cash investments.
- 12.12 **Prudential Code implications:** The Council is required under the Local Government Act 2003 to ‘have regard to’ the requirements of the CIPFA Prudential Code which requires that certain performance measures and limits called Prudential Indicators are calculated. The Prudential Indicators must be approved by Full Council before the beginning of each financial year. Their purpose is to help the Council ensure that its capital investment plans are affordable, prudent and sustainable.

12.13 It is recommended that the capital programme being proposed in this budget report is affordable, prudent and sustainable. No new capital borrowing is needed. The relevant Prudential Indicators show that the ratio of finance costs (borrowing) to the net revenue stream is low (4.5% to 4.8%) and the incremental impact of financing the proposed new capital programme is an average of £0.35.

Table 8: Prudential Indicators 3 and 4

	2015/16	2016/17	2017/18
Ratio of finance costs to net revenue stream	4.79%	4.68%	4.45%
Incremental impact of financing decisions on Band D Council Tax	£0.34	£0.38	£0.32

12.14 **Revenue Budget Implications:** The implications are £22k of one-off growth in 2015/16 and on-going revenue savings of £21.5k from 2016/17 onwards. Details of the growth and savings arising from approving the capital programme are found in **Essential References Papers ‘F’** (growth) and **‘G’** (savings). The other revenue budget implication is the cost of funding the programme from Internal Funding, as noted above. The cost of the lost interest income is £7k in 2016/17, £22k in 2017/18 and £17k in 2018/19 although if interest rates should rise during this time period then the lost income would be higher.

13.0 Medium Term Financial Plan

13.1 **The MTFP is found in Essential Reference Paper ‘B’** (Revenue Budget – Medium Term Financial Plan). The MTFP position was last reported to Executive at its meeting on 2 September 2014. That report contained a number of areas that Strategic Finance was asked to assess before the MTFP position was presented to Council in February 2015.

13.2 One of the areas was to review the impact of underspends in 2013/14 and assess whether these are longer-term sustainable savings. An officer budget challenge process undertook this work which has resulted in £154k of savings being identified in 2015/16 onwards.

13.3 Another area was to review the impact of the Council’s Investment strategy on the revenue budget. This has been undertaken and we have estimated that the change from investing totally in the money market to holding £20 million in property unit trusts will

increase interest income from 2015/16 onwards. These increases have been built into the refreshed MTFP model.

- 13.4 Officers were also asked to review both earmarked and general reserves. This has been done and the results of that review are set out in section 14 of this budget report.
- 13.5 Key changes have been made to the MTFP position since last published regarding the key funding streams received by the Council. The figures now presented have benefited from extensive modelling work as well as a better understanding by officers on the complex interactions between NDR and Section 31 grant income. An explanation of the how the income figures have been derived is given in other sections of this report.
- 13.6 Work has also been undertaken on reviewing the direction of travel for the Council's Taxbase and significant increases have now been included in the MTFP model. There is substantial new housing development being built in the area over the medium term such as Bishop's Stortford North (730 properties 2016/17 – 2018/19 and 1870 thereafter [total 2600]), Buntingford Sainsbury's depot (179 properties 2016/17 – 2018/19 and 137 thereafter [total 316] and Bishops Stortford Hadham Road (124 properties 2016/17 – 2018/19 and 126 thereafter [total 250]). The increase in Taxbase has a beneficial impact on the amount the Council receives in Council Tax income and New Homes Bonus Grant.
- 13.7 A word of caution needs to be sounded for the MTFP estimates from 2016/17 onwards. These are the best estimates we can make given the potential changes to local government financing that may arise from a new central government and a new Public Sector Comprehensive Spending Review.

14.0 Review of the Council's Reserves

- 14.1 **Why Councils need to hold Reserves:** Reserves are either usable or unusable: the latter arise from statutory accounting requirements and cannot be used to fund revenue or capital expenditure. This report only considers the Council's usable reserves.
- 14.2 Usable reserves are either (a) earmarked, as a result of a policy decision by the Council to use them for a specific purpose or (b) unallocated - these reserves are part of the Council's risk management process and are our 'last line of defence' should

unforeseen financial difficulties emerge. The latter reserves are called General Reserves.

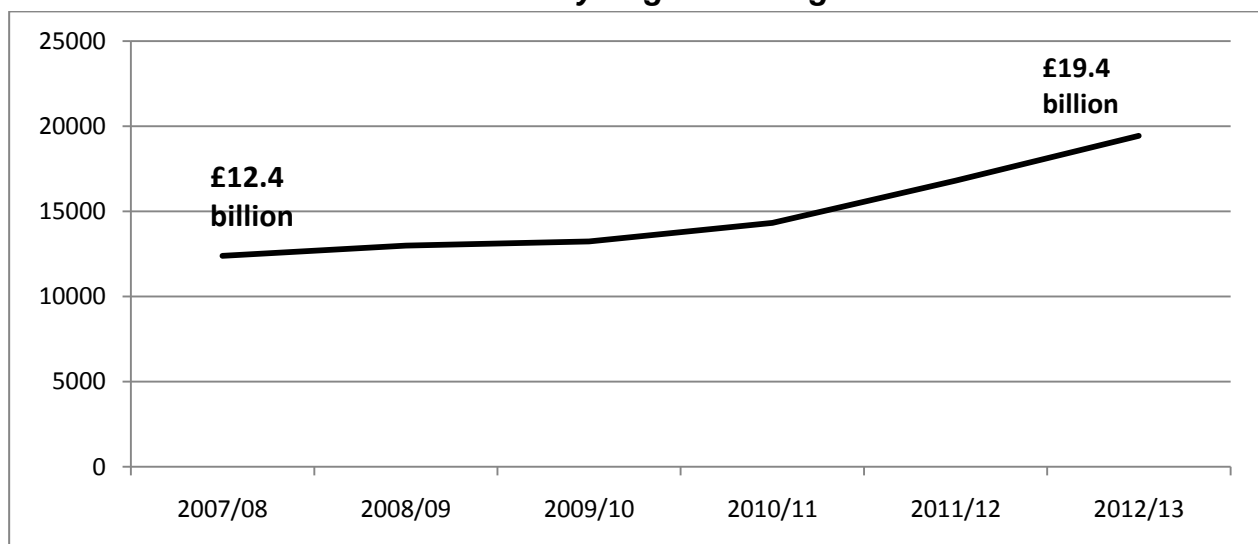
- 14.3 Reserves are an essential part of good financial management. They help Councils cope with unpredictable financial pressures, help them smooth the impact of known spending requirements over time, and help to fund any in-year overspending. The level, purpose, and planned use of reserves are important factors for elected Members and council officers to consider in developing medium-term financial plans and setting annual budgets.
- 14.4 There is no set formula for deciding what level of reserves is appropriate and councils are free to determine the level of reserves they hold. Where councils hold very low reserves there may be little resilience to financial shocks and sustained financial challenges. However where reserves are too high there may be opportunity costs involved in holding these reserves (for example a lack of investment in making service changes that could generate better outcomes for residents).
- 14.5 The requirement for financial reserves is acknowledged in statute (Local Government Finance Act 1992). Full Council is responsible for approving the level of reserves and the Reserves Policy whilst the Section 151 Officer has a statutory duty to report publically to Council on the adequacy of reserves when calculating the annual budget requirement.
- 14.6 CIPFA issues guidance on reserves and the latest guidance (LAAP Bulletin 99) identifies the issues to consider in determining an appropriate level of reserves as follows:
- What is the overall financial standing of the Council? (Level of borrowing, debt outstanding, Council tax and NNDR collection rates, exposure to volatility in the financial markets, etc.)
 - What is the Council's track record in budget and financial management?
 - What reserves and contingencies are available to deal with any emergencies or overspending?
 - Are the Council's insurance arrangements adequate to cover major unforeseen risks?
 - Are there any significant financial risks inherent in any funding partnerships, major outsourcing arrangements, or major capital developments?
 - What level and timing of capital receipts are needed to fund the capital programme?

- Does the Council have large risky demand led budgets? How volatile are these?
- What is the size of planned efficiency savings / productivity gains needed to balance the budget? Are these plans robust and deliverable?
- How is inflation treated in the budget?
- What external factors could impact on the Council? (In particular the external financial climate and future funding levels expected from government)

14.7 It should be noted that the External Auditor will only ever comment on the reserves position of a Council if it has breached its Reserves Policy or if the Council, in the External Auditor's opinion, has low levels of reserves relative to spending.

14.8 The Council currently holds reserves some £1.4 million in excess of its current Reserves Policy (as at the 31/3/2014). This fact has been highlighted by the External Auditor in the Annual Audit Letter. The Director of Finance and Support Services has therefore reviewed the Council's Reserves position in light of the financial risks facing the Council and the national and local context. This review is discussed in the following paragraphs.

Chart 3: The level of reserves held by English local government



Source: Department of Communities and Local Government

14.9 **The national context:** National statistics from the Department of Communities and Local Government (chart 3) show that Councils have significantly built up their reserves over the last 6 years. Total Council reserves (General Fund and Earmarked Reserves) have increased from £12.4 billion in 2008 to £19.4 billion in 2013 – an increase of 57%. The Audit Commission stated that 77% of

all Councils had increased reserves, relative to spending, over this period (Source: 'Striking a Balance' December 2012). During this same period East Herts' reserves grew from £8.9m to £14.2m a growth of 60%.

14.10 Single-tier and county councils hold most of the reserves whilst District Councils generally have much higher reserves relative to their spending and are less likely to earmark them (Source: Audit Commission). The Audit Commission also report that councils often have higher reserves at the end of the year than they plan for in the budget and that variation from plans is generally greater for district councils.

14.11 **The local context:** A desk-top review analysing the reserves position of other Hertfordshire councils (excluding any capital receipts/grants and housing reserves) is shown in Table 9 and chart 4 below.

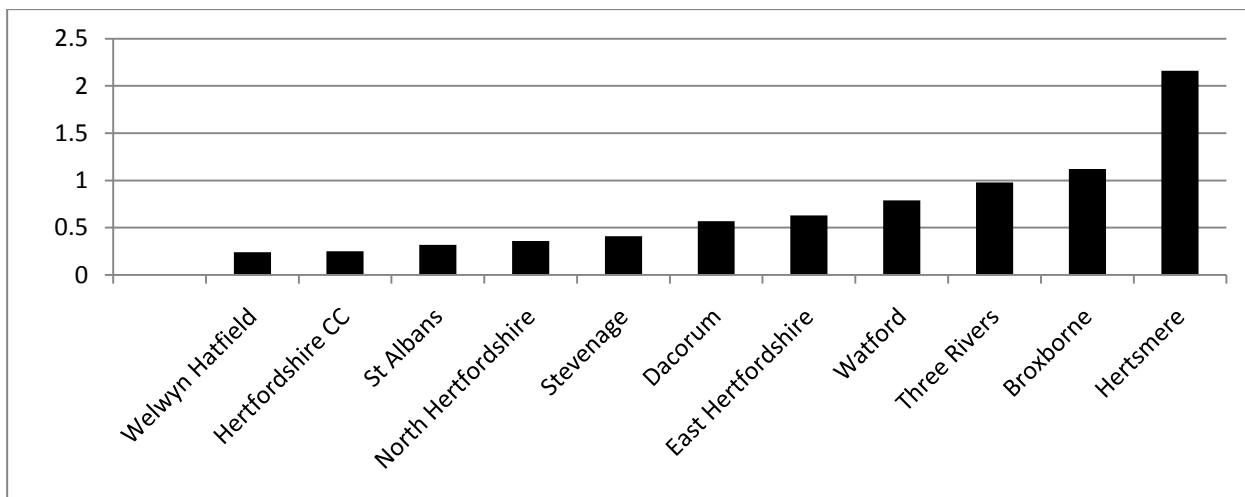
14.12 Out of the 10 Hertfordshire District Councils, 4 districts (Watford, Three Rivers, Broxbourne and Hertsmere) hold higher reserves (as a percentage of the Net Cost of Services) than East Herts whilst one other (Dacorum) is almost similar to us. All bar two of the Hertfordshire Councils have increased their reserves from 2012/13 to 2013/14.

Table 9: Hertfordshire Councils: Usable Reserves Position @ 31/3/14 (£000s)

Council	Net cost of services	General Fund Balance	General Reserve	Earmarked Reserves	Total Usable Reserves	Increase or decrease in reserves from previous year	Usable reserves as a % of net cost of services
Welwyn Hatfield	27,643	5,490	0	1,007	6,497	Increase	24%
St Albans	19,714	5,039	0	1,280	6,319	Increase	32%
North Hertfordshire	22,207	3,932	0	4,002	7,934	Increase	36%
Stevenage	17,054	4,817	0	2,254	7,071	Increase	41%
Dacorum	30,110	2,697	0	14,332	17,029	small decrease	57%
East Hertfordshire	19,366	3,854	4,241	8,374	12,228	Increase	63%
Watford	27,814	1,350	0	20,625	21,975	Increase	79%
Three Rivers	14,154	5,069	0	8,786	13,855	Increase	98%
Broxbourne	13,653	6,181	0	9,044	15,225	Increase	112%
Hertsmere	11,519	9,418	0	15,437	24,855	Increase	216%
Hertfordshire CC	716,200	25,180	0	155,616	180,796	decrease	25%

Source: Audited 2013/14 Statement of Accounts

Chart 4: Hertfordshire Councils; Usable Reserves as a % of Net Cost of Services



Source: Published Statement of Accounts

14.13 The Council's current reserves position: There has been a significant increase in the level of reserves, particularly Earmarked Reserves, over the last seven years (see Chart 5). Reserves stood at £8.9 million at the end of 2007/08 and were £16.5 million at the beginning of this financial year (£8.1 million in General Reserves and £8.4 million in Earmarked Reserves). As has been pointed out above, this growth is fully consistent with the national trend within local government.

14.14 The MTFP forecast position shows that there are no planned contributions or withdrawals to/from the General Reserves whilst a net £1.836 million is planned to be used from Earmarked Reserves from 2014/15 to 2018/19 representing 11% of the total reserves held by the Council.

Chart 5: East Herts actual and forecast Reserves position 2007/8 to 2018/19

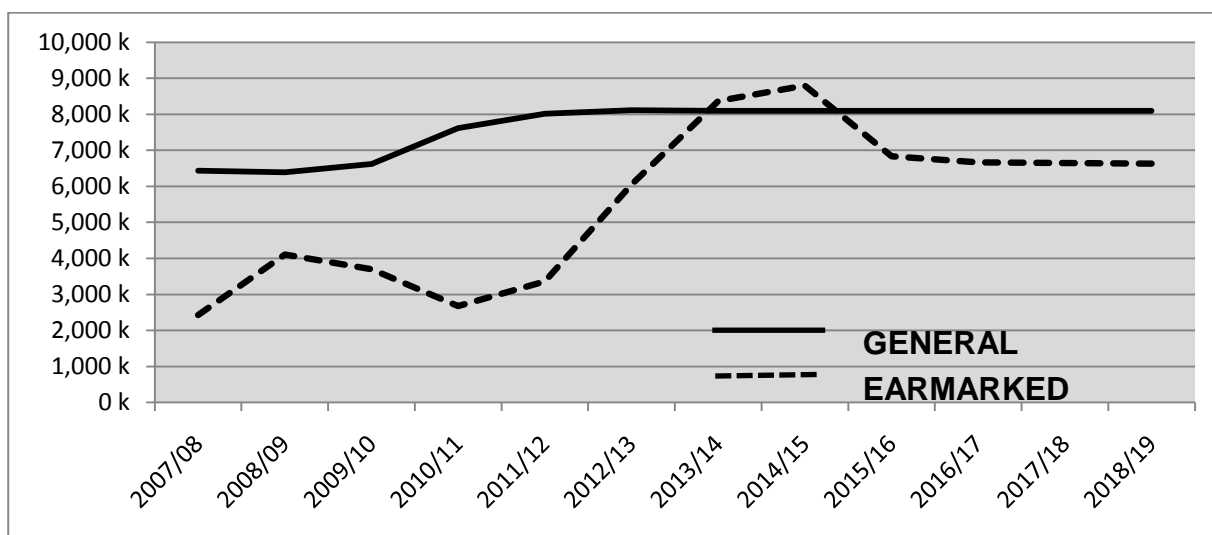
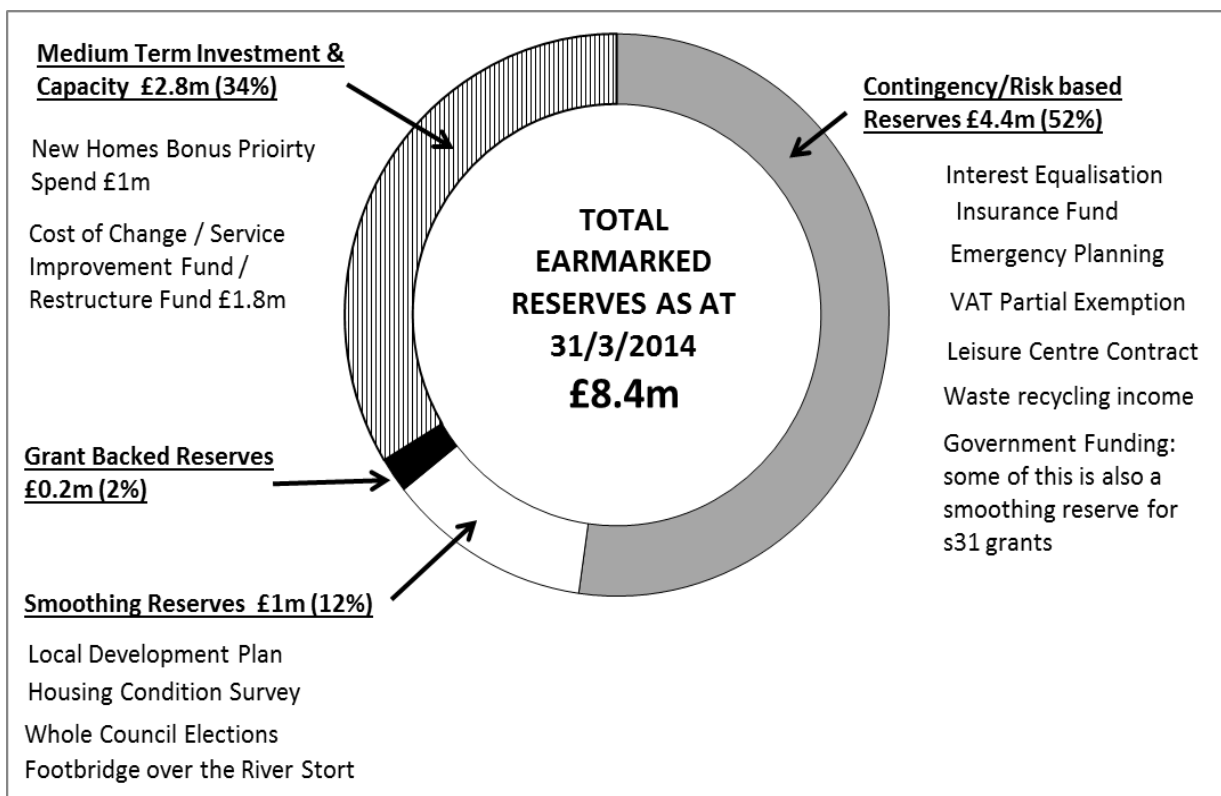


Chart 6: East Herts' Earmarked reserves analysed into four types of reserve



14.15 Review of Earmarked Reserves: These reserves can essentially be split into the following categories (see chart 6):

- Smoothing reserves: where the impact of cyclical known spending is funded from a reserve so as not to impact on the base revenue budget.
- Contingency/risk based reserves: to fund adverse impacts of certain events occurring for example uninsured losses, emergencies, income being lower than anticipated.
- Grant backed reserves where expenditure has to comply with certain grant conditions.
- Medium Term Investment: reserves that give financial capacity to fund economic development initiatives and to fund transformational change.

14.16 A review of Earmarked Reserves has been undertaken by Strategic Finance and other relevant officers to assess whether:

- There is an ongoing rationale for the reserve;
- What level of reserve is required;
- The length of time that the reserve is needed; and
- Whether any new reserve may be required.

14.17 The review has concluded that in the majority of cases there is an on-going need for the reserve. However, some changes and amendments are recommended and these are set out below.

Table 10: Proposed changes to reserves arising from the review

Name of Reserve	Increase/ (Decrease) Reserve £000s	Explanation
VAT Partial Exemption Reserve	(145)	Consideration of the VAT rules and the Council threshold indicate that it is unlikely that there will be a call on this reserve. Therefore proposal is to remove this reserve completely.
Insurance Reserve	1,000	Increase by £1m in anticipation of setting up a self- insurance fund for some areas in order to reduce our insurance premiums in the future. A broker review is planned which will inform the future strategy for insurance arrangements.
Waste Recycling Income	25	Increase in Reserve due to continuing reductions in both recycling volumes and prices.
Commercial Property Fund	500	A new reserve is proposed to be established to support the development of investment opportunities in commercial property.
Transformation Reserve	1,000	The restructure fund, cost of change reserve and service improvement fund will be amalgamated into a new transformation reserve. Additional money is recommended to be added to amounts already in the reserve to fund process review and redesign projects. Officers will bring forward proposals in the next financial year.
LABGI Reserve	0	LAGBI reserve was set up to support economic development. The majority of the reserve has been utilised and the balance will be

		moved to the New Homes Bonus priority spend reserve.
Pension Fund Additional Contribution Reserve	1,000	The Council's most recent triennial valuation was undertaken in March 2013. The result showed that the deficit position had improved slightly from the previous valuation, resulting in a Deficit Contribution of £19.717m (£20.585 m in 2010) and a funding level of 79% (74% in 2010). The Council agreed to make an additional pension contribution in 2013/14 of £1.008 million. An additional payment in 2015/16 would help to reduce this past liability further. In order to make this payment an actuarial valuation would need to be commissioned so that the impact on the deficit can be demonstrated. The cost of this advice would be charged against the reserve.
Interest Equalisation Reserve	(1,800) £600k reduction per annum from 2014/15	Given that we anticipate the Bank Rate increasing in the future and higher levels of interest income arising from our investments in property it is felt that this Reserve is too high. It is recommended that £1.8 million is taken out (at a rate of £600k per annum starting from 2014/15).

14.18 The impacts of agreeing these changes to the Reserves Position are:

- A reduction in the amount of General Reserve the Council holds which would mean that that General Reserves would no longer be over the Council's policy threshold,
- An initial corresponding increase in the amount of Earmarked Reserves held (with the possibility that £1m will be paid to the Pension Fund as an additional contribution during 2015/16), and
- A more robust rationale for the level and purpose of holding the Council's Earmarked Reserves.

14.19 An analysis of the Reserves position both before and after these proposals is given in the table below. It should be noted that these proposals have not been included elsewhere in this budget report nor in the Reserves position shown in **Essential Reference Paper 'K'** (The Council's Reserves Position).

Table 11: The Reserves both before and after the proposals for change

	2014/15	2015/16	2016/17	2017/18	2018/19
	£000s	£000s	£000s	£000s	£000s
POSITION BEFORE PROPOSED CHANGES					
General Reserves	8,095	8,095	8,095	8,095	8,095
Earmarked reserves	8,849	7,163	6,702	6,530	6,538
TOTAL RESERVES	16,944	15,258	14,797	14,625	14,633
POSITION AFTER PROPOSED CHANGES ARE IMPLEMENTED					
General Reserves	5,315	5,916	6,516	6,516	6,516
Earmarked reserves	11,629	8,342	7,281	7,109	7,117
TOTAL RESERVES	16,944	14,258	13,797	13,625	13,633

14.20 **An analysis of the Council's financial risks:** The Stress test: Financial Risks facing the Council, **Essential Reference Paper 'L'**, gives an analysis of the key financial risks for the Council.

14.21 The risk analysis shows that the Council **currently** is in a healthy financial position and faces relatively low financial risk. However this position is time limited: the potential changes and consequential impacts arising from the external environment, such as further cuts to local government funding and a possible downturn in the national and local economy, whilst difficult to predict and assess, are likely to be very significant. In addition significant pressures from the external environment will often have an impact on areas we currently manage at low risk, for example, if service budgets are reduced due to cuts in national local government funding the risk of overspending (which is currently a low risk) could increase.

14.22 It is consequently the Director of Finance and Support Services' view that there is huge uncertainty going forwards, particularly from 2016/17 onwards. This uncertainty is shared by other local government Chief Finance Officers. The results of the 2015 national election and the direction and impact of the new

Comprehensive Spending Review pose unknown but significant financial risks to the Council. It is therefore suggested that this is possibly the worst year, since the current national government was elected and produced the current Spending Review, for the Council to make significant decisions on reducing its reserves.

15.0 Advice from the Director of Finance and Support Services (Section 151 Officer)

15.1 Section 25 of the Local Government Act 2003 requires the Statutory Section 151 Officer (the Director of Finance and Support Services) to give advice to Council on the levels of reserves held and the robustness of the estimates at the time Council makes its decision on the budget proposals.

15.2 It is the advice of the Director of Finance and Support Services that these estimates are prudent, sensible, and robust. In determining the estimates we have:

- Extensively modelled all key funding sources;
- Produced a zero-based salaries budget (representing a significant proportion of the Council's budget);
- Reviewed the Housing Benefits Subsidy budget – the Council's largest area of expenditure and income;
- Refreshed the MTFP model (as requested by Executive in September 2014) including assumptions around growth and savings;
- Reviewed the Council's Earmarked and General Reserves position;
- Considered the revenue impacts of capital schemes including outcomes of the investment strategy;
- Identified and assessed the possible impact of the key financial risks facing the Council;
- Made budget proposals that meet the requirements of the Local Government Finance Act 1997 for a balanced revenue budget position; and
- In line with Council agreed policy to try and minimise the financial impact of budget proposals on East Herts residents we are also proposing low or zero Council Tax rises over the life of the MTFP. In addition the Council Tax Support Scheme remains unchanged and where possible fees and charges increases are minimal.

15.3 Mention has already been made in the relevant parts of this

Budget Report to the uncertainty facing East Herts, and all Councils, from 2016/17 onwards. The estimates given in the MTFP from that financial year onwards are the best estimates we can make at this point in time until we know, presumably this time next year, how the new Public Sector Comprehensive Spending Review will impact us.

- 15.4 East Herts has a relatively healthy financial position compared to many other councils and the proposals in this budget report will maintain this position.

16.0 Implications/Consultations

- 16.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

- 'Calculation of the Council Tax base', report to Council on 17 December 2014
- 'Non Domestic Rates Calculation 2015/16', report to Council on 28 January 2015
- 'Treasury Management Strategy and Annual Investment Strategy 2015/16', report to Council on 18 February 2015.
- LAAP Bulletin 99 'Local Authority Reserves and Balances' July 2014, *CIPFA*
- 'Striking a Balance: Improving councils' decision making on reserves', December 2012, *Audit Commission*

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