EAST HERTS COUNCIL

EXECUTIVE – 7 FEBRUARY 2017

BUDGET REPORT AND MTFP 2017/18 – 2020/21

REPORT BY THE HEAD OF STRATEGIC FINANCE AND PROPERTY

WARD (S) AFFECTED: All

Purpose/Summary of Report:

- This report sets out proposals for Council decisions on the following:
    - The 2016/17 revenue budget forecast
    - The 2017/18 revenue budget
    - The 2017/18 Schedule of Charges
    - The 2016/17 (revised) to 2020/21 Capital Programme
    - The Medium Term Financial Plan 2017/18 – 2020/21
    - The Council's Reserves

RECOMMENDATIONS FOR COUNCIL: that:	
(A)	**the comments of the Joint Meeting of Scrutiny Committees be received;**
(B)	**the forecast 2016/17 underspend transfer to the Transformation Reserve, as now detailed at paragraph 4.11, be approved;**
(C)	**the 2017/18 Revenue Budget, including:** • **Budget Savings and Growth, set out in Section 6, paragraph 6.2** • **Contingency Budget, set out in Section 8, paragraph 8.3** • **Use of Earmarked Reserves, set out in Section 9** • **Consideration of the advice from the Section 151 Officer on the level of reserves and the robustness of the forecasts in setting the budget as required by Section 25 of the Local Government Act 2003 (section 15)** **be approved;**

(D)	**the proposed 2017/18 Schedule of Charges, as detailed at section 7, be approved;**
(E)	**the East Herts Council element of the Council Tax Demand, as detailed in paragraph 11.4, be approved;**
(F)	**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;**
(G)	**the Medium Term Financial Plan covering 2016/17 (Revised) to 2020/21 as set out in section 13, be approved; and**
(H)	**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. In particular attention is drawn to section 6 and **ERP F** 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 2017/18 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 has exceeded expectations since the EU referendum vote the forecast over the period of the MTFP is uncertain.

1.4 The Chancellor of the Exchequer published the Spending Review 2016 and Autumn Statement on 23 November 2016 which set out the Government's spending plans for the period 2017/18 to 2019/20.

1.5 The Chancellor announced that the government has abandoned its commitment to reduce public sector net borrowing to a surplus by the end of this Parliament. It is now planning for a deficit of £21.9bn in 2019/20, compared to the surplus of £10.4bn planned for at Budget 2016, an increase in public sector net borrowing for 2019/20 of £32.3bn.

1.6 The Chancellor announced a new draft Charter for Budget Responsibility, with three new fiscal rules:

- Borrowing should be below 2% by the end of this Parliament;

- Public sector net debt as a share of GDP must be falling by the end of this Parliament;

- Welfare spending must be within a cap, set by the government at Autumn Statement 2016 and monitored by the Office for Budget Responsibility (OBR).

1.7 The main points from the Ministerial statement on the Local Government settlement were as follows:

- Core Spending Power will be increased from £43.6bn in 2016/17 to £44.7bn for 2019/20;

- A Council Tax referendum limit of 2.0% will be maintained for upper tier councils and for district councils increases of less than 2% or up to and including £5 (whichever is higher) will not be subject to a referendum;

- The annual Social Care Precept of 2% can be applied at 3% in 2017/18 and 2018/19 subject to a maximum of 6% across the period 2017/18 to 2019/20;

- New Homes Bonus grant allocations will be reduced following consultation earlier in the year by DCLG in order to redirect funds towards social care costs.

- 97% of councils applied for a four year Settlement.

1.8 The position of East Herts following the Autumn Statement and the publication of the provisional Local Government finance settlement is within the assumptions made in the Medium Term Financial Plan.

1.9 East Herts accepted the offer of a four year settlement and the figures released in the 2017/18 settlement match those proposed under the four-year deal. There is no change to the amount of Revenue Support Grant we will receive (£351k in 2017/18 and nothing thereafter).

1.10 The impact on funding sources as a result of the provisional settlement is covered in later sections of this report.

1.11 The Finance and Business Planning process undertaken over the past few months by the Leadership Team has prepared plans to meet the financial challenges over the period of the Medium Term Financial Plan. This process has allowed engagement and consultation with Members on these proposals, aligning the budget and service plans to the delivery of outcomes over a four-year period.

1.12 This report has been prepared having particular regard to the following reports and statutory returns:
- Calculation of the Council Tax Base; report to Council on 14 December 2016;
- Non Domestic Rates Calculation 2016/17; statutory return to DCLG by 31 January 2017;
- Treasury Management Strategy and Annual Investment Strategy 2017/18; report to Audit and Governance Committee on 25 January 2017.

2 REPORT

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

REPORT SECTIONS:	
3	Summary of key budget proposals
4	2016/17 Revenue Budget: Forecast outturn: • Net Cost of Services • Corporate Budgets • Contributions to/from Reserves • Sources of Funding (incl. Council Tax) • Overall forecast outturn position
5	2017/18 Revenue Budget: Net Cost of Services
6	2017/18 Revenue Budget: Growth and Savings
7	2017/18 Revenue Budget: Schedule of Charges
8	2017/18 Revenue Budget: Corporate Budgets
9	2017/18 Revenue Budget: Contributions to/from Reserves
10	2017/18 Revenue Budget: Sources of Funding
11	2017/18 Revenue Budget: Council Tax Demand
12	Capital Programme 2016/17 (revised) to 2020/21
13	Medium Term Financial Plan
14	Review of the Council’s Reserves
15	Advice from the Section 151 Officer

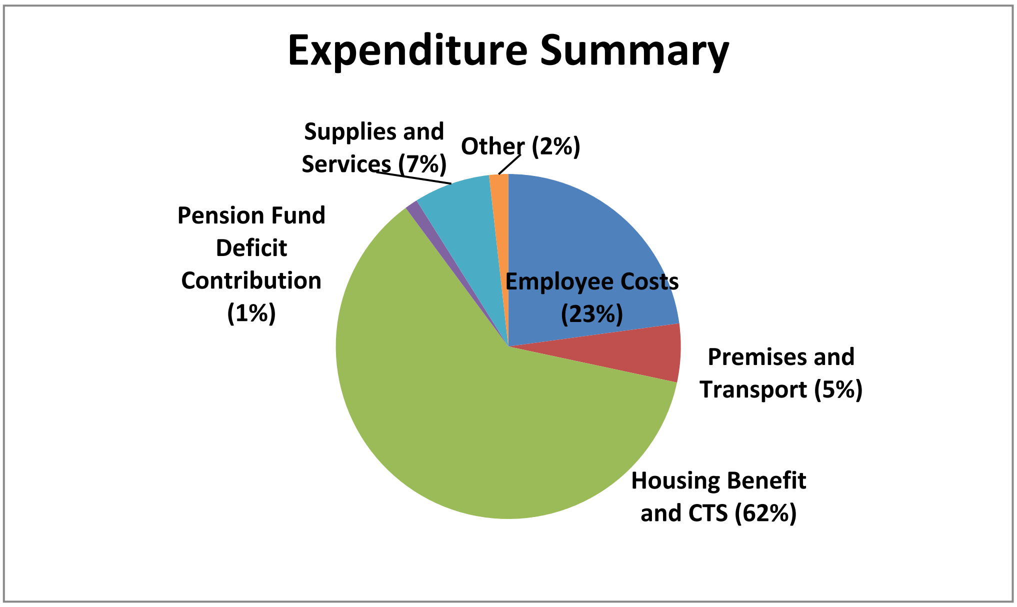
ESSENTIAL REFERENCE PAPERS:	
A	Implications/Consultations
B	Medium Term Financial Plan
C	Key variances from the 2016/17 budget
D	Budget movement 2016/17 to 2017/18
E	Pay and price assumptions in the MTFP
F	Revenue budget growth and savings proposals
G	Schedule of Charges for 2016/17
H	Capital Programme 2015/16-2019/20
I	Capital Programme Funding Statement
J	The Council's Reserves Policy and forecast position
K	Stress Test: Financial Risks facing the Council
L	Glossary of financial terminology

3 SUMMARY OF KEY BUDGET PROPOSALS

3.1 This budget report contains proposals for a gross revenue expenditure budget of £57.1m.

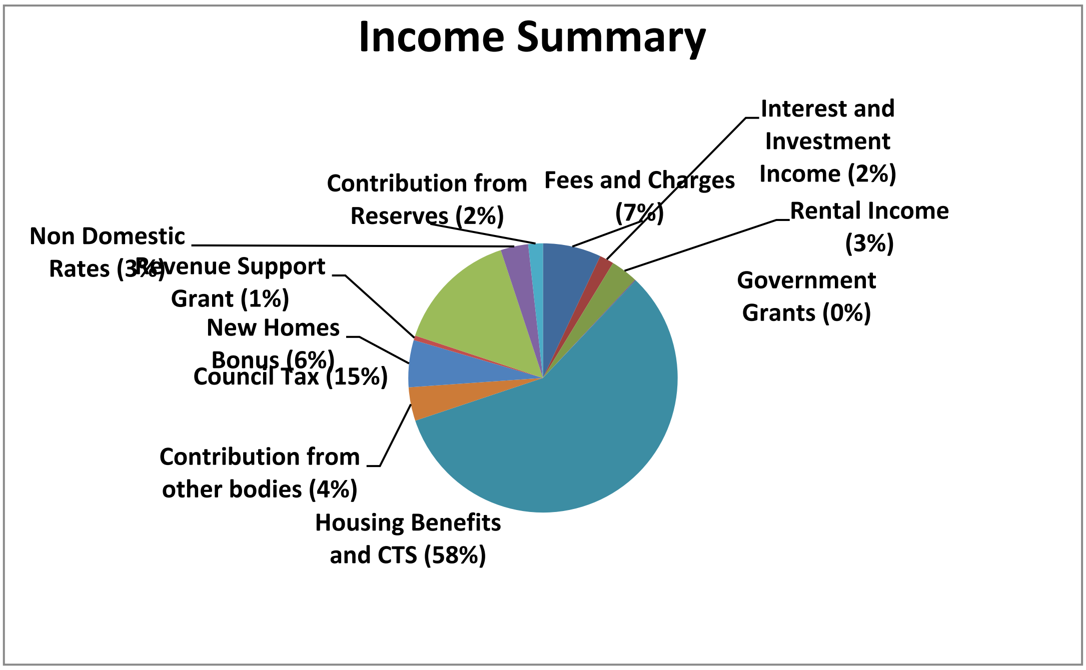
3.2 An analysis of the gross expenditure is shown below in Chart 1:

Chart 1: Gross Expenditure Budget 2017/18



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 2017/18 to 2020/21 found in this report can be summarised by the following statements:

- A 2% increase to the East Herts element of the Council Tax demand for 2017/18 with a further 2% increase per year to 2020/21.

- Investment in some key services

- 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 2016/17 REVENUE BUDGET: FORECAST OUTTURN

4.1 **Overall forecast outturn position:** The council is forecast to underspend in 2016/17 by £338k. This is predominantly made up of revenue overspends of £968k and other budget movements of £1,306k as shown in Table 1 below.

Table 1: 2016/17 Forecast outturn

	ORIGINAL BUDGET 2016/17 £'000	FORECAST OUTTURN £'000	VARIANCE £'000
Chief Executive & Directors	466	429	(37)
Communications, Strategy & Policy	1,165	1,154	(11)
HR & Organisational Development	469	481	12
Strategic Finance & Property	1,445	1,842	397
Housing & Health	2,407	2,541	134
Democratic & Legal	1,102	1,199	97
Planning & Building Control	1,044	1,367	323
Operations	4,490	4,625	135
Shared Revenues & Benefits Service	273	172	(101)
Shared Business & Technology Service	1,298	1,317	19
Total Net Cost of Services	**14,159**	**15,127**	**968**
Contingency Budget	150	14	(136)
Contributions to reserves	1,227	492	(735)
Contributions (from) reserves	(1,874)	(1,734)	140
Collection Fund Deficit (Funded from Reserve)	917	360	(557)
Investment Income	(902)	(920)	(18)
TOTAL:	**13,677**	**13,339**	**(338)**

Net Cost of Services:

4.2 The forecast outturn figures in this report have been prepared using information collated during the October Healthcheck budget monitoring process. Heads of Service, in partnership with finance colleagues, have produced a forecast outturn each month, refining this forecast as the year has progressed.

4.3 Overall the forecast outturn for the Net Cost of Services is higher than the original budget approved by Council in February 2016 by £968k (6.8%).

4.4 Significant variances between the original budget and forecast outturn that have occurred so far during 2016/17 are listed in **Essential Reference Paper C**. These variances have also been reported through the Healthcheck process.

4.5 The salaries budget of £13.059m is the largest controllable budget heading within the Net Cost of Services; this includes funding of £391k from earmarked reserves, additional income and government grants. The forecast outturn salaries position is £221k overspent of which £57k has approved funding from reserves (total reserve funding of £448k).

4.6 The Medium Term Financial Plan included an assumption of a 1% pay increase in 2016/17. This pay award was included in 2016/17 salary budgets.

4.7 The 2016/17 original budget did not include an adjustment for the Leadership Team restructure. The resultant in year saving of £177k is being used to fund restructuring costs which currently total £317k. The additional costs over and above £177k will be funded from the Transformation Reserve, not included in the figures in Table 1.

Corporate Budgets:

4.8 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.

4.9 DCLG Transition Grant: This is a grant awarded by DCLG as part of the 2016/17 financial settlement to help ease the impact of the transition to local funding, £120k will be received in both 2016/17 and 2017/18.

4.10 The use of Earmarked Reserves and the General Reserve are documented in Table 2 below:

Table 2: Use of Reserves in 2016/17

	Balance at 1/04/2016 £'000	Planned use 2016/17 £'000	Forecast balance at 31/03/2017 £'000
General Reserve	1,189	-	1,189
Interest Equalisation Reserve	1,514	(300)	1,214
Local Development Plan	399	(150)	249
Housing Condition Survey	71	4	75
Elections Reserve	5	22	27
Performance Reward Grant	10	(10)	-
Transformation Reserve	2,402	(568)	1,834
Preventing Repossessions	28	(10)	18
NHB Priority Fund Reserve	3,551	179	3,730
Collection Fund Reserve	483	(60)	423
DEFRA Flood Support for local businesses	37	(37)	-
Commercial Property Fund	1,271	(30)	1,241
Neighbourhood Planning Grant	65	(35)	30
IER Grant	34	(11)	23
Traffic Regulation Order Consolidation	5	(5)	-
MTFP Transitional Funding Reserve	-	120	120
TOTAL:	**11,064**	**(891)**	**10,173**

4.11 It is recommended that the forecast underspend for 2016/17, plus any changes to this position at year-end, are transferred to the Transformation Reserve.

5 2017/18 REVENUE BUDGET: NET COST OF SERVICES

5.1 The revenue budgets for 2017/18 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 have worked with budget holders to identify and remove any contingency amounts contained within 2016/17 budgets.

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 an assumed 1% pay increase (subject to national negotiation).

5.4 The 2017/18 budget for Net Cost of Services is £14.607m. This is a £448k increase compared to the 2016/17 original budget, the movement from the 2016/17 budget to 2017/18 budget is shown in **Essential Reference Paper D**.

5.5 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.

5.6 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.

5.7 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 2017/18 financial year.

5.8 Salary budgets: The total salary budget is £12.755m for 2017/18.The following assumptions and key movements have been incorporated into the figures:

- A 2% vacancy factor is included in salary budgets, with a value of £256k, to take into account savings made through vacant posts and staff turnover. This is consistent with the vacancy factor applied in 2016/17.

- National Insurance contribution rates are included at the following rates: pay up to £8k at 0%; pay between £8k and £40k at 10.4%; pay of £40k and over at 13.8%.

- Employer's Pension Fund contributions have increased from 16.6% to 19.0% as a result of the triennial Pension Fund valuation completed in 2016/17. Salary budgets have been adjusted to include the increased cost of £222k in 2017/18. This will be funded from the General Reserve in 2017/18 and added to the base budget requirement from 2018/19 onwards.

- Included in the total salary budget are posts funded through use of reserves and increased income totalling £348k.

5.9 Growth and Savings Proposals that have been included in the preparation of the 2017/18 Budget for Net Cost of Services are described below in Section 6 of the report.

5.10 Price inflation: The 2017/18 budgets have been prepared according to the inflation assumptions shown in **Essential Reference Paper E**.

6 2017/18 REVENUE BUDGET: GROWTH AND SAVINGS

6.1 **Essential Reference Paper F** shows the revenue budget growth and savings proposals for 2017/18. These proposals have been submitted by Heads of Service in consultation with the appropriate Portfolio Holder.

6.2 There are growth proposals totalling £863k and savings proposals totalling £1,591k. The net impact of these proposals are savings of £728k.

7 2017/18 REVENUE BUDGET: SCHEDULE OF CHARGES

7.1 The proposed Schedule of Charges for 2017/18 is set out in **Essential Reference Paper G**.

7.2 The fees and charges budgets included in the 2016/17 Net Cost of Services totalled £1.885m. An overall increase of 2.5% across all fees and charges budgets is assumed in the MTFP resulting in 2017/18 assumed fees and charges budgets of £1.932m. The fees and charges budgets proposed for 2017/18 total £1.947m resulting in a favourable position in the MTFP.

7.3 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.

7.4 The impact of Council approving the proposed Schedule of Charges will result in a total fees and charges budget of £1.947m as detailed in Table 6.

Table 6: Changes to fees and charges budgets 2017/18

	Fees & Charges Budget 2016/17 £'000	Impact of Changes in Volume £'000	Impact of proposed fees & charges £'000	Fees & Charges Budget 2017/18 £'000
Hertford Theatre	(160.0)	4.0	-	(156.0)
Residents Parking	(104.3)	(4.5)	-	(108.8)
Parking Season Tickets	(62.5)	(1.5)	(16.8)	(80.8)
Waste Collection	(775.0)	(7.0)	(19.6)	(801.6)
Pest Control	(39.2)	1.2	(1.2)	(39.2)
Markets	(73.0)	1.0	(0.4)	(72.4)
Licences Environmental Health	(16.4)	-	(0.4)	(16.8)
Environmental Health Promotions	(3.0)	-	(0.1)	(3.1)
Hackney Carriage licences	(139.6)	-	(3.5)	(143.1)
Hostels	(120.0)	-	-	(120.0)
Bed & Breakfast	(10.0)	(5.0)	(0.4)	(15.4)
Development & Building Control	(80.0)	(26.0)	(14.0)	(120.0)
Land Charges	(272.5)	32.5	-	(240.0)
Legal Fees	(30.0)	-	-	(30.0)
TOTAL:	**(1,885.5)**	**(5.3)**	**(56.4)**	**(1,947.2)**

NB: Income budgets are shown as negative values in brackets

8 2017/18 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 economic development initiatives. The amount to be allocated in 2017/18 is £890k. This amount will be transferred to the 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 2017/18 is £890k, a decrease of £11.5k (1.2%) in comparison to 2016/17.

8.3 Contingency Budget: It is proposed that the contingency budget is set at £150k for 2017/18 and future years within the MTFP. This is in line with the 2016/17 allocation and at 1% of 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 2016/17 to 2019/20. The two loans were taken out in 1995 with £1.5m being a PWLB loan and £6m being a club loan which was issued to a number of local authorities and funded by institutional investors. The £6m club loan falls due in 2020. There will be no change to interest payments until 2020/21 when the club loan is due for repayment. Repayment of this loan will result in a part year reduction in interest payments of £439k in 2020/21 (the full year reduction of £527k will be realised in 2021/22). This change is reflected in the MTFP. The cost of repaying these loans early is prohibitive due to early redemption clauses however officers review this position on a regular basis.

8.5 Interest Income: The 2017/18 interest income budget is £1.084m. The forecast outturn position for 2016/17 is £920k. The 2017/18 budget is £182k higher than the 2016/17 budget and represents additional income expected from the Councils investment in two property funds. Income from investments and interest is difficult to predict given recent events following the referendum vote to leave the EU and uncertainty over the Bank of England interest rates.

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 valuation in 2016 showed the Pension Fund investments have performed better than expected over the three year period (a return of 22.2% compared to forecast 15.1%). In order to continue to stabilise Pension Fund payments it is proposed that the council will pay an additional £96k per annum until 2019/20 when the next valuation will take place funded from the General Reserve. The MTFP has been updated to include a £696k Pension Fund Deficit Payment beyond 2019/20 in order to be prudent. In addition the employer Pension Fund contribution on salary payments will increase from 16.6% to 19.0% from 2017/18, referred to in paragraph 5.8 above.

9 2017/18 REVENUE BUDGET: CONTIBUTIONS TO/FROM RESERVES

9.1 **General Reserves**: The MTFP assumes that £318k will be utilised in 2017/18 to fund additional pension costs.

9.2 **Earmarked Reserves**: It is recommended that £1,187k of Earmarked Reserves shown in Table 7 below are used to fund the 2017/18 Revenue Budget.

Table 7: Proposed use of Reserves in 2017/18

Earmarked Reserve	Amount to be used in 2017/18 £'000	Reason for the use of the Reserve
Local Development Plan	(237)	To pay for staffing and other costs of producing and consulting on the Local Plan.
Transformation Reserve	(237)	To fund items as agreed by Leadership Team and Executive
NHB Priority Fund Reserve	(207)	To fund items as agreed by Leadership Team and Executive
Collection Fund Reserve	(408)	To fund the council's share of the 2016/17 Collection Fund deficit – see paragraph 10.5
MTFP Transition Funding Reserve	(98)	To fund increase in NDR costs
Subtotal (Earmarked Reserves):	**(1,187)**	
General Reserve	(222)	To fund increase in Pension Fund contribution rate from 16.6% to 19.0% for 2017/18 only (see paragraph 5.8)
General Reserve	(96)	To fund increase in Pension Fund deficit contribution from £600k to £696k (see paragraph 8.6)
Total:	**(1,409)**	

9.3 In addition, it is proposed to contribute £177k to the following Reserves as shown in Table 8.

Table 8: Proposed additions to Earmarked Reserves in 2017/18

Earmarked Reserve	Amount to add in 2017/18 £'000	Reason for the contribution to Reserve
MTFP Transition Funding Reserve	120	To fund future revenue spend
Provision for future whole Council elections	28	To pay for the costs of whole Council and national elections in future years.
Housing Condition Survey Reserve	14	To fund future House Condition Surveys
Neighbourhood Planning Grant	10	To fund future planning costs
TRO Consolidation	5	To fund the EHDC contribution to the biennial TRO consolidation exercise
Total:	**177**	

9.4 The Council has a policy to transfer 25% of all New Homes Bonus grant received to the New Homes Bonus Priority Spend Reserve, as described in paragraph 8.1. This will result in a contribution of £890k in 2017/18. 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 2017/18 REVENUE BUDGET: SOURCES OF FUNDING

10.1 The following paragraphs detail the funding that the council expects to receive in 2017/18 along with 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 15 December 2016. East Herts allocation is £351k, a reduction of £794k (70%) from 2016/17, which is in line with the MTFP and the four year settlement agreed with DCLG.

10.3 **Non Domestic Rate Income (NDR)**: The income budget of £1.975m is based on the following assumptions:

- Growth in non-domestic properties: we have assumed that growth in the number of non-domestic properties is flat. Predicting future business growth in the District with certainty is extremely complex as the Council has no influence over Rateable Values, appeals and national NDR changes, e.g. the academisation of schools.

- Rate multiplier: Inflation on the Business Rate Multiplier for 2017/18 is assumed to be 0.8% (in line with September 2016 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. Some prudency has been built into 2015/16 estimate by building in a 1% reduction in income forecast

- The Autumn Statement confirmed that Small Business Rate Relief would be continued in 2017/18. The cost to the council of this relief is zero as there will be a compensating Section 31 grant.

- Within Autumn Statement 2015 the government proposed to 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.

10.4 **Section 31 Grant**: The budget of £522k 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.

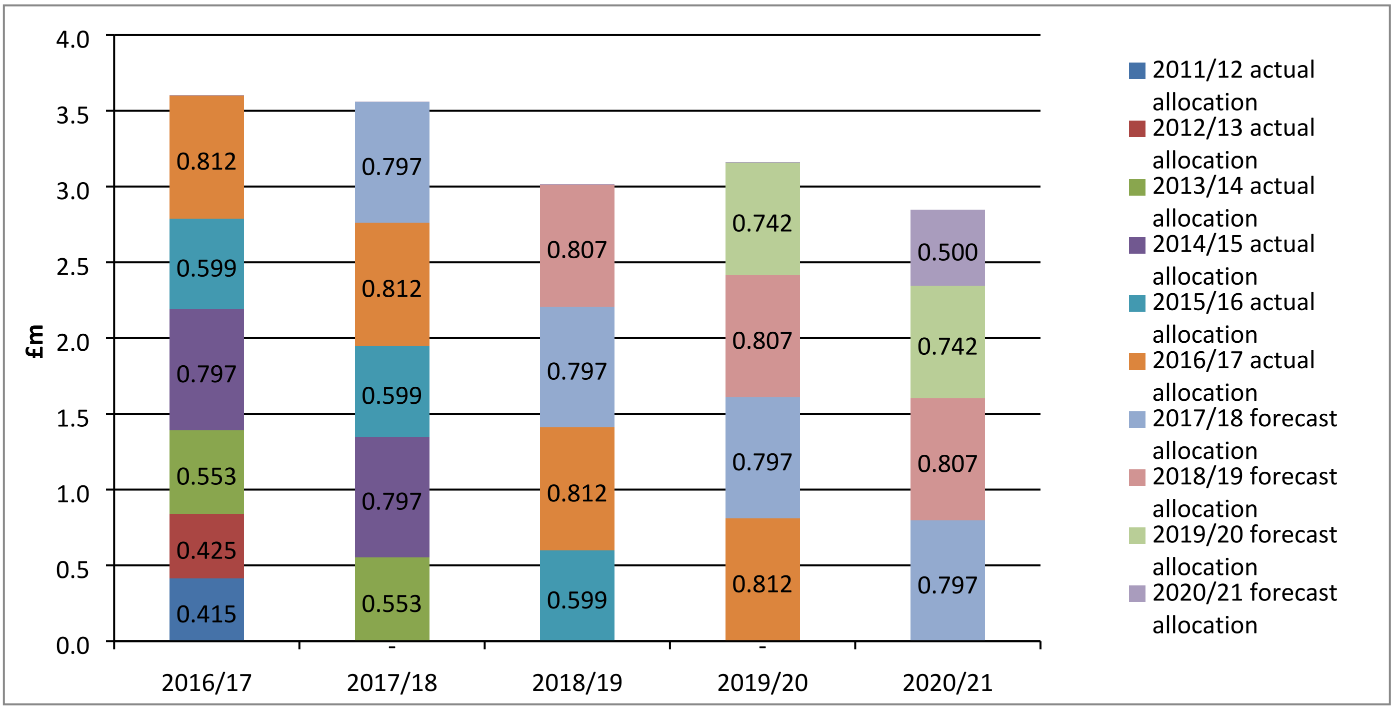
10.5 **Collection Fund**: There is an anticipated deficit of £408k on the Collection Fund as a result of the forecast deficit for 2016/17 on NDR and a surplus on Council Tax. This amount represents East Herts share of the deficit and it is recommended that the deficit is funded by the Collection Fund Reserve as shown in Table 7 above.

10.6 **New Homes Bonus (NHB)**: The Minister for Local Government announced several changes to the NHB scheme in the provisional settlement for local government finance on 15 December 2016. These include:

- NHB payments will be made for 5 years rather than 6 years for 2017/18. The impact of this is a reduction in NHB of £425k in 2017/18;
- NHB payments will be made for 4 years from 2018/19 onwards. The impact of this is a reduction of £1.4m from 2018/19 onwards;
- The Government will consider withholding NHB where a local plan is not in place from 2018/19;
- A baseline of 0.4% will be implemented from 2017/18. Only growth above this baseline will attract NHB payments and the baseline may be adjusted in future years. The impact of this was a reduction in NHB in 2017/18 of £407k.

10.7 The total NHB allocation for East Herts in 2017/18 is £3.559m, comprising allocations from several years as shown in Chart 3. This allocation includes the changes detailed above and is above the forecast allocation of NHB for 2017/18 modelled in the MTFP.

Chart 3: New Homes Bonus allocations



11 2017/18 REVENUE BUDGET: COUNCIL TAX DEMAND

11.1 The formal resolution of the Council Tax for 2017/18 (including preceptor amounts), as required by the Local Government Finance Act 1992, will be considered by Council on 1 March 2017. This report only considers the East Herts share of the Council Tax demand.

11.2 District Councils retain the flexibility to increase Council Tax by less than 2% or up to and including £5 (whichever is higher) without triggering a referendum. The DCLG have amended their assumptions on Council Tax generation by increasing the tax base in future years and by assuming that all local authorities will increase council tax by 1.99% (the previous assumption was 1.75%).

11.3 The income received from Council Tax is the net figure after paying Council Tax subsidies. It has been assumed that the amounts paid out in subsidies in 2017/18 will not change from the current financial year as the volume of claims has levelled off and is not increasing.

11.4 It is recommended that a 1.99% increase is made to the East Herts element of the Council Tax demand for 2017/18 with Band D Council Tax set at £159.09 (2016/17: £155.97). This increase of £3.12 is equivalent to an increase of 6p per week per Band D household. The maximum that East Herts could increase Council Tax by, without triggering a local referendum, is £5.

11.5 An increase of 1% in the Council Tax demand raises an additional £90k in 2017/18 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 2017/18 and £360k cumulatively over the period of the MTFP.

12 CAPITAL PROGRAMME 2016/17 (REVISED) TO 2020/21

12.1 **Revised Capital Forecast for 2016/17**: The forecast outturn for the 2016/17 capital programme is £5.078m which is £469k above the 2016/17 budget. Details of the movements which make up this forecast are shown in the paragraphs below.

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 2016/17 are shown in Table 9.

Table 9: Capital Programme movements in 2016/17

	£'000
Original budget	4,609
Addition of capital schemes slipped from 2015/16	291
New schemes approved during the year included in the 2016/17 capital programme	1,256
Savings made in capital scheme budgets	(2,327)
Overspends currently forecast in capital schemes	1,249
Forecast outturn:	5,078

12.3 Slippage on significant capital projects during 2016/17 will be considered at the end of the financial year. Movements against the 2016/17 capital programme are reported through the Healthcheck.

12.4 The capital programme contains a number of rolling schemes which are included in the programme without the submission of a capital bid for funding. Officers have agreed that these schemes should be subject to review every three years with the current rolling scheme budgets included until 2019/20. For these schemes to be funded from 2020/21 onwards a capital funding bid will be required to be submitted. These funding bids will be submitted as part of next year's budget process and it is expected that the 2020/21 capital programme requirement will increase.

12.5 The council is likely to undertake significant capital schemes within the medium term, e.g. Old River Lane, Bishop's Stortford. The scope and funding arrangements of these schemes are still in the early stages of project planning. These schemes are not yet developed enough to allow an estimated budget allocation to be included in the capital programme which would also increase the Council's Capital Funding Requirement. As the funding requirements become more certain these schemes will be included in the proposed capital programme.

12.6 The complete proposed capital programme can be found in **Essential Reference Paper H** including 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 I**.

Table 11: Capital Programme funding 2016/17 to 2020/21

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Capital Programme	5,078	3,387	2,648	1,861	650
To be funded by:					
Capital Receipts	2,890	800	500	500	500
Government Grants	530	293	293	293	-
Third party grants, contributions and Section 106	708	124	440	-	-
Revenue contribution	276	26	26	26	-
Internal funding	674	2,144	1,389	1,042	150
External borrowing	-	-	-	-	-
TOTAL:	**5,078**	**3,387**	**2,648**	**1,861**	**650**

12.7 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.

12.8 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.

12.9 **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.

12.10 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 (1.45% to 4.49%) and the incremental impact of financing the new capital programme is an average of £9.70.

Table 12: Prudential Indicators 3 and 4 estimates

	2017/18	2018/19	2019/20	2020/21
Ratio of finance costs to net revenue stream	4.42%	4.49%	4.35%	1.45%
Incremental impact of financing decisions on Band D Council Tax	£12.02	£11.67	£11.48	£3.63

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 6 September 2016.

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 16 March 2016, the Autumn Statement on 23 November 2016 and the Local Government Settlement on 15 December 2016.

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.

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 J**.

14.2 A summary of Earmarked Reserve balance forecasts for 2016/17 and over the course of the MTFP are included within **Essential Reference Paper J**.

15 ADVICE FROM THE SECTION 151 OFFICER

15.1 Section 25 of the Local Government Act 2003 requires the Statutory Section 151 Officer (Head of Strategic Finance and Property) 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 Head of Strategic Finance and Property 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 contributions towards the Pension Fund deficit have been assessed following the triennial actuarial valuation

- 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 limited Council Tax increases over the life of the MTFP. 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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