

EAST HERTS COUNCIL

EXECUTIVE - 6 FEBRUARY 2018

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

BUDGET REPORT AND SERVICE PLANS 2018/19 – 2021/22

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The report updates and sets out proposals for Executive recommendations on the following:
 - The Medium Term Financial Plan 2018/19 – 2021/22
 - The 2017/18 to 2021/22 Capital Programme
 - The 2018/19 Schedule of Charges
- All decisions and recommendations will be considered within the national context of continued financial uncertainty and risk for local government.
- The report sets out recommendations for Executive to make to Full Council for budget proposals for a balanced four year Medium Term Financial Plan and approval of the Council Tax for 2018/19.

RECOMMENDATIONS FOR EXECUTIVE: that:

(A)	the draft service plans for 2018/19 be adopted; and recommend to Council:
(B)	approval of the East Herts share of Council Tax for a band D property at £164.09;

(C)	approval of the updated position on the Medium Term Financial Plan and Budget for 2018/19 including the significant budget pressures and risks;
(D)	approval of new savings in 2018/19 as shown in Essential Reference Paper 'B';
(E)	the Head of Strategic Finance and Property be authorised to lead on a process to investigate and implement the projects set out in Essential Reference Paper 'C' with an investment pot of £200k for "invest to save" projects (those that will pay back and ultimately create a revenue saving);
(F)	approval of the implementation of the Capital Programme as set out in Essential Reference Paper 'E'; and
(G)	approval of the schedule of charges set out in Essential Reference Paper 'F' with an overall increase of 5% for 2018/19.

1 Background

- 1.1 This report sets out the Council's approach to setting the budget for 2018/19 and the revenue and capital budget proposals for the four years commencing 2018/19.
- 1.2 Throughout the past few months Finance has facilitated a number of member and officer workshops to discuss the issues and opportunities that this year's budget setting process will present.
- 1.3 The principal objective of the process was to consider previous and current budget decisions the Council has made and then ensure that they were both robust and able to deliver a sustainable Medium Term Financial Plan.

- 1.4 Some of the key issues discussed throughout this time included the long term sustainability of the use of reserves and New Homes Bonus as income streams for a future balanced budget.
- 1.5 The report sets out the proposals and outcomes that officers have arrived at to ensure that East Herts Council maintains a sustainable budget position for the future.
- 1.6 The Council's strategic aims and priorities drive the medium term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. The Medium Term Financial Plan (MTFP) provides the framework for the development of annual budgets in line with the aims of the Council's Corporate Strategy.
- 1.7 As a result of the grant funding cuts since 2010 (to 2017/18) the Council has delivered net savings of £2.6m.

Table 1 - Net Savings Total

2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
(1,013)	(1,041)	(281)	(343)	369	301	41	(654)	(2,621)

- 1.8 Additional budget efficiencies required over the next four years, as set out in table 8, total £2.8m. This will present a significant challenge for the Council and where possible, the Council has looked to minimise the impact on front line services.
- 1.9 The report contains the following sections and Essential Reference Papers:

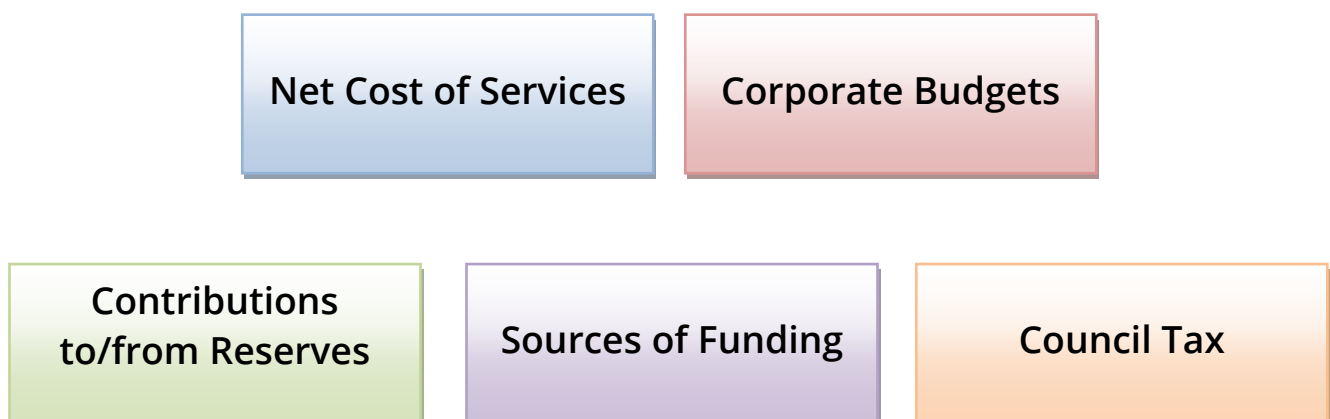
Report Sections	
2	Budget Components
3	Budget Pressures and Risks
4	2018/19 Budget Preparation and

	Engagement
5	Reserves
6	Capital
7	Schedule of fees & charges
8	Advice from the S151 officer
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Essential Reference Papers	
A	Implications/Consultation
B	Savings - have your say sessions
C	Savings - future year projects/investigation
D	Reserves
E	Capital
F	Schedule of charges
G	Service Plans

2 Budget Components

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



2.1.1 Net Cost of Services: these are the direct costs incurred by the council in delivering services, less any specific income generated. Included in the Net Cost of Services is use of the Councils reserves to fund these services.

- 2.1.2 Corporate Budgets: these are the 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.
- 2.1.3 **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.
- 2.1.4 **Sources of Funding:** these income budgets are general and non-service specific income sources. They include funding from Central Government and Non-Domestic Rates income (also known as Business Rates).
- 2.1.5 **Council Tax:** this income is also a general and non-service specific source of income. Only once budgets 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'.

2.2

Net Cost of Services

The Net Cost of Services is the total cost of all the services delivered by the Council net of any specific income streams. The total cost of services for 2018/19 was £15.1m at the beginning of this budget process, however officers have reviewed and revised the necessary spend and reduced it to £14.8m. This revised budget includes pay and general inflation assumptions as detailed in section 3 of this report. The breakdown of these costs for the Medium Term Financial Plan

is set out in the table below:

Table 2 - Net Cost of Services

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Chief Executive Department	490	499	508	517
Communications, Strategy & Policy	1,068	1,090	1,112	1,135
Human Resources	496	505	514	524
Strategic Finance & Property	1,934	2,016	2,079	2,144
Democratic & Legal Services	1,273	1,374	1,324	1,351
Housing & Health	2,324	2,471	2,480	2,542
Planning*	707	850	930	974
Operations	3,885	4,132	4,377	4,606
Revenues & Benefits	764	777	790	803
Business & Technology	1,650	1,680	1,703	1,734
Central Budgets	169	172	176	179
Net Cost of Services	14,760	15,566	15,993	16,509

*includes 20% planning fee increase (statutory instrument 2017 no 1314)

2.3

Corporate Budgets

Corporate budgets are those that cannot be directly attributable to specific services and are costs to the authority as a whole. A breakdown of these proposed income streams/costs for 2018/19 onwards is set out below:

Table 3 – Corporate Budgets

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Savings Proposals	(444)	(855)	(906)	(1,058)
NHB to Parish and Towns	661	697	696	775
Interest Payments	661	688	249	249
Investment Income	(1,090)	(990)	(740)	(640)
Pension Fund deficit contribution	696	696	696	696
Total	484	236	(5)	22

2.4

Contributions to/from Reserves

The budget process invariably includes items that are not annually re-occurring and that require financing from the council's reserves. An example of this is the Elections Reserve which is only used to fund election costs in an election year but a contribution is made to it every year. The proposed Earmarked Reserve contributions (except those included in the Net Cost of Services) are summarised in the table below for 2018/19 onwards.

Table 4 – Earmarked Reserves Contributions

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Contributions to Reserves	703	1,415	1,537	1,583
Contributions from Reserves	(407)	(370)	(96)	(96)
Net Reserves Movement	296	1,045	1,441	1,487

2.5

Sources of Funding

2.5.1 The table below shows the external sources of funding available to East Herts Council over the last 4 years and the projected available for 2018/19. As revealed below, over the 5 years from 2014/15 to 2018/19 the cumulative reduction in annual funding available to East Herts is £2.6m.

2.5.2 This has had a direct impact on the resources available to deliver services.

Table 5 – Sources of funding

	2014/15	2015/16	2016/17	2017/18	2018/19	
	£m	£m	£m	£m	£m	£m
Revenue Support Grant	2.816	2.057	1.145	0.351	0	
Non Domestic Rates	2.864	2.385	2.116	2.497	2.680	
New Homes Bonus	2.199	2.798	3.608	3.559	2.645	
Total	7.879	7.240	6.869	6.407	5.325	
Cumulative Reduction		0.639	1.010	1.472	2.554	5.672

2.5.3 The key information presented in the table includes the Revenue Support Grant removal over the 5 year period and that the New Homes Bonus has in part replaced that funding in the latter years.

2.5.4 The previous budget decisions to freeze or reduce Council Tax for East Herts residents has meant that Council Tax income

has **not** kept in line with inflation. This has had the effect of eroding the council's tax base over a period of 5 years (as inflation has increased annually but council tax income has remained the same).

2.5.5 New Homes Bonus

2.5.5.1 The New Homes Bonus was introduced in 2011 with the objective of encouraging housing growth with a local authority payment.

2.5.5.2 *"The New Homes Bonus is designed to create an effective fiscal incentive to encourage **local authorities** to facilitate housing growth. It will ensure the economic benefits of growth are more visible within the local area, by matching the council tax raised on increases in effective stock. This will redress the imbalance in the local government finance system, whereby resources for growth areas did not keep pace with growth."*

DCLG February 2011

2.5.5.3 East Herts Council has used the New Homes Bonus funding to support the General Fund budget for the last 6 years (50%) and to support both Parish and Town Councils (25%). The remaining 25% has been transferred to reserves to fund investment and one off schemes.

2.5.5.4 In the longer term this is not a sustainable approach as we have already seen national reductions to this funding stream, including a reduction from a 6 year payment period to a 4 year payment period.

2.5.5.5 In order to move into a more sustainable budget plan all reliance on NHB revenue funding in the council's base budget has been removed over the next 4 years. The additional ongoing NHB funding would then be used to support specific, time limited regeneration and infrastructure projects in those areas with the most additional housing.

2.6

Council Tax

2.6.1 Council Tax is a local tax on domestic properties which East Herts collects on behalf of Hertfordshire County Council, Hertfordshire Police and also Town and Parish Councils. The split of this collection for 2017/18 is set out in the table below:

Table 6 – Council Tax 2017/18 Split

	2017/18 split
HCC	76.8%
EHC	9.8%
Police	9.4%
Town & Parish	4%

2.6.2 East Herts increased Council Tax by 1.99% in 2017/18, the first increase in 5 years. It is proposed that in 2018/19 East Herts will increase its share of the Council Tax by £5 per year, the maximum increase allowed in any year. This level of increase will be built into the Medium Term Financial Plan on an ongoing basis to mitigate the effect of the frozen rates in previous years.

2.7 Consolidating the 5 Building Blocks of the budget

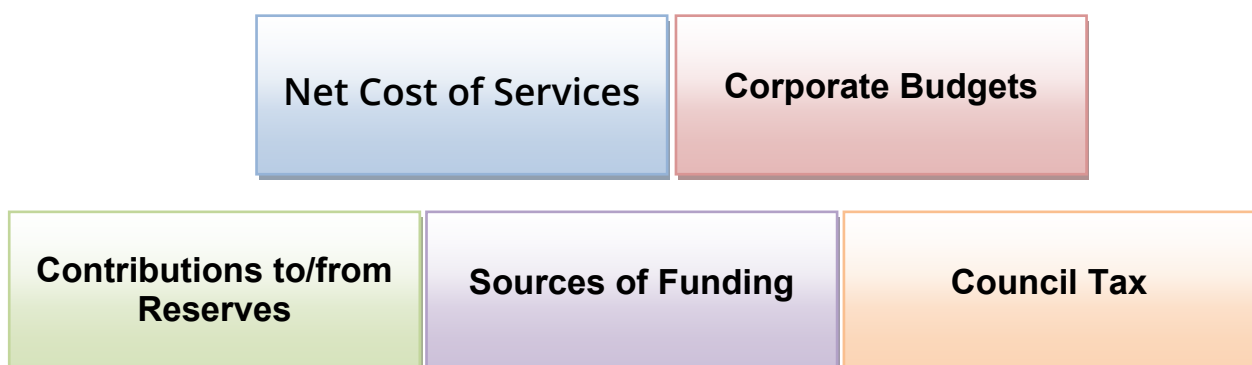


Table 7 – Budget Summary

	Revised Budget 2018/19
	£000
Net Cost of Services	14,760
Corporate Budgets	484
Contributions to Reserves	296
Sources of Funding	(5,325)
Council Tax	(9,672)
Revised Budget Gap	543

3 Budget Pressures and Risks

- 3.1 The Council's Medium Term Financial Plan is a complex model subject to many factors and the forecasts which are by necessity subject to continuous review and refinement to reflect the latest information as it emerges.
- 3.2 Specific service issues are monitored by the Heads of Service who are responsible for identifying pressures and opportunities that will impact on service delivery and have financial implications.
- 3.3 The following issues have been reviewed and items included as a provision in the Medium Term Financial Plan only where the financial impact is assessed as being quantifiable and unavoidable. Where the financial impact is unclear or subject to significant uncertainty, specific provision may not be made. These will be included as financial risks and if costs materialise in year these will be met from the available reserves or balances.
- 3.4 Pay Awards / National Living Wage

- 3.4.1 In recent years the Government's public sector pay cap has been followed when negotiating local government pay awards. This has been necessary as the government has assumed the same pay restraint will be followed by local government when determining annual local government spending limits and finance settlements.
- 3.4.2 The recent announcement of a 2% pay offer to local government unions has meant an additional pressure on the previously reported funding gap.
- 3.4.3 The Government has also introduced the National Living Wage (NLW). The implications are that nationally this will require a 2.5-4.0% increase in the national pay bill over 2 years. Whilst the impact for East Herts is considerably less than this it still remains an item for consideration.
- 3.4.4 Although salary increase of 1% is generally included within the Medium Term Financial Plan budget planning process, the October version included a 1.5% salary increase based on information provided by National Employers. Based on the government's latest proposal of a 2% increase, the proposed additional 0.5% will cost an extra £64k in 2018/19.
- 3.5 Inflation and Growth
 - 3.5.1 Provision for inflation of 2% has been made in the MTFP for all contract costs. A provision for inflation is made to help meet the costs arising from general price of contracts already committed to.
- 3.6 Shared IT services
 - 3.6.1 The shared IT service with Stevenage Borough Council has provided additional resilience and has ensured that East Herts has a platform to deliver further shared service opportunities. It has become apparent in recent years that the costs of providing such an integral service have increased with the

advances in technology and the requirement to provide more and more digital interaction with our customers. Historically, the cost of this service has been borne by the capital budget however with more recent technology changes the costs have an increased burden on the revenue budget.

3.7 Housing Benefits

3.7.1 In recent years the level of Housing Benefits overpayments identified has changed significantly. This is attributable to the introduction by the DWP of various data matching and real time information systems aimed at minimising fraud and error. Historical overpayments identified in previous years have resulted in a surplus in the benefits cost-centre however in more recent years the value of overpayments identified has fallen. This reduction impacts positively on the level of core subsidy received, but reduces the surplus achieved between years.

3.8 Charringtons House Rental Income

3.8.1 Charringtons House was purchased by the Council in 2015, initially as an investment property but with a longer term vision for a mixed-use development in the town centre. The building is currently budgeted to generate an annual rental income of c.£650k.

3.8.2 During a 2017/18 a board was set up to investigate the regeneration of the site. The Old River Lane (ORL) Board set out and agreed a proposed land use of the site at full Council in December 2017 which has had an impact on income streams for the property. Whilst officers are currently working with potential tenants to ensure the building is filled in the shorter term a longer term impact cannot be ignored within the budget setting process.

3.9 Planning Archiving

3.9.1 The historical planning archive, dating back to the 1950s is currently being stored in microfilm form, but is regularly used for planning investigation and reporting. A programme of digital scanning has been proposed that will preserve this information and future proof it. The cost included in budgets is £40k annually over the next 4 years. This investment in the Planning department will be funded by the increase in Planning fees due to be implemented in early 2018.

4 2018/19 Budget Preparation and Engagement

4.1 During November and December 2017, Members and Officers engaged in a number of “Have your Say” budget workshops to look at the authorities Medium Term Financial Plan and to explore both money saving and money making opportunities to bridge the funding gaps.

4.2 An initial review of the Medium Term Financial Plan set out a funding gap of £2.8m across the 4 years with £808k attributable to 2018/19. The work carried out by officers since October has changed a number of these figures and addressed some of the budget gap especially in 2018/19.

4.3 Staff and members provided ideas and examples of ways to fund the budget gap. A member workshop attended by over 35 members then scored each of the ideas ready for presentation at an informal Performance, Audit and Governance meeting held on 7th December 2017.

4.4 The informal PAG Meeting then reviewed and revised all savings proposals and suggested two specific directions for the savings to take:

i) Savings that were achievable from 1st April 2018 and could be implemented immediately. These savings are detailed in **Essential Reference Paper B** and total £463k for 2018/19

ii) Savings that would require more investigation and should

be thoroughly explored during 2018/19 for future year's implementation where possible. These proposals will now be considered as projects and are included in **Essential Reference Paper C** with guidance and timeframes as to how they might be implemented.

4.5 Following on from this work the items provisionally prioritised can be used to balance the budget initially for 2018/19, with the opportunity for the other items to be implemented in future years.

4.6 A summary of the budget gap and the potential savings options is shown below:

Table 8 – Budget Gap

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Budget gap @30.10.17	808	657	722	629
Additional Salary pressure 0.5%	64	64	0	0
Movement in Net Cost of Services	(329)	0	0	0
Revised Budget gap	<u>543</u>	<u>721</u>	<u>722</u>	<u>629</u>
Council tax increase by £5	(108)	(110)	(115)	(120)
"Have Your Say" savings proposals	(420)	(30)	0	0
One Off Reserve Contribution	<u>(15)</u>			
Revised Budget Gap	<u>0</u>	<u>581</u>	<u>607</u>	<u>509</u>

4.7 Alongside the budget setting process, heads of service in conjunction with portfolio holders have identified service delivery priorities for 2018/19. These can be found at **Essential Reference Paper 'G'**. The service plans outline in detail the key actions that are to be delivered over the next year and the means by which they will be monitored. These are proposed in the context of both the 2018/19 budget and the key priorities within the Council's Corporate Strategic Plan which was agreed by Members in February 2016:

- Priority 1: improve the health and wellbeing of our communities (changed to "people")
 - Residents living active and healthy lives
 - Support for our vulnerable families and individuals
 - Communities engaged in local issues
- Priority 2: enhance the quality of people's lives (changed to "places")
 - Attractive places
 - Future development best meets the needs of the district and its residents (changed to "future places")
- Priority 3: Enable a flourishing economy (changed to "businesses")
 - Support for our businesses and the local economy
 - Vibrant town centres
 - Working with others, to have achieved the right infrastructure for our businesses and communities

4.8 Members are asked to recommend to Executive that the service plans be adopted alongside the budget.

5 Reserves

5.1 The reserves are an important part of the budget setting process. There are minimum requirements set out for General Fund Reserves, however authorities are also expected to

maintain a level of Earmarked Reserves to fund one off projects and initiatives. The emphasis for this Medium Term Financial Plan is to ensure the longevity of the Council's funding and provide investment funding for future income generating initiatives.

5.2 The table below set out the proposed contributions to and from reserves over the next four years including the increasing contribution from New Homes Bonus.

5.3 It is essential for the Medium Term planning that reliance on reserves for ongoing costs is removed and that the funding is used for more appropriate investment purposes. Re-occurring items that have previously been funded through reserves in the MTFP have now been included in the revenue budget on an ongoing basis. Additional net contributions to/from reserves to support the Net Cost of Services total £338k for 2018/19. These items do not impact on the figures below.

Table 9 – Reserves

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
<u>Contributions to Reserves</u>				
NHB Priority Spend	661	1,373	1,495	1,541
District Election	28	28	28	28
House Condition Survey	14	14	14	14
Sub-total	<u>703</u>	<u>1,415</u>	<u>1,537</u>	<u>1,583</u>
<u>Contributions from Reserves</u>				
District Election		(100)		
House Condition Survey		(50)		
Revenue Funding/ transition	(311)	(124)		
Pension Deficit	(96)	(96)	(96)	(96)
Sub- total	<u>(407)</u>	<u>(370)</u>	<u>(96)</u>	<u>(96)</u>
Total Reserves movement	296	1,045	1,441	1,487

6 Capital Programme

6.1 Capital Programme 2017/18 to 2021/22

6.1.1 The forecast outturn for the 2017/18 capital programme is £3.066m which is £320k below the 2017/18 budget. Details of the movements which make up this forecast are shown in the table below.

6.1.2 The details on the movement expenditure for the Capital Programme are monitored and reported quarterly to Executive within the Healthcheck report.

6.2 Capital Programme movements in 2017/18

Table 10 – Capital Programme 2017/18

Original Budget 2017/18	2016/17 re-profiled scheme	Addition of Capital schemes	Budget reductions	Proposed Re-profiling	Forecast Outturn
£000	£000	£000	£000	£000	£000
3,386	1,888	1,507	(2,384)	(1,331)	3,066

6.2.1 Any slippage on significant capital projects during 2017/18 will be considered at the end of the financial year

6.2.2 The capital programme for 2018/19 onwards contains a number of newly agreed capital schemes and also the rolling schemes agreed in previous years.

6.2.3 Currently the review of the Capital programme is undertaken as part of the quarterly health-check report. Any additions to the programme require a funding request to be made through the appropriate governance process. This process is defined by the value of the capital bid. For example the agreement of the Leisure Strategy and the Property Investment Company were agreed at Council meetings in July and October 2017.

6.2.4 The council is likely to undertake a number of significant capital schemes within the medium term including Old River Lane, Bishop's Stortford. The scope and funding arrangements of such schemes are still in the early stages of project planning. However it should be noted that East Herts may need to give careful consideration to its reserves provision in the forthcoming years and will potentially require a borrowing facility within this medium term financial period.

6.2.5 As any of these schemes are agreed and the funding requirements become more definite, these schemes will be included in the capital programme presented within the quarterly health-check report.

6.2.6 The complete proposed capital programme can be found in **Essential Reference Paper E** including schemes already approved in previous years.

6.3 Prudential Code Implications

6.3.1 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.

6.3.2 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.

6.3.3 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.

7. 2018/19 Revenue Schedule of Fees & Charges

7.1 The proposed schedule of charges set out within **Essential**

Reference Paper F will be made available at the meeting.

7.2 The fees and charges budgets (excluding charges for pay and display car parking) included in the 2017/18 Net Cost of Services totalled £1.860m.

7.3 The table below shows the impact of the changes proposed in the schedule of charges to the 2018/19 budget.

Table 11 – Fees & Charges

	2017/18 budget	Impact of changes in volume	Impact of proposed 5% charges increase	2018/19 budget
	£	£	£	£
Hertford Theatre	156,000	20,540	10,920	187,460
Clinical Waste	80,000	950	4,100	85,050
Domestic Waste	70,000	200	3,600	73,800
Commercial Waste	632,000	62,500	35,000	729,500
Env Health Promotions	3,100	(1,100)	-	2,000
Env Health Licences	23,050	(2,600)	7,600	28,050
Taxi Licensing	139,600	(14,600)	16,000	141,000
Development Management	106,000	11,000	6,000	123,000
Legal Fees	30,000	(750)	1,500	30,750
Land Charges	240,000	20,000		260,000

Markets	72,000	700	3,600	76,300
Hostels	120,000	-	-	120,000
Bed & Breakfast	15,000	20	760	15,780
Residents' Parking	108,850	(6,350)	*25,200	127,700
Parking - Season Tickets	64,000	(35,700)	1,400	29,700
Total	1,859,600	54,810	115,680	2,030,090

*additional volumes included

7.4 The fees and charges included in **Essential Reference Paper F** have increased by an average of 5.0%. The estimated impact of this increase is additional income of £116k in 2018/19.

7.5 Pay and Display charges have not been increased for 2018/19. This is in line with the budget policy agreed at a previous Council, and will be reviewed in 2019/20.

8. Advice from the Section 151 Officer

8.1 Section 25 of the Local Government Act 2003 requires the Statutory Section 151 Officer (Head of Strategic Finance & Property) to give advice to the Council on the levels of reserves held and the robustness of the budgets at the time Council makes its decision on the budget proposals.

8.2 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 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

8.3 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.

9. Implications / Consultations

9.1 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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