

East Herts Council Report

Executive

Date of meeting: 24 November 2020

Report by: Councillor Geoffrey Williamson, Executive Member for Financial Sustainability

Report title: Budget 2021/22 and Medium Term Financial Plan 2021 – 2024 Proposals

Ward(s) affected: All

Summary – All Members received a presentation at the Members' Information Session on 13 August 2020 that set out the financial challenges the Council faces to set a balanced budget over the medium term. The Council needs to identify reductions in net cost of £1 million in 2021/22, £1 million in 2022/23 and a further £2 million in 2023/24. The total reduction in net expenditure of £4 million to be achieved by 2022/23 represents a 26% reduction of the 2020/21 net budget of £15.5 million.

The Executive tasked officers to prepare a range of options to reduce net expenditure for early Member consideration and these form part of this report. The Executive have considered these options and given an indication of which they think should be taken forward and those that should not. All the options will continue to be considered and further refined over the next two months in light of the emerging situation with the COVID-19 pandemic. The Leadership Team have also set out a further programme of work to be undertaken to deliver a financially sustainable council by 2024.

RECOMMENDATIONS FOR EXECUTIVE:

- a) Confirm the savings proposals, after consideration of the comments from Audit and Governance Committee, to be**

taken forward, subject to detailed impact assessments and accepting that some may need to be reconsidered in the light of the current pandemic;

- b) Agree, as guidance to officers, that the budget proposals should be based on a Council Tax increase of £5, general inflation assumption of up to 1% and that the provision for the national pay award will be up to 2%;**
- c) Endorse the production of a phased capital programme over 5 years to better reflect actual phasing of delivery and more realistic revenue impacts of capital financing; and**
- d) Endorse the additional programme of work to transform the Council and place it on a financially sustainable footing as set out in paragraph 4.7.**

1.0 Proposal(s)

- 1.1 in line with current financial projections, the Council needs to achieve a reduction in net cost of £1 million in 2021/22, another £1 million in 2022/23 and a further £2 million in 2023/24 in the Revenue Account.
- 1.2 To understand the likely effects of meeting these net reductions the Executive tasked the Leadership Team with producing initial proposals to meet these targets. In addition, the Leadership Team have set out a further work programme to arrive at the savings target by 2023/24 which will also involve Members consideration of the evidence and in the shaping of the end proposals.
- 1.3 The substantial capital receipt achieved from the large scale voluntary transfer of the Council's housing stock on 18 March 2002 has been used to finance the capital programme and the last part of that receipt will be used up on financing the current substantial investment in leisure centres. Going forward, the capital programme will need to be financed by borrowing with resulting revenue costs in terms of interest and Minimum Revenue Provision (MRP). MRP is a statutory requirement to ensure that the Council sets aside revenue to repay the loan

and Council will be requested to approve a MRP Policy as part of the Treasury Management policies early next year. It is proposed that MRP will be on a straight-line basis over the expected life of the asset.

- 1.4 With the move to financing by loan, the Council will be further constrained by the affordability of total debt as measured by Prudential Indicators with the maximum amount of debt outstanding estimated to be in the region of £35 to £40 million.
- 1.5 The Council has traditionally budgeted for capital projects as a project total all in one year and then rolled forward budget provision to reflect actual phasing. This approach does not fit well with financing by loan and the resulting revenue impacts so the capital programme will now be presented as a rolling 5 year programme reflecting phasing over those 5 years and the resulting financing costs being reflected in the revenue account.
- 1.6 The current major capital projects have been subject to a business case refresh. Leisure Centres and the Hertford Theatre business case refreshes passed the test to proceed. Due to the restricted information contained in these documents Members were briefed at an All Members Information Session on these documents with a further opportunity to ask detailed questions. The Old River Lane Regeneration Scheme business case refresh will be reported formally as it is likely to require a Council decision as a result of the pandemic and the delays caused by the judicial reviews of the multi-storey car park provision.

2.0 Background

- 2.1 East Herts Council has undergone significant change over recent years, facing financial pressures linked to the UK economic and wider global downturns and more recently Brexit uncertainty and Covid19.
- 2.2 In addition to our financial challenges, we have already high but ever rising customer expectations for service provision and quality.

- 2.3 Action needs to be taken to ensure that the Council is not placed in an unsustainable position where budgets and services will not be sufficient to meet demand in the medium or longer term.
- 2.4 During the current Covid19 emergency, budgets continue to be extremely volatile and our finance team are currently predicting a target to reduce net cost of circa £4 million for the period 2020/21 – 2023/24 which has to be met either through income, changes in the way we deliver services or changes to the service offer itself.
- 2.5 There is also an identified need for the Council to address matters linked to the delivery of the new corporate plan, such as tackling climate change, enhancing community engagement, increasing partnership development, realising the potential from digital and evolving technologies, improving employee effectiveness and performance and last, but by no means least, responding to the requirement for new ways of working post Covid19.
- 2.6 The proposition to address these challenges is to establish a more agile, customer orientated and commercial operating model for the Council which ensures we deliver the right services, to the right standards, at the right time for our residents and businesses and in turn helps deliver Members' political ambitions both now and in the future.
- 2.7 There is no criticism of past performance, but a recognition that the world is changing, and we must change with it to ensure that we continue to deliver valued and appropriate services to our communities.
- 2.8 This is particularly true as we move as a Council from the planning to the delivery phases of our major capital projects, mostly at the same time and using the same resources.

3.0 Reason(s)

- 3.1 The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, together with contributions from

reserves, in order to determine a net budget requirement to be met by government grant, Business Rates and Council Tax.

4.0 Options

- 4.1 The Executive tasked the Leadership Team with producing, at pace, proposals to reduce net cost to meet the reduction targets. This has been produced, at Cost Centre level, aligning with the Budget Book for every Service except for a consideration of operational efficiencies within the Strategic Finance and Property teams. As the Head of Service came into post on the 14 September 2020, it is appropriate to allow the Head of Service time to get to know the service area and then consider additional proposals in six months' time.
- 4.2 A summary of the Leadership Team proposals are shown in the table below:

East Herts DC MTFS 2022 - 2025

Leadership Team Proposals for reductions in net cost

Row Labels	Sum of 2020/21 £000	Sum of 2021/22 £000	Sum of 2022/23 £000	Sum of 2023/24 £000
Chief Executive		(35)	(75)	(75)
Communications, Strategy & Policy	(10)	(215)	(243)	(243)
Housing & Health		(205)	(234)	(236)
Human Resources	(50)	(77)	(107)	(110)
Legal & Democratic	(29)	(65)	(76)	(112)
Operations	(6)	(668)	(1,198)	(2,262)
Planning	(40)	(88)	(98)	(98)
Revenues and Benefits	(94)	(142)	(142)	(142)
Strategic Finance & Property		(144)	(183)	(183)
Shared ICT Service		(126)	(126)	(126)
Grand Total	(229)	(1,765)	(2,482)	(3,587)
Target		1,000	2,000	4,000
(Surplus)/Deficit		(765)	(482)	413

- 4.3 A breakdown of each service areas' proposals and the detailed sheets to support each proposal are attached at Appendix A.

Please note that these proposals require further consideration of their appropriateness as a result of the on-going pandemic and the practical implications of implementation and the potential costs which will be funded from reserves.

- 4.4 When Council approved the budget and Medium-Term Financial Strategy on 29 January 2020 they approved the option to introduce garden waste collection charges in 2021/22 with a target cost reduction of £0.4 million. The Head of Operations and the Head of Strategic Finance and Property have examined this reduction target and now believe that a reduction in the net cost of the waste and recycling service of £0.75 million can be achieved with the introduction of charging and changes to collection core costs as a result. This item is the single biggest contributor to the net cost reduction target and is in line with the MTFs already approved by Council.
- 4.5 The Executive has provided initial views on what to take forward with officers and this is detailed in Appendix B.
- 4.6 The views of Audit and Governance Committee will be reported at the Executive Meeting.

Programme of further work

- 4.7 The Leadership Team propose to carry out further work in the relation to the Medium-Term Financial Strategy (MTFS) to further inform Members and to assist with further targeting of reductions in net cost. The proposed programme is as follows:
- Commission a cost comparison report from the Chartered Institute of Public Finance and Accountancy comparing the Council's cost across standard service classifications e.g. Environmental Health. This comparison will be with our statistical nearest neighbours, i.e. a group of district councils having similar demographics and rural and urban areas. Secondly the report will compare East Herts with all other District Councils. This will identify where services comparatively cost more. Of course, this can be as a result of policy decisions by Members to prioritise

resources to these services, but it will provide vital context and challenge to costs. To be completed by 30/10/2020.

- The Head of Strategic Finance and Property will undertake a 5-year analytical review of budgets against actuals in order to identify any budgets which are consistently under or over spent in order to identify any further efficiencies. To be completed by 30/10/2020.
- A quick review of the Council's procurement strategy and practices will be commissioned. This will help understand if our routes to market are the most appropriate (should we be using more frameworks than traditional tendering), potential cost savings opportunities based on actual recent procurement exercises and a suggested best practice procurement strategy. This will also include analysing one year's supplier spending against the contracts register to identify off contract spending so that compliance with contracts can be reinforced. This will be followed up by the Shared Internal Audit Service in future years until such time as the financial system monitors this automatically. Subject to discussion with external reviewer target completion by 30/10/2020.
 - Over the next 6 months, it is also recommended that East Herts undertakes a further operational review which will consider the following:
 - Ensuring our staff teams are resourced appropriately, allowing us to focus on our corporate plan priorities.
 - Accelerating a number of operational projects to improve efficiency such as bringing together administrative and business support functions.
 - Recognising the need to drive and realise a more commercial approach to how the council

operates.

- Ensuring flexibility and collaboration – working across council services and with partners to share expertise, capacity and space.
- Consulting with our residents to understand what services they find most useful and why
- Undertaking an agile working review to:
 - transform existing working practices to ones that are more effective and efficient and ensure that previous investment in technology is being fully utilised to support agile working, starting with the finance system.
 - Create a culture which acknowledges that it is about the work you do not where you do it
 - Maximise customer self-service and digital engagement.
 - Identify and then deliver new ways of working smarter through IT and technology solutions that will underpin how we collaborate and communicate; and
 - Review our future office and space needs and ensure that we have the right space of the right size in the right place.
- The operational review will allow changes to the way services are delivered to be properly evaluated, costed and delivered over the next three years ensuring that, combined with the income generation proposals, the council's resources are focussed on delivering the new Corporate Plan. Without this review and a transformation programme to deliver these significant changes there is a highly probable risk that in future Members will have to make

significant reductions in services or risk intervention from central government.

- 4.8 Members can also take comfort from the experience of the many local authorities that have used this approach to successfully survive “austerity”. The dangers inherent in not adopting the systematic approach suggested are perhaps best illustrated by Northamptonshire County Council which failed to take a measured, evidence based approach, allowed widely optimistic assumptions to underpin their budget and failed to deliver the change programme and had many incidents of “savings to be identified” in their plans.
- 4.9 Very recently Croydon Council has been subject to a Report in the Public Interest issued by the external auditor for failing to tackle their financial issues and putting all their effort into lobbying government for more money.

Capital Programme

- 4.10 The Council has traditionally budgeted for capital projects as a project total all in one year and then rolled forward budget provision to reflect actual phasing. This approach does not fit well with financing by loan and the resulting revenue impacts so the capital programme will now be presented as a rolling 5 year programme reflecting phasing over those 5 years and the resulting financing costs being reflected in the revenue account.
- 4.11 The current major capital projects have been subject to a business case refresh. Leisure Centres and the Hertford Theatre business case refreshes passed the test to proceed. Due to the restricted information contained in these documents Members were briefed at an All Members Information Session on these documents with a further opportunity to ask detailed questions. The Old River Lane Regeneration Scheme business case refresh will be reported formally as it is likely to require a Council decision as a result of the pandemic and the delays caused by the judicial reviews of the multi-storey car park provision.

5.0 Risks

- 5.1 The budget, MTFP and Transformation Projects will each have a separate risk register created as the budget proposals are developed.
- 5.2 In terms of risks to the Council's financial position there is currently fundamental uncertainty due to the impact of COVID-19 with new national restrictions just coming into force at the date of writing this report. The main concern is about "the tail" as, combined with a potential no deal Brexit, we may have considerable in year volatility on the Council Tax Base in 2021/22. Should house building slow or stop this will affect growth projections in the tax base and also the reductions in the tax base flowing from potentially increased local council tax support claims could result in an overall negative growth tax base. There is also potentially loss of business rates through voids and bad debts if businesses cease trading. There is the potential affect on fees and charges and potential upwards pressure on pricing from potential border delays causing supply shortages to also factor into the risk assessment. Certainty on the Brexit trade deal position will emerge in December but the impact of COVID-19 will continue well into 2020/21 and probably beyond. The adequacy of the General Fund balance to meet unexpected expenditure will be considered by the Head of Strategic Finance and Property and be reported to Council as part of his report under Section 25 Local Government Act 2003 on the robustness of the estimates made in drawing up the budget and the adequacy of the proposed level of reserves.

6.0 Implications/Consultations

- 6.1 The council is required to consult with Business Ratepayers under s.34 Local Government Finance Act 1988.
- 6.2 Consultation with the public will involve asking about perceptions of value for money and the importance of services to them but not specifics of the budget proposals due to the technical nature of the budget papers and the resource pressures as a result of COVID-19.

Community Safety

The budget underpins delivery of the Council's policies and priorities in relation to community safety.

Data Protection

No

Equalities

The Council has a statutory duty under the Equalities Act 2010, in particular s149. This includes the requirements on the Council to have due regard to the need to eliminate discrimination and harassment, to advance equality of opportunity, to foster good relations and to remove or minimise disadvantages suffered by persons who share protected characteristics.

Compliance with these duties in the Equalities Act does permit the Council to treat some persons more favourably than others, but only to the extent that such conduct is not otherwise prohibited.

In setting the budget, decisions on some matters may be particularly relevant to the discharge of this duty and an equalities impact assessment will be undertaken to assess and ensure compliance with this duty.

Environmental Sustainability

The budget underpins policies and priorities in relation to the environmental and sustainability areas.

Financial

These are contained in the main body of the report.

Health and Safety

No

Human Resources

The budget will provide a provision for a pay award of up to 1.5% but the actual award is subject to national NJC negotiations. This provision is set in the light of forward inflation estimates consensus contained in the Bank of England Monetary Policy Report November 2020

Human Rights

No

Legal

The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 (as amended by the Localism Act 2011) requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, together with government grant and contributions from reserves, in order to determine a basic Council Tax Requirement.

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the estimates and adequacy of reserves to the Council when it is considering the budget.

Section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer to report to the Full Council if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issuing of a Section 114 report requires the Full Council to meet within 21 days to consider the report and during that period the Council is prohibited from entering into new agreements involving the incurring of expenditure.

Specific Wards

No

7.0 Background papers, appendices and other relevant material

Appendix A – Detailed Leadership Team proposals

Appendix B - Executive initial view on the proposals

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