

EAST HERTS COUNCIL

EXECUTIVE – 2 FEBRUARY 2016

BUDGET REPORT AND MTFP 2016/17 – 2019/20

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE AND
SUPPORT SERVICES

WARD (S) AFFECTED: All

Purpose/Summary of Report:

- This report sets out proposals for Council decisions on the following:
 - The 2015/16 revenue budget forecast outturn
 - The 2016/17 revenue budget
 - The 2016/17 Schedule of Charges
 - The 2015/16 (revised) to 2019/20 Capital Programme
 - The Medium Term Financial Plan 2016/17 – 2019/20
 - The Council's Reserves

<u>RECOMMENDATIONS FOR COUNCIL:</u> That:	
(A)	the comments of the joint meeting of Scrutiny Committees be received;
(B)	the 2015/16 Forecast Outturn set out in Section 4, including the proposed contributions to and from Reserves in paragraph 4.11, be approved;
(C)	the forecast 2015/16 revenue underspend transfer to the Transformation Reserve, as now detailed at paragraph 4.11, be approved;
(D)	the 2016/17 Revenue Budget, including: <ul style="list-style-type: none">• Budget Growth set out in Section 6, paragraph 6.2• Budget Savings set out in Section 6, paragraph 6.3• Contingency budget set in Section 8, paragraph 8.3

	<ul style="list-style-type: none"> • Use of Earmarked Reserves, section 9 • Consideration of the advice from the Director of Finance & Support Services on the levels of reserves and robustness of the forecasts in setting the budget as required by Section 25 of the Local Government Act 2003 (section 15); <p>be approved;</p>
(E)	the proposed 2016/17 Schedule of Charges, as detailed at section 7, be approved;
(F)	the East Herts Council element of the Council Tax Demand, as now detailed in paragraph 11.3, be approved;
(G)	the Capital Programme for the period 2015/16 (Revised) to 2019/20, the funding of the programme and the consequential revenue budget implications as set out in section 12, be approved;
(H)	the Medium Term Financial Plan covering 2015/16 (Revised) to 2019/20 as set out in section 13, be approved; and
(I)	the Reserves Policy as set out in Section 14, be approved.

1 BACKGROUND

1.1 This report sets out the revenue and capital budget proposals for Council to approve. This report is for the Joint Meeting of Scrutiny Committees to consider and suggest amendments prior to consideration by Executive and Council. In particular attention is drawn to section 6 and ERPs F & G which contain details of savings and growth proposals.

1.2 The council's revenue budget comprises five major 'building blocks' as follows:

- **Net Cost of Services:** These are the direct costs incurred by the council in delivering services through the three Directorates, less any specific income generated.
- **Corporate Budgets:** These are costs incurred and income

received by the council that are not service specific, e.g. Pension Fund deficit contributions, interest income and payments. Also included in this heading are the Contingency and New Homes Bonus Priority Spend budgets which are not allocated to specific services at the beginning of the financial year.

- **Contributions to/from Reserves:** This represents funding within the revenue Budget from Earmarked Reserves, which have been allocated to fund specific purposes. The impact of the use of Reserves is a reduction in the total income demand on Council Taxpayers. Reserves are, however, a finite source of funding and their use should represent value for money.
- **Sources of Funding:** These income budgets are general and non-service specific income sources. They include funding from Central Government and Non-Domestic Rate income.
- **Council Tax:** This income is also a general and non-service specific source of income. Only once budgets have been prepared for the other 'building blocks' have been established can the amount required from Council Tax be calculated, known as the 'Demand on the Collection Fund'.

- 1.3 In setting the budget for 2016/17 and the MTFP for future years, consideration has been given to the high degree of uncertainty and therefore risk in determining Local Government funding levels. Whilst the national economy is forecast to continue growing over the period of the MTFP the Government continues to pursue reducing the national deficit through cuts to public sector expenditure.
- 1.4 The Chancellor of the Exchequer published the Spending Review 2015 and Autumn Statement on 25 November 2015 which set out the Government's spending plans for the period 2016/17 to 2019/20. As a result of lower than forecast debt interest payments and higher forecast tax receipts there is an improvement in the level of public finances overall. This has reduced the amount that the Government needs to find from public sector spending reductions. However, the Government has protected several departments from further spending reductions including defence, overseas aid, the NHS, schools, Police Forces and the arts in addition to increases in funding for Security and Intelligence Agencies.
- 1.5 Funding for the Department of Communities and Local Government (DCLG) will reduce by 53% over the period to 2019/20. When Non Domestic Rates forecasts are included the funding reduction is

reduced to 27.5%.

- 1.6 The Autumn Statement included several announcements that will have a significant impact on the future funding regime for Local Government. These included:
- A move to 100% retention of Non Domestic Rates (NDR) within Local Government by the end of this Parliament. This will include the ability to reduce NDR and for directly elected Mayors to increase NDR for specific infrastructure projects. The government may consider transferring responsibility for funding the administration of Housing Benefit for pensioners and Public Health funding to Local Government in exchange for 100% NDR retention. The government will consult shortly on this area including a possible change in the local share of NDR between county and district councils.
 - Reform to New Homes Bonus (NHB) funding allocations. Consultation is currently being received by DCLG on the specific details of these reforms from 2017/18. The preferred option outlined will be to allocate payments over a four-year rather than a six-year period, to only pay NHB if a Local Plan is in place, to reduce payments for new homes granted on appeal and the introduction of a baseline value.
- 1.7 The position of East Herts following the Autumn Statement is unclear as there is little detail on the NDR reforms. With regard to New Homes Bonus any reform from 2017/18 represents a change to a significant income source. The MTFP has been modelled on the preferred options outlined by DCLG but the outcome of the consultation may deviate from these assumptions. East Herts is well placed to face these pressures in comparison to other authorities however the importance of local taxes as a source of income will become increasingly important.
- 1.8 The Finance and Business Planning process undertaken over the past few months has constituted an important change to the process of preparing the budget and service plans within the council. This process has been designed to allow earlier engagement and a greater amount of consultation with Members on strategic proposals, aligning the budget and service plans to the delivery of outcomes over a four-year period. This process will be reviewed in early 2016 to prepare for the 2017/18 cycle.
- 1.9 This report has been prepared having particular regard to the following reports:

- Calculation of the Council Tax Base; report to Council on 16 December 2015.
- Non Domestic Rates Calculation 2016/17; report to Council on 27 January 2016.
- Treasury Management Strategy and Annual Investment Strategy 2016/17; report to Audit Committee on 20 January 2016.

2 REPORT

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

REPORT SECTIONS:	
3	Summary of key budget proposals
4	2015/16 Revenue Budget: Forecast outturn: <ul style="list-style-type: none"> • Net Cost of Services • Corporate Budgets • Contributions to/from Reserves • Sources of Funding (incl. Council Tax) • Overall forecast outturn position
5	2016/17 Revenue Budget: Net Cost of Services
6	2016/17 Revenue Budget: Growth and Savings
7	2016/17 Revenue Budget: Schedule of Charges
8	2016/17 Revenue Budget: Corporate Budgets
9	2016/17 Revenue Budget: Contributions to/from Reserves
10	2016/17 Revenue Budget: Sources of Funding
11	2016/17 Revenue Budget: Council Tax Demand
12	Capital Programme 2015/16 (revised) to 2019/20
13	Medium Term Financial Plan
14	Review of the Council's Reserves
15	Advice from the Section 151 Officer

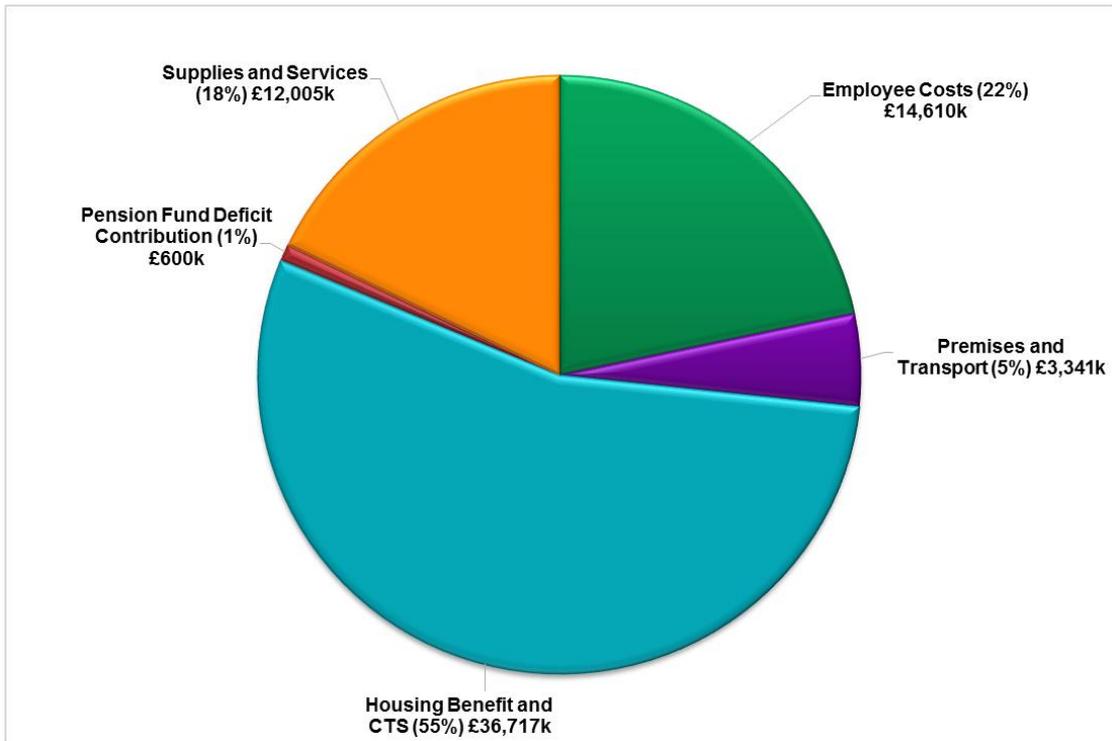
ESSENTIAL REFERENCE PAPERS:

A	Implications/Consultations
B	Medium Term Financial Plan
C	Key variances from the 2015/16 budget
D	Summary of forecast position (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 2016/17
I	Capital Programme 2015/16-2019/20
J	Capital Programme Funding Statement
K	The Council's Reserves Policy and forecast position
L	Stress Test: Financial Risks facing the Council
M	Budget Consultation with business
N	Glossary of financial terminology

3 SUMMARY OF KEY BUDGET PROPOSALS

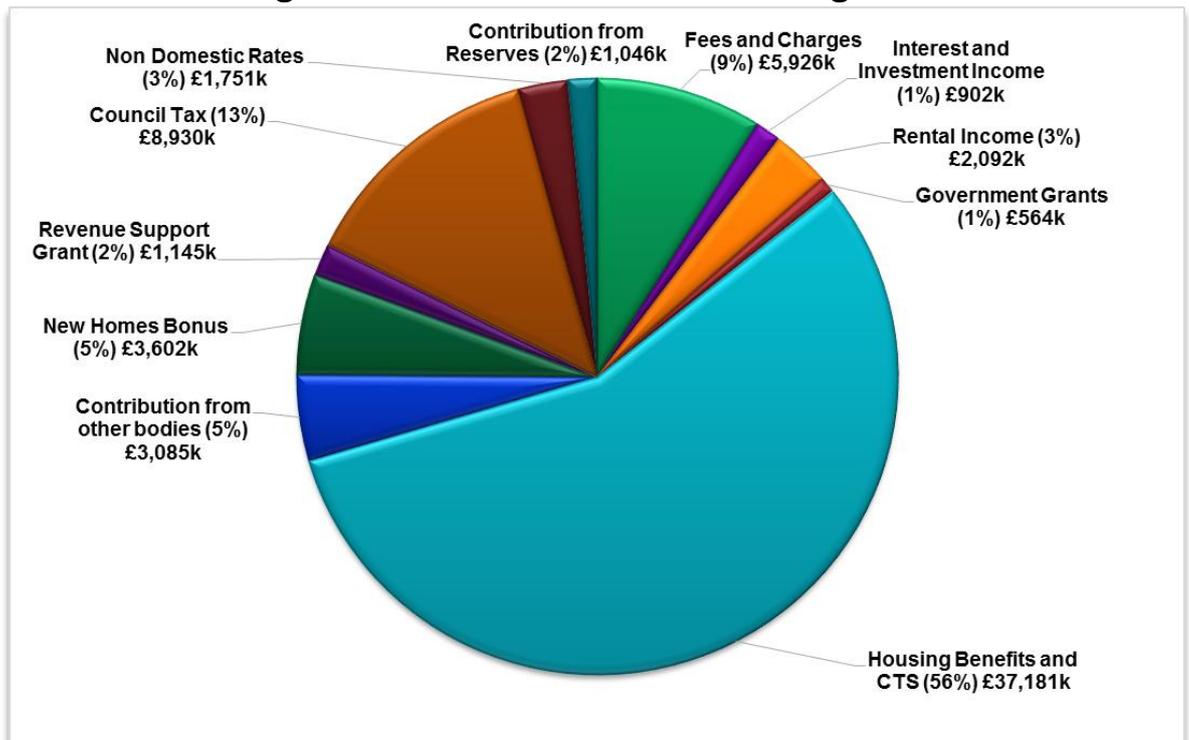
- 3.1 This budget report contains proposals for a gross revenue expenditure budget of £65.7m.
- 3.2 An analysis of the gross expenditure is shown below in Chart 1:

Chart 1: Gross Expenditure Budget 2016/17



3.3 An analysis of the funding for the revenue budget is shown below in Chart 2:

Chart 2: Funding sources for the Revenue Budget



3.4 The key themes of the budget for 2016/17 to 2019/20 found in this report can be summarised by the following statements:

- No proposed increase in the East Herts element of the Council Tax demand for 2016/17 with a 1% increase in Council Tax each year from 2017/18.
- Investment in some key services
- Continuing to protect vulnerable residents by maintaining the Council Tax Support scheme at the same level in 2016/17 as in 2015/16.
- Continued investment in capital schemes on a rolling basis in order to improve our assets and IT infrastructure reducing running costs in the long term.
- Consideration of the impact our fees and charges have on local taxpayers by minimising increases whilst at the same time ensuring our charging policies are adhered to.
- Ensuring that budget proposals are financially prudent, sensible and sustainable and represent value for money for local taxpayers.

4 2015/16 REVENUE BUDGET: FORECAST OUTTURN

4.1 **Net Cost of Services:** The forecast outturn (year-end) figures in this report have been prepared using information collated during the December Healthcheck budget monitoring process. The approach in presenting financial information within the Healthcheck report was changed during 2015/16. Heads of Service, in partnership with finance colleagues, have produced a forecast outturn each month, refining this forecast as the year has progressed. This has provided officers and Members with a clearer understanding of the financial position of the council throughout the year.

4.2 Overall the forecast outturn for the Net Cost of Services is lower than the original budget approved by Council on 18 February 2015 by £88k (0.6%) as seen in Table 1 below. This is primarily due to the acquisition of the Old River Lane site in Bishop's Stortford which resulted in the council receiving additional rental income which was not included in the original budget. The original budget has been adjusted to take into account approved savings and growth items.

Table 1: 2015/16 Forecast outturn for Net Cost of Services

Revenue	ORIGINAL BUDGET £'000	FORECAST OUTTURN £'000	VARIANCE £'000
Customer and Community Services	6,574	6,562	(12)
Neighbourhood services	3,053	3,346	293
Finance and Support services	5,255	4,886	(369)
Net cost of Services	14,882	14,794	(88)

- 4.3 Other significant variances between the original budget and forecast outturn that have occurred so far during 2015/16 are listed in **Essential Reference Paper C**. These variances have also been reported through the Healthcheck process.
- 4.4 The salaries budget of £12.5m is the largest budget heading within the Net Cost of Services. The forecast outturn position at the end of October 2015 was an overspend of £174k (1.4%).
- 4.5 Within this forecast amount £428k is funded from the contingency budget, Earmarked Reserves or government grants as shown in Table 2, of which £184k was included in the original budget.

Table 2: Salary costs funded outside the base budget

FUNDED FROM CONTINGENCY BUDGET:	£'000
Temporary post in HR&OD	10
Strategic Finance Project Accountant	16
Temporary post in Env Health	6
Temporary post in Licensing	2
SUBTOTAL:	34
FUNDED FROM TRANSFORMATION RESERVE:	£'000
Temporary post made permanent HR&OD	13
Temporary HR systems officer	7
Strategic Finance Project Accountant	16
Corporate Project Co-ordinator	34
2 x Graduate Trainees	62
Information Analyst temporary post	26
Leisure Development Manager (2 year fixed term)	48
SUBTOTAL:	206
PREVENTING REPOSSESSIONS RESERVE	£'000
Post in Housing Options	4
SUBTOTAL:	4
DISTRICT PLAN RESERVE	£'000
3 temporary posts to work on Local Plan	36
Overtime to work on Local Plan	8
SUBTOTAL:	44
FUNDED FROM NEW HOMES BONUS RESERVE:	£'000
Environmental Health Promotions Temporary post	18
Temporary additional hours in Housing	4
SUBTOTAL:	22
OTHER	£'000
Temporary post in Revs & Bens funded by DWP grant	52
Additional Consultancy Budget Development Management	9
Additional income in Development Management to fund temporary post	37
Extension in hours in Environmental Health	15
Temporary post in Engineering	4
SUBTOTAL:	117
TOTAL:	428

- 4.6 The Medium Term Financial Plan included an assumption of a 1% pay increase in 2015/16. National Joint Council agreed a 2.2% multi-year settlement in 2014/15 effective from 1 January 2015 until 31 March 2016. This pay award was included in 2015/16 salary budgets.
- 4.7 **Corporate Budgets:** The forecast outturn (year-end) figures in this report have been prepared using information collated during the December Healthcheck budget monitoring process in the same manner as for the Net Cost of Services.
- 4.8 Overall the forecast outturn for Corporate Budgets is lower than the original budget by £407k (54.3%) as seen in Table 3 below. This is largely due to the Contingency Budget remaining uncommitted.

Table 3: 2015/16 Forecast outturn for Corporate Budgets

	ORIGINAL BUDGET £'000	FORECAST OUTTURN £'000	VARIANCE £'000
Priority Spend Budget	150	150	-
Contingency Budget	370	41	(329)
Contributions to/(from) reserves	(1,269)	(1,347)	(78)
Total	(749)	(1,156)	(407)

- 4.9 The original Priority Spend budget for 2015/16 was £697k. As approved by Executive on 8th June 2015 £150k is allocated in 2015/16 with the remainder to be transferred to the New Homes Bonus Priority Fund Reserve. Future requests will be drawn down from the uncommitted balance of £547k as they are approved.
- 4.10 The Contingency budget of £370k allows for unforeseen events to be funded in-year. As at 31st October the £41k funded through the contingency budget all relates to items approved by CMT prior to 1st April 2015.
- 4.11 The use of Earmarked Reserves and the General Reserve are documented in Table 4 below:

Table 4: Net movements of Reserves in 2015/16

	Balance at 1/04/2015 £'000	Planned use 2015/16 £'000	Forecast balance at 31/03/2016 £'000
General Reserve	1,313	486	1,799
Interest Equalisation Reserve	1,503	(652)	851
Insurance Fund	1,010	126	1,136
Local Development Plan	519	(246)	273
Housing Condition Survey	93	4	97
Elections Reserve	78	(73)	5
Performance Reward Grant	22	(13)	8
Transformation Reserve	2,782	(480)	2,302
Preventing Repossessions	30	(4)	26
NHB Priority Fund Reserve	3,816	(281)	3,535
Collection Fund Reserve	1,551	(1,104)	447
DEFRA Flood Support for local businesses	93	(93)	-
Commercial Property Fund	500	(99)	401
Pension Fund additional contribution	1,000	(1,000)	-
Single Person Homelessness	12	(12)	-
TOTAL:	14,322	(3,441)	10,880

NB: Contribution/(Drawdown) from Reserves

- 4.12 **Funding Sources:** The forecast outturns for these budgets are included within the Medium Term Financial Plan shown in **Essential Reference Paper B**. The commentary that follows only considers those budgets that have changed during the financial year.
- 4.13 Council Tax Freeze Grant: This was a grant awarded by DCLG to mitigate the cost to local authorities that froze Council Tax in 2015/16. At the time of publishing the original budget this grant had not been confirmed so represents additional income of £114k.
- 4.14 Other small grants have been received from central government of £22k during the financial year and are to fund specific additional responsibilities.

- 4.15 **Overall forecast outturn position:** The council is forecast to underspend in 2015/16 by £495k. The main contributory factors are underspends against Net Cost of Service budgets of £88k and underspends against Corporate budgets totalling £407k.
- 4.16 It is recommended that the forecast underspend for 2015/16, plus any changes to this position at year-end, are transferred to the Transformation Reserve. The Transformation Reserve is earmarked to fund service improvement projects and transitional costs incurred in delivering long term savings.

5 2016/17 REVENUE BUDGET: NET COST OF SERVICES

- 5.1 The revenue budgets for 2016/17 have been prepared jointly by Heads of Service and budget holders in partnership with Strategic Finance.
- 5.2 As part of the Finance and Business Planning process Strategic Finance worked with budget holders to identify any areas of spend no longer required have been reduced appropriately. Either as a result of on-going underspends, changes in service or changes in activity levels . This follows a similar “line-by-line review” approach taken in prior years.
- 5.3 Salary budgets are prepared on a zero-based approach, best described as starting from scratch. The budget for each employee has been adjusted to take into account a change in National Insurance contribution rates payable, a reduction in employee expenses as a result of the mileage rate being reduced and an assumed 1% pay increase (subject to national negotiation).
- 5.4 The 2016/17 budget for Net Cost of Services of £14.097m is shown in Table 5. This is a reduction compared to the 2015/16 original budget as at 31 October 2015 of £785k.

Table 5: 2016/17 Original Budget for Net Cost of Services

Revenue	2015/16 ORIGINAL BUDGET £'000	2015/16 FORECAST OUTTURN £'000	2016/17 ORIGINAL BUDGET £'000	VARIANCE 2016/17 TO 2015/16 £'000
Customer and Community Services	6,574	6,562	6,436	(138)
Neighbourhood services	3,053	3,346	3,133	80
Finance and Support services	5,255	4,886	4,528	(727)
Net cost of Services	14,882	14,794	14,097	(785)

- 5.5 Table 5 includes growth and savings that have previously been agreed for 2016/17 and expenditure proposed to be funded from Earmarked Reserves as set out in Section 9 of this report.
- 5.6 **Essential Reference Paper D** shows a breakdown of the 2016/17 Budget for each directorate on a service by service basis.
- 5.7 The budgets shown above do not include internal recharges of Divisional and Support Costs required by the CIPFA Service Reporting Code of Practice (SerCOP) nor do they include capital charges.
- 5.8 Internal recharges of central support services such as Human Resources, Strategic Finance and IT to the end users of the service are a reapportionment of costs which have a nil impact on the Net Cost of Services but allow the calculation of the total cost of provision of services including overhead costs.
- 5.9 Capital charges are notional charges for the use of capital assets which are required for the annual Statement of Accounts but which do not require a source of funding. These charges will be calculated and included in the budget book before the start of the 2016/17 financial year.
- 5.10 Key assumptions that have been included in the preparation of the 2016/17 Budget for Net Cost of Services are described in the following paragraphs:
- 5.11 Salary budgets: The total salary budget is £12.97m for 2016/17. The following assumptions and key movements have been incorporated into the figures:

- The employee expenses policy will change from 1 April 2016, subject to approval by HR Committee in January 2016. The revised policy will remove the essential lump payment of £1,239 per annum and reduce the mileage rate from 65p per mile to the HMRC rate of 45p per mile. This has resulted in a reduction in 2016/17 salary budgets of £74k.
- A 2% vacancy factor is included in salary budgets, with a value of £255k, to take into account savings made through vacant posts and staff turnover. This is consistent with the vacancy factor applied in 2015/16.
- National Insurance contribution rates are included at the flat rate of 13.8%.
- Employer's Pension Fund contributions are included at 16.6% of salary cost.
- Included in the total salary budget are posts funded through reserves totalling £363k reducing the net salary budget to £12.61m. The details of these posts are as follows:

	£'000
HR Systems Officer	39
Corporate Project Co-ordinator	32
Leisure Development Manager	42
Information Analyst (until Dec 2016)	18
Graduate Trainees x2 (until Sept 2016)	29
Housing Officer	7
Public Health Projects Officer	37
Environmental Health temporary post (until July 2016)	2
Planning Officer Posts x3 to work on Local Plan	103
Neighbourhood Planning Officer	28
Housing Options Officer (2016/17 only)	11
Salary Capitalisation	15
TOTAL:	363

5.12 Price inflation: The 2016/17 budgets have been prepared according to

the inflation assumptions shown in **Essential Reference Paper E**.

5.13 Customer and Community Services 2016/17 budgets incorporate adjustments as a result of the following events in 2015/16:

- The budget for Hertford Theatre has been adjusted to reflect the additional income, offset by some additional expenditure, which is anticipated to be generated as a result of the new Sunday opening and increased levels of business especially for the Pantomime, Cinema and Promotions. Overall the net cost of the Theatre has fallen by £101k.
- The Car Park Pay and Display income budget reflects the loss of income from the sale of the lease for Bircherley Green car park in Hertford in 2015/16. However this is more than offset by additional Pay and Display income from other car parks, especially in Bishop's Stortford where the effect of the new parking policy introduced in August 2014 has not had the adverse effect anticipated. Overall Pay and Display income is budgeted to be £122k higher than 2015/16. Changes to Parking Charges will be presented to Members for approval in June 2016 rather than considered in this report.
- The Car Park accounts also reflect the increased usage and agreed changes to the 'RingGo' pay by phone service the Council offers motorists. From 2016 'RingGo' will introduce a start/stop service whereby motorists can start a parking session using a mobile or other device, on arrival at the car park and end it on departure. This will result in an additional £27k cost to the Council.

5.14 Neighbourhood Services 2016/17 budgets incorporate adjustments as a result of the following events in 2015/16:

- The 2015/16 budget for Planning Application fees was increased in line with historic trends. Whilst the volume of planning applications received to 31st August is consistent with previous years the size of these are small in financial value. An under achievement in income of £189k is currently forecast.
- The appeals expenditure budget in Development Management is expected to be £40k above budget. This is due to the use of consultants at Public Inquiry to present the Councils case and the instruction from the Executive for all major residential schemes submitted from July onwards to be subject to rigorous financial assessment.

- A contribution towards Public Health promotions of £100k has been received from Hertfordshire County Council. As agreed at Council on 18 February 2015 match funding of £100k from East Herts will be used to support this project funded from the New Homes Bonus priority fund.

5.15 Finance and Support Services 2016/17 budgets incorporate adjustments as a result of the following events in 2015/16:

- The purchase of the Old River Lane site in Bishop's Stortford will lead to a net increase in revenue in 2015/16. This is currently forecast to result in additional net income of £427k in 2015/16 with a full year net income of £1,055k in 2016/17, a return on investment of 5.4% based on current occupancy.
- A collective action (APPS) was bought against the Council by Property Search Companies relating to a dispute on the terms by which the Council provided property search information. The settlement sum due to be paid is anticipated to be no greater than £188k. A Government Grant of £110k has been received to partially offset this. The balance of £78k will be funded through the General Reserve.

6 2016/17 REVENUE BUDGET: GROWTH AND SAVINGS

6.1 **Essential Reference Paper F** shows the Revenue Budget Growth Proposals and **Essential Reference Paper G** shows the Revenue Budget Savings Proposals for 2016/17. Growth and Savings proposals have been classified into new items for approval and items that have already been approved for inclusion in the 2016/17 Revenue Budget.

6.2 New Growth items: These items total £62k in 2016/17 and £13k in 2017/18, in addition to growth already agreed of £604k in 2016/17 and £26k in 2017/18. Full details of the proposals are shown in **Essential Reference Paper F**.

6.3 New Savings items: These items total £1,425k in 2016/17 and represent savings and additional income. Full details of the proposals are shown in **Essential Reference Paper G**.

7 2016/17 REVENUE BUDGET: SCHEDULE OF CHARGES

- 7.1 The proposed Schedule of Charges for 2016/17 is set out in **Essential Reference Paper H**. Where available volume data has been included in this year's Schedule of Charges, which provides a measure of the scale of charges levied.
- 7.2 The fees and charges budgets included in the 2015/16 Net Cost of Services totalled £1,809k. The fees and charges budgets proposed for 2016/17 total £1,813k, an increase of £4k. Table 6 shows the fees and charges budgets by service.

Table 6: Changes to fees and charges budgets 2016/17

	Fees & Charges Budget 2015/16 £'000	Impact of proposed changes £'000	Fees & Charges Budget 2016/17 £'000
Customer and Community			
Hertford Theatre	(134.0)	(15.5)	(149.5)
Residents Parking	(104.3)	-	(104.3)
Waste Collection	(736.8)	(38.2)	(775.0)
Pest Control	(39.0)	-	(39.0)
Markets	(119.0)	46.0	(73.0)
Neighbourhood Services			
Licences Environmental Health	(16.4)	-	(16.4)
Environmental Health Promotions	(3.5)	0.3	(3.2)
Hackney Carriage licences	(139.6)	-	(139.6)
Development & Building Control	(80.0)	-	(80.0)
Hostels	(120.0)	-	(120.0)
Bed & Breakfast	(7.2)	(2.8)	(10.0)
Finance and Support Services			
Land Charges	(272.5)	-	(272.5)
Legal Fees	(36.2)	6.2	(30.0)
TOTAL:	(1,808.5)	(4.0)	(1,812.5)

NB: Income budgets are shown as negative values in brackets

- 7.3 The MTFP assumes an annual increase of 2.5% across all fees and charges budgets. An increase of 2.5% would result in 2016/17 fees and charges budgets totalling £1,854k, an increase from 2015/16 of £45k. The proposed 2016/17 fees and charges budgets take into account the loss of income from Bishop's Stortford Market which has reduced income budgets by £46k. The net impact of other fees and charges adjustments has increased budgets by £50k in line with MTFP assumptions.

- 7.4 As part of the Finance and Business Planning process, Heads of Service and budget holders were asked to carefully assess their fees and charges budgets, in particular to ensure that where the charging basis is 'cost recovery' that costs are actually recovered by the income received.
- 7.5 The impact of Council approving the proposed Schedule of Charges would result in a total fees and charges budget of £1,813k.

8 2016/17 REVENUE BUDGET: CORPORATE BUDGETS

- 8.1 New Homes Bonus Priority Spend Fund: Current Council policy is to allocate 25% of New Homes Bonus grant received to be used for in-year Member-led priority initiatives. The amount to be allocated in 2016/17 is anticipated to be £901k. This amount will be transferred to the New Homes Bonus Priority Fund Reserve and drawn down during the year as required.
- 8.2 New Homes Bonus grant payment to Parish and Town Councils: Current Council policy, as agreed in 2011/12, is to transfer 25% of the New Homes Bonus grant received to Parish and Town Councils to contribute to local projects and initiatives. The amount to be allocated in 2016/17 is £901k, an increase of £202k (29%) in comparison to 2015/16, following the NHB allocation received by East Herts in the Finance Settlement.
- 8.3 Contingency Budget: It is proposed that the contingency budget is set at £150k for 2016/17 and future years within the MTFP. Whilst this is a reduction of £220k (59%) in comparison to 2015/16, an amount closer to 1% of the Net Cost of Services is considered prudent.
- 8.4 Interest payments: There are fixed payments of £662k against two loans which have been included in the MTFP remaining unchanged from 2015/16. The loans total £7.7m of which £6m falls due in 2020 and therefore there will be no change to interest payments until 2020/21. The cost of repaying these loans early is prohibitive due to early redemption clauses however officer continue to review this position.
- 8.5 Interest Income: The 2016/17 interest income budget is £902k which is an increase from the 2015/16 budget of £867k, an increase of £35k (4%). The forecast outturn position for 2015/16 is £417k, a shortfall of £450k which is recommended to be funded from the Interest Equalisation Reserve. The shortfall is as a result of delays in placing investments of £20m in Property Fund Unit Trusts having been placed on waiting lists and in interest foregone in the £22m investment in the

Old River Lane site in Bishop's Stortford which has reduced cash balances. The Property Fund Unit Trust investments have now been placed and a more active approach is being taken to managing the council's cash balances leading to the 2016/17 budget being increased.

- 8.6 **Annual Pension Fund Deficit Payment:** This is the annual contribution the council pays to the Pension Fund. The Local Government Pension Fund (LGPS) undergoes a financial valuation every three years, 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 20 year period. The last valuation in 2013 resulted in an agreement that the council will pay a lump sum of £1m in 2013/14 and an additional £600k per annum until 2017/18 when the next valuation will take place. The MTFP includes a £600k Pension Fund Deficit Payment beyond 2017/18 in order to be prudent.

9 2016/17 REVENUE BUDGET: CONTRIBUTIONS TO/FROM RESERVES

- 9.1 **General Reserves:** The MTFP assumes that £300k will be transferred from the Interest Equalisation Reserve to the General Reserve in 2016/17. This is a reduction from £600k as interest rates were expected to begin to rise during 2015/16. As the expected rise in interest rates is delayed further this reduced transfer will continue to mitigate the risk of not achieving anticipated levels of interest income by retaining funds in the Interest Equalisation Reserve. The £300k transferred to the General Reserve will be used to increase the Collection Fund Reserve by £300k to fund the forecast deficit on the Collection Fund.
- 9.2 **Earmarked Reserves:** It is recommended that £2,153k of Earmarked Reserves shown in Table 7 below are used to fund the 2016/17 Revenue Budget.

Table 7: Proposed use of Earmarked Reserves in 2016/17

Earmarked Reserve	Utilised in 2016/17 £'000	Reason for the use of the Reserve
Interest Equalisation Reserve	(300)	To transfer to the Collection Fund Reserve
Local Development Plan	(191)	To pay for staffing and other costs of producing and consulting on the Local Plan.
Transformation Reserve	(423)	To fund items as agreed by CMT and Executive
DCLG Preventing Repossessions Reserve	(10)	To fund a temporary part-time post in the Housing Options Team
NHB Priority Fund Reserve	(264)	To fund items as agreed by CMT and Executive
Collection Fund Reserve	(917)	To fund the council's share of the 2015/16 Collection Fund deficit – see paragraph 10.5
Neighbourhood Planning Reserve	(28)	To fund planning work
Housing Condition Survey Reserve	(10)	To commission Housing Condition Survey
TRO Consolidation	(10)	To fund the EHDC contribution to the biennial TRO consolidation exercise
Total:	(2,153)	

9.3 In addition, it is proposed to contribute £1,107k to the following Reserves as shown in Table 8.

Table 8: Proposed additions to Earmarked Reserves in 2016/17

Earmarked Reserve	Contributed in 2016/17 £'000	Reason for the contribution to Reserve
Collection Fund Reserve	300	Transferred from the Interest Equalisation Reserve
Transformation Reserve	761	Provision for future Old River Lane development costs
Provision for future whole Council elections	27	To pay for the costs of whole Council and national elections in future years.
TRO Consolidation	5	To fund the EHDC contribution to the biennial TRO consolidation exercise
Housing Condition Survey Reserve	14	To fund Housing Condition Survey
Total:	1,107	

9.4 The council has a policy to transfer 25% of all New Homes Bonus grant received to the New Homes Bonus Priority Spend Fund, as described in paragraph 8.1. This will result in a contribution of £901k in 2016/17. This is shown as a separate line in the MTFP so is excluded from the table above.

9.5 Further information on the Council's Reserves can be found in Section 14 of this report.

10 2016/17 REVENUE BUDGET: SOURCES OF FUNDING

10.1 The following paragraphs detail the sources of funding that the council expects to receive in 2016/17 along with details of the assumptions that have been made in calculating these budgets.

10.2 **Revenue Support Grant:** The Minister for Local Government announced the provisional settlement for local government finance in Parliament on 17 December 2015. This source of funding has significantly changed from previous assumptions. East Herts anticipated allocation in 2016/17 is £1.145m, a reduction of £912k (44%) on the funding received in 2015/16. Indicated allocations for future years were also provided as part of the settlement and these are also much lower than expected with the complete removal of RSG from 2018/19.

10.3 **Non Domestic Rate Income (NDR):** The income budget of £1.956m is based on the following assumptions:

- Growth in non-domestic properties: there is no growth in the number of non-domestic properties for next year as there isn't any readily available data to predict future business growth in the District with certainty
- Rate multiplier: Inflation on the Business Rate Multiplier for 2016/17 is assumed to be 0.8% (in line with September 2015 RPI)
- Appeals: The Council has a provision for successful appeals, given the Governments deadline of 31 March 2015 for backdated appeals this was substantially increased in 2014/15. Assuming this is accurate the impact on future years should be limited to the cost of new appeals in each year.
- The Autumn Statement confirmed that Small Business Rate Relief would be continued in 2016/17. The cost to the council of this relief is zero as there will be a compensating Section 31 grant.
- The Chancellor also announced in the Autumn Statement that the government will revise the NDR system to increase the percentage retained by local government from 50% to 100%. There is a great deal of uncertainty on the impact of this reform on East Herts and it is likely to coincide with reforms of other sources of funding including the removal of Revenue Support Grant and transferring additional responsibilities to local government. Further details are expected during 2016/17.

10.4 **Section 31 Grant:** The budget of £712k is based on the government's formula for calculating the grant owed to council's arising from their policy decisions on rate reliefs. The formula has been applied to our NDR projections. As described above there will be an increase in the grant received due to the continuation of Small Business Rate Relief with a corresponding reduction in NDR received.

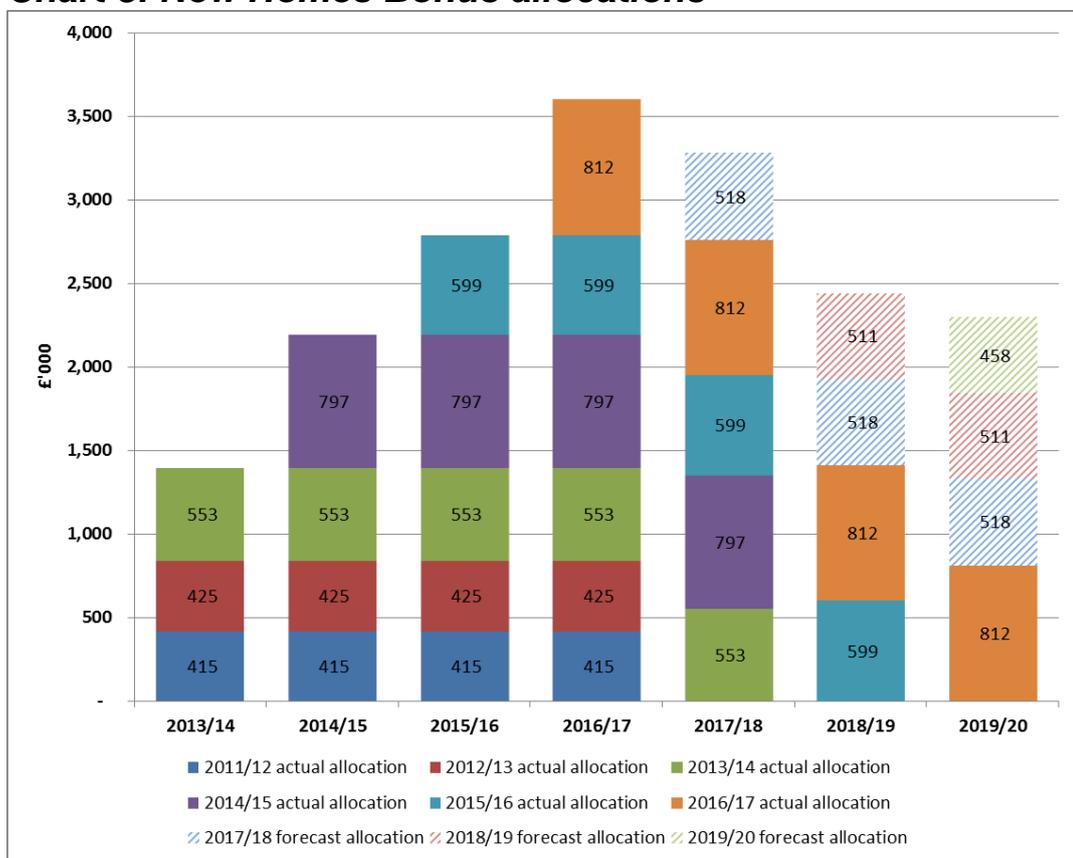
10.5 **Collection Fund:** There is an anticipated deficit of £917k on the Collection Fund as a result of the forecast deficit for 2015/16 on NDR and a surplus on Council Tax. This amount represents East Herts share of the deficit and it is recommended that the deficit is funded by the Collection Fund Reserve as shown in Table 7 above. Council will be asked to approve the Collection Fund deficit on 27 January 2016 as part of the Non Domestic Rates Calculation 2016/17 report.

10.6 **New Homes Bonus (NHB):** The Minister for Local Government is announced the provisional settlement for local government finance in

Parliament on 17 December 2015. East Herts total provisional NHB allocation is £3.6m consisting allocations from several years as shown in Chart 3. There are expected to be significant alterations to this stream of funding from 2017/18 onwards. The Chancellor announced in the Autumn Statement that the government will revise the NHB funding system to “sharpen the incentive” to build housing and to re-direct £800m towards funding social care. There is a DCLG consultation on reforms which include:

- Reducing the length of payments. This could be from 6 years to 4 years (with a transition period or a further reduction to 2 or 3 years)
- NHB payments only made if a Local Plan is in place
- A 50% reduction in NHB allocated to new homes granted on appeal
- the introduction of a baseline to future funding allocations.

Chart 3: New Homes Bonus allocations



11 2016/17 REVENUE BUDGET: COUNCIL TAX DEMAND

11.1 The formal resolution of the Council Tax for 2016/17 (including preceptor amounts), as required by the Local Government Finance Act 1992, will be considered by Council on 2 March 2016. This report only considers the East Herts share of the Council Tax demand.

11.2 The income we receive from Council Tax is the net figure after paying Council Tax subsidies. It has been assumed that the amounts paid out in subsidies in 2016/17 will not change from the current financial year as the volume of claims 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 2016/17 with Band D Council Tax set at £155.97. An increase of 1% in the Council Tax demand would raise an additional £90k in 2016/17 and £360k cumulatively over the period of the MTFP. Consequently, a decrease of 1% in the Council Tax demand would cost the Council £90k in 2016/17 and £360k cumulatively over the period of the MTFP.

12 CAPITAL PROGRAMME 2015/16 (REVISED) TO 2019/20

12.1 **Revised Capital Forecast for 2015/16:** The forecast outturn for the 2015/16 capital programme is £23.4m of which £20.5m relates to the purchase of the Old River Lane site in Bishop's Stortford. Excluding this transaction, the forecast outturn is £2.9m which is £0.2m above the original budget approved by Council on 18 Feb 2015.

12.2 Details on the movement of the Capital Programme are monitored and reported quarterly to Executive via the Healthcheck report. A summary of the movements in 2015/16 are shown in Table 9.

Table 9: Capital Programme movements in 2015/16

	£'000
Original budget	2,718
Addition of capital schemes slipped from 2014/15	1,052
Slippage of capital schemes from 2015/16 into future years	(833)
New schemes approved during the year included in the 2015/16 capital programme	19,666
Savings made in capital scheme budgets	(150)
Overspends currently forecast in capital schemes	962
Forecast outturn:	23,415

12.3 Slippage on significant capital projects during 2015/16 include:

- Disabled Facilities Grants: £204k (34%) will slip into 2016/17. Based on recent trends and current referral rates from Hertfordshire County Council, the number of residents seeking funding has been lower than expected. Officers are working

with Hertfordshire County Council to improve referral rates.

- Castle Weir: £201k (100%) will slip into 2016/17. Plans for the Castle Weir Hydro Scheme have been submitted to the Environment Agency. Negotiations are taking place to schedule works in 2016/17.
- Community Capital Grants: £40k (27%) will slip into 2016/17. The take up of grants in the first part of 2015/16 has been lower than expected. Successful applicants are expected to complete works within 1 year which may be limited to 6 months for smaller projects.
- Historic Buildings Grants; £37k (53%) will slip into 2016/17. Claimants have 6 months from grant offer date to complete works. Grants are usually limited to £1k; however, if a grant is approved for a property on the Buildings at Risk Register the maximum payment is £10k. The take up of grants in the first part of 2015/16 has been lower than expected.

12.4 Included within the forecast capital scheme overspends are costs associated with the purchase of the Old River Lane site in Bishop's Stortford of £946k. These extraordinary costs will be funded as revenue contributions to capital (RCCO) from the Commercial Property Fund and the New Homes Bonus Priority Fund Reserve.

12.5 **New capital schemes seeking approval:** The full details of schemes seeking Council approval are found in **Essential Reference Paper I**.

12.6 New capital schemes proposed are summarised in Table 10 below.

Table 10: Capital Programme proposed additions

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Customer and Community Services	410	-	-	95
Neighbourhood Services	-	-	-	-
Finance and Support Services	80	-	-	-
Total:	490	-	-	95

12.7 The new capital schemes proposed include:

- Investment in a new car park management system (2016/17:

£340k).

- A device responsive website (2016/17: £20k).
- Refurbishment of the café/bar at Hertford Theatre (2016/17: £50k).
- Compliance works at swimming pools (2016/17: £80k).
- Open space improvements at the Wash, Hertford (2019/20: £50k), Folly View, Hertford (2019/20: £15k) and Cannons Mill Lane, Bishop's Stortford (2019/20: £30k).

12.8 The complete proposed capital programme can be found in **Essential Reference Paper I** comprising new schemes outlined above and schemes already approved in previous years. Table 11 describes how the capital programme will be funded and further details can be found in **Essential Reference Paper J**.

Table 11: Capital Programme funding 2015/16 to 2019/20

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Capital Programme	23,414	4,608	2,258	1,992	2,000
To be funded by:					
Capital Receipts	2,387	1,640	1,270	800	500
Government Grants	293	293	293	293	293
Third party grants, contributions and Section 106	238	14	360	-	-
Revenue contribution	980	25	25	25	25
Internal funding	19,516	2,636	310	874	1,182
External borrowing	-	-	-	-	-
TOTAL:	23,414	4,608	2,258	1,992	2,000

12.9 The funding by capital receipts is reliant on the sale of council property which are reviewed on a regular basis. There is a risk that the council may not achieve the estimated receipt from the sale or that the receipt is delayed. In such cases there would be additional internal funding of the capital programme.

12.10 The council currently funds a large proportion of the capital programme through internal funding, i.e. the use of cash balances.

This funding approach reduces the amount of cash available to invest and therefore costs the council approximately £14k in reduced interest income for every £1m spent on the capital programme.

12.11 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 indicators and limits known as Prudential Indicators are calculated. The Prudential Indicators must be approved by 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.

12.12 It is recommended that the capital programme being proposed in this budget report is affordable, prudent and sustainable. No new borrowing is required to fund the capital programme. The relevant Prudential Indicators show that the ratio of finance costs (borrowing) to the net revenue stream is low (4.32% to 4.81%) and the incremental impact of financing the new capital programme is an average of £12.02.

Table 12: Prudential Indicators 3 and 4 estimates

	2016/17	2017/18	2018/19	2019/20
Ratio of finance costs to net revenue stream	4.81%	4.68%	4.47%	4.32%
Incremental impact of financing decisions on Band D Council Tax	£12.36	£12.13	£11.85	£11.73

13 MEDIUM TERM FINANCIAL PLAN

13.1 The MTFP is found in **Essential Reference Paper B**. The MTFP position was last reported to Executive on 4 August 2015.

13.2 The MTFP model and assumptions are assessed and revised throughout the year with particular attention being paid to the announcements made in the Budget on 8 July 2015, the Autumn Statement on 25 November 2015 and the Local Government Settlement on 17 December 2015.

13.3 The Council Tax base has been monitored throughout the year. Any emerging increases or decreases in the tax base have been modelled and the resultant impact included within the MTFP.

13.4 The Finance and Business Planning process has identified future

funding proposals and potential savings that could be developed in future years. An assessment of historic trend patterns has been undertaken in order to reduce future underspends and ensure that resources are directed to reflect the priorities of the Council. Any growth or savings proposals that result from this process must be contained within the resources available to the Council as set out in the MTFP.

- 13.5 The Investment Strategy has been revised to ensure that the return on investment achieved is optimised based on market expectations and performance whilst maintaining the required security and liquidity within the council's investment portfolio. The MTFP has been updated to reflect the impact on the interest income received in particular with reference to the investment of £20m in Property Fund Unit Trusts and the use of cash balances to fund the purchase of Old River Lane.
- 13.6 There are likely to be significant changes over the period of the MTFP to the funding sources of local government as a result of changes announced by the Chancellor in the Autumn Statement. The MTFP has been prepared based on the best information available at the time and subject to expert advice. Once the details of these changes are known the MTFP will be updated.

14 REVIEW OF THE COUNCIL'S RESERVES

- 14.1 Reserves are either usable or unusable. Unusable reserves arise from statutory accounting transactions and cannot be used to fund revenue or capital expenditure. This report only considers the Council's usable reserves. The Council's Reserves Policy is included in **Essential Reference Paper K**.
- 14.2 A summary of Earmarked Reserve balances forecast for 2015/16 and over the course of the MTFP are included in **Essential Reference Paper K**.

15 ADVICE FROM THE SECTION 151 OFFICER

- 15.1 Section 25 of the Local Government Act 2003 requires the Statutory Section 151 Officer (Director of Finance and Support Services) to give advice to Council on the levels of reserves held and the robustness of the budgets 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 budget proposals are prudent, sensible and robust. In determining the budget proposals:

- Funding sources have been extensively modelled
- A zero-based salary budget has been produced
- The Housing Benefits Subsidy budget has been reviewed; the council's largest area of expenditure and income
- The MTFP model and assumptions have been considered and refreshed
- The council's Earmarked and General Reserves have been reviewed
- The revenue impact of the capital programme has been considered
- The key financial risks facing the council have been identified and assessed
- The budget proposals meet the requirements of the Local Government Finance Act 1997 for a balanced revenue position
- Proposals have been made in line with council policy to try and minimise the financial impact of budget proposals on East Herts residents by proposing no Council Tax increase in 2016/17 and an increase of 1% each year for the remainder of the MTFP period. In addition the Council Tax Support scheme remains unchanged and increases to fees and charges are minimal.

15.3 Throughout this report attention has been drawn to the uncertainty of the local government funding regime and the potential impact on East Herts. The assumptions made in the preparation of this report and the MTFP are based on the best information available at the time.

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

16 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

None

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