

East Herts Council Report

Performance Audit and Governance Oversight Committee

Executive

Council

Dates of Meetings:

PAGO 14th January 2020

Executive 21st January 2020

Council 29th January 2020

Report by: Councillor Geoff Williamson, Deputy Leader & Executive Member for Financial Sustainability

Report title: SUSTAINABLE MEDIUM TERM FINANCIAL PLAN 2020/21 – 2023/24

Ward(s) affected: ALL

Summary

- The report sets out proposals on the following:
 - the Medium Term Financial Plan 2020/21 – 2023/24
 - the 2020/21 to 2023/24 Capital Programme
 - the 2020/21 Schedule of Charges.
- All decisions and recommendations will be considered within the national context of continued financial uncertainty and risk for local government. Going forward questions remain over the total funding for local government and how this will be shared between authorities.

RECOMMENDATIONS FOR COUNCIL:

that:

- a. the East Herts share of Council Tax for a band D in 2020/21 be set at £174.09;**
- b. the updated position on the Medium Term Financial Plan and Budget for 2020/21 including the budget pressures and risks be approved;**
- c. the new savings and income generating proposals for 2020/21 onwards as shown in Appendix 'B' be approved;**
- d. the Capital Programme as set out in Appendix 'C' be implemented;**
- e. the schedule of charges set out in Appendix 'D', each with an average increase of 2.5% for 2020/21, be approved; and**
- f. that authority to determine the most appropriate amendments to car parking charges to achieve the increased income included in the MTFP be delegated to the Head of Operations acting in consultation with the Head of Strategic Finance and Property and the Executive Member for Environmental Sustainability.**

1.0 Proposal(s)

- 1.1 The report sets out proposals for East Herts Council's element of the Council Tax for 2020/21 and a balanced four year Medium Term Financial Plan which members of the Executive were asked to consider and, with or without amendment, endorse for consideration by the Council.

2.0 Background

- 2.1 This report sets out the council's approach to setting a sustainable budget for 2020/21 and the revenue and

capital budget proposals for the four years commencing 2020/21.

- 2.2 Throughout the past few months the Finance team has engaged with members and senior officers to discuss the issues and opportunities that this year's budget setting process presents.
- 2.3 The principal objective of the process was to consider previous and current budget decisions the Council has made and then ensure that they are both robust and able to deliver a sustainable Medium Term Financial Plan.
- 2.4 Some of the key issues discussed included the longer term national financial outlook and the impact this will have on local budgets and the ability to produce income streams for a future balanced budget.
- 2.5 The budget is built around the proposed new corporate principles, presented elsewhere on this agenda, which are sustainability, economic growth, engagement and digital by design. This underpins the organisation's direction of travel.
- 2.6 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.
- 2.7 Budget efficiencies required over the next four years, in addition to those approved in previous years, are projected to be in excess of £2m based on the outcomes of a number of government initiatives including the Business Rate Retention Policy and Fairer Funding Regime. This will present a significant challenge for the council.

2.8 The report contains the following sections and Appendices:

| Background Report Sections | |
|----------------------------|---|
| 2.9 | Budget Components |
| 2.18 | Budget Pressures and Risks |
| 2.19 | 2020/21 Budget Preparation and Engagement |
| 2.20 | Reserves |
| 2.21 | Capital |
| 2.23 | Schedule of fees & charges |

| Appendices | |
|------------|-----------------------------------|
| A | Medium Term Financial Plan (MTFP) |
| B | Savings Proposals |
| C | Capital |
| D | Schedule of charges |
| E | Reserves |

2.9 Budget Components

2.9.1 The council's revenue budget consists of five major 'building blocks' as follows:

Net Cost of Services

Corporate Budgets

Contributions
to/from Reserves

Sources of External
Funding

Council Tax

- 2.9.2 **Net Cost of Services:** these are the direct costs incurred by the council in delivering services, less any specific income generated. Any use of reserves to fund these services is included in the Contributions to/from Reserves.
- 2.9.3 **Corporate Budgets:** these are the costs incurred and income received by the council that are not service specific, for example, 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.
- 2.9.4 **Contributions to/from Reserves:** this represents funding within the revenue budget from Earmarked Reserves which has 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.
- 2.9.5 **Sources of External 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).
- 2.9.6 **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'.

2.10

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 2020/21 will be capped at £16.1m as part of the cash limit budget process. This decision allows Heads of Service to work within their own service delivery requirements and service plans to make the best use of the resources available. This revised budget includes modelled pay inflation of 2.75%. The breakdown of these costs for the Medium Term Financial Plan is set out in the following table:

Table 1 - Net Cost of Services

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|-----------------------------------|---------------|---------------|---------------|---------------|
| | £000 | £000 | £000 | £000 |
| Chief Executive Department | 383 | 392 | 402 | 412 |
| Communications, Strategy & Policy | 1,109 | 1,138 | 1,268 | 1,299 |
| Human Resources | 537 | 549 | 561 | 573 |
| Strategic Finance & Property | 1,925 | 1,988 | 2,185 | 2,439 |
| Democratic & Legal Services | 1,254 | 1,280 | 1,307 | 1,335 |
| Housing & Health | 2,768 | 2,819 | 2,883 | 2,997 |
| Planning | 918 | 974 | 1,032 | 1,091 |
| Operations | 4,032 | 4,169 | 3,774 | 3,641 |
| Revenues & Benefits | 748 | 805 | 887 | 970 |
| Business & Technology | 2,417 | 2,302 | 2,422 | 2,541 |
| Net Cost of Services | 16,091 | 16,416 | 16,721 | 17,298 |

2.11

Corporate Budgets

Corporate budgets are those that cannot be directly attributed to specific services and are costs to the authority as a whole. Income collected from Millstream Property Investment Ltd the council's wholly owned company and from the investments made by the Financial Sustainability Committee are also included in this budget within the 'Corporate Income' line. A breakdown of these proposed income streams/costs for 2020/21 onwards is set out below:

Table 2 – Corporate Budgets

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|-----------------------------------|------------|--------------|--------------|----------------|
| | £000 | £000 | £000 | £000 |
| Fees & Charges | (40) | (150) | (200) | (250) |
| NHB to Parish and Towns | 708 | 252 | 143 | 0 |
| Interest Payments | 207 | 233 | 483 | 733 |
| Investment Income | (800) | (600) | (600) | (600) |
| Pension Fund deficit contribution | 715 | 734 | 754 | 976 |
| Corporate Saving proposals * | (200) | (400) | (600) | (800) |
| Corporate Income* | (300) | (600) | (900) | (1,200) |
| Total | 290 | (531) | (920) | (1,141) |

* see Table 7 below for more details

2.12

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 election year but a contribution is made to it every year. The proposed Reserve contributions are summarised in the table below for 2020/21 onwards. See appendix A for more detail.

Table 3 – Reserves Contributions

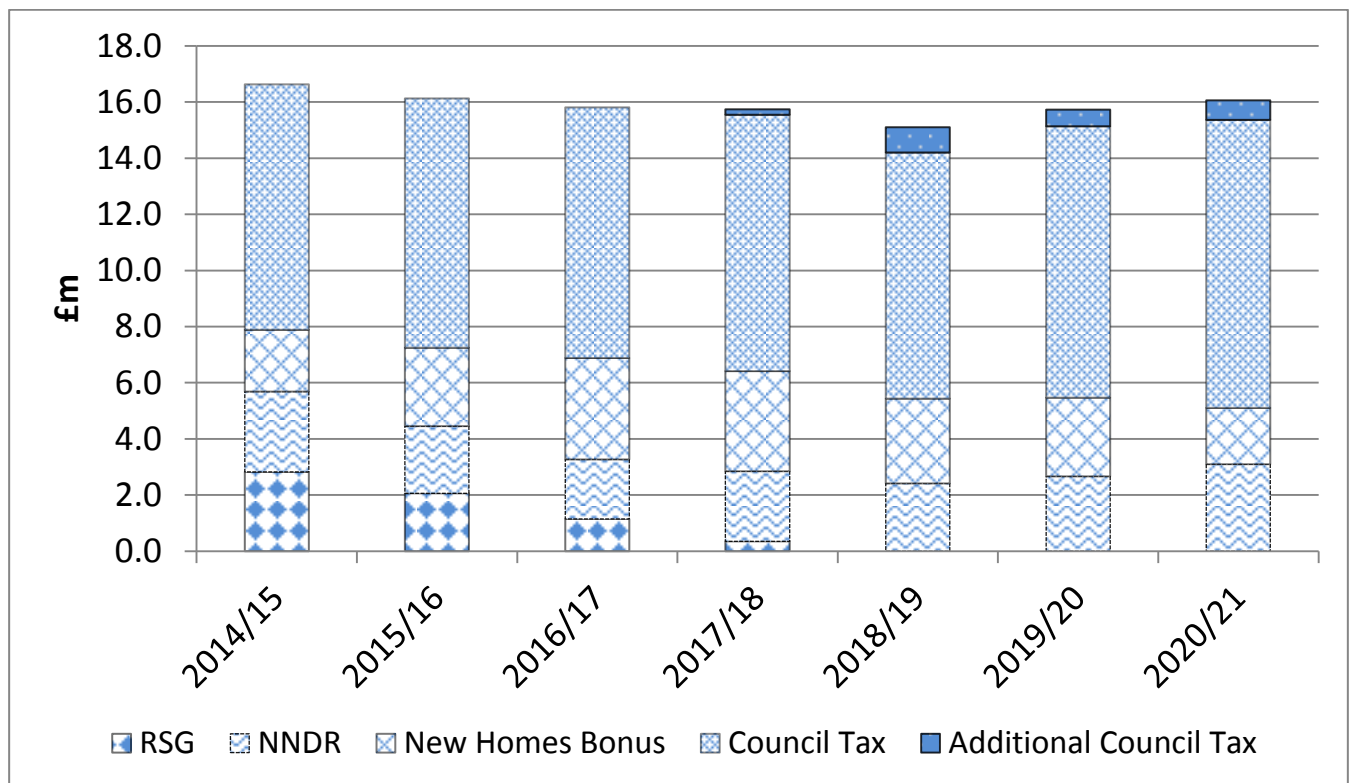
| | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|------------------------------|------------|------------|------------|--------------|
| | £000 | £000 | £000 | £000 |
| Contributions to Reserves | 1,645 | 797 | 580 | 151 |
| Contributions from Reserves | (913) | (499) | (223) | (273) |
| Net Reserves Movement | 732 | 298 | 357 | (122) |

2.13

**Sources of External
Funding**

The graph below shows the external sources of funding available to East Herts Council over the last 6 years and the projected available for 2020/21. The information demonstrates the reduction in centrally allocated grants and the increasing importance of income from local taxation. In periods shown in the graph, Council Tax funding has grown from 53% of total funding to 68% of total funding.

Table 4 East Herts Core Spending Power



Key

RSG – Revenue Support Grant

NNDR - National and Non-Domestic Rates

NHB – New Homes Bonus

Council Tax

Additional Council Tax - annual uplift of council tax

The previous Medium Term Financial Plans have built in a £5 increase in Band D equivalent Council Tax throughout the life of the plan. This ensures that Council Tax income is kept in line with the government’s expectations. This equates to a band D charge of £174.09 for 2020/21.

2.14 New Homes Bonus

- 2.14.1 In 2010 Central Government announced the introduction of the New Homes Bonus scheme (NHB) with the aim of encouraging local authorities to grant planning permission for housing developments.
- 2.14.2 The Government agreed to match council tax raised on each new house for 6 years, this was subsequently reduced to 4 years and a national baseline of 0.4% additional housing before NHB was available was introduced from 2018/19.
- 2.14.3 The NHB is not ring-fenced which gives the council flexibility on how to utilise the funding, however, NHB funding is not a guaranteed funding source for East Herts Council; the Spending Review 2019 statement highlighted this uncertainty and confirmed that legacy payments will be honoured but the scheme for 2020/21 is still for discussion with ministers. It is likely the New Homes Bonus Grant will cease to exist from 2023/24 so has been removed from the Medium Term Financial Plan.

2.15

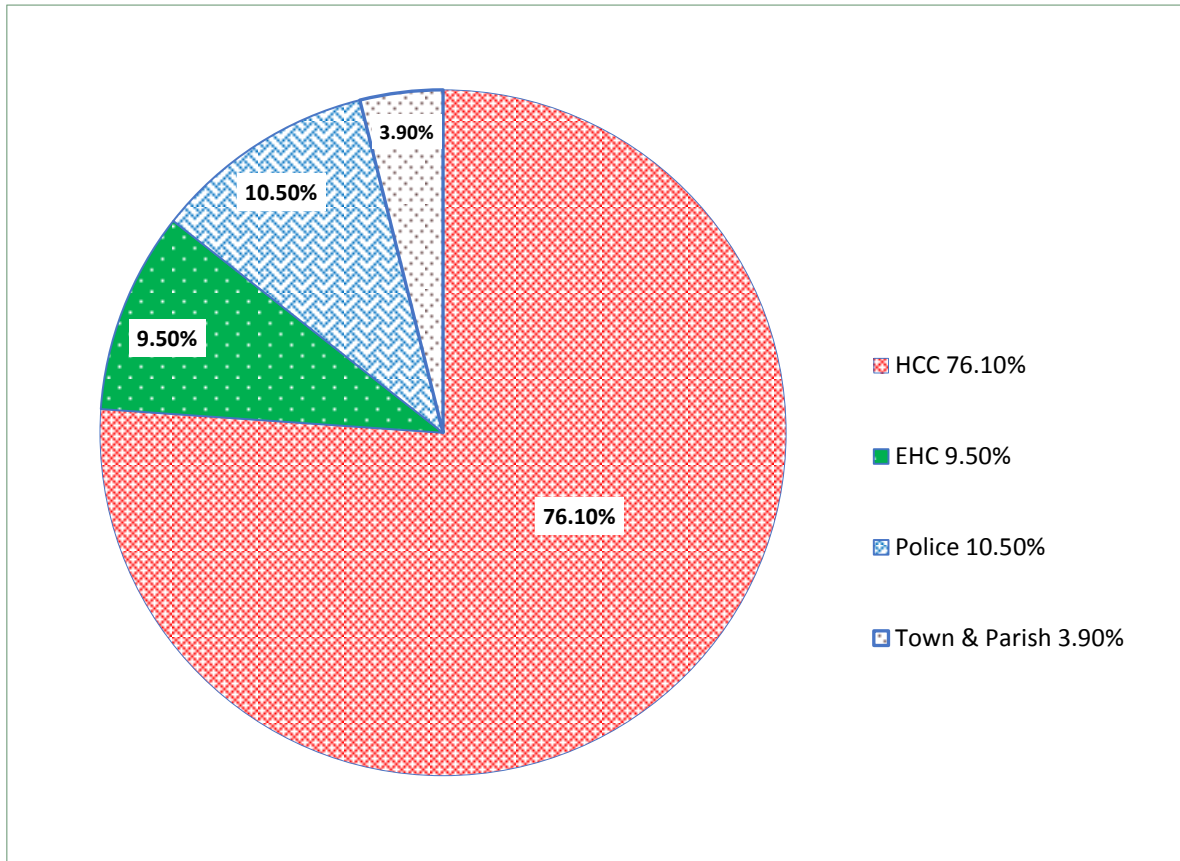


Council Tax

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

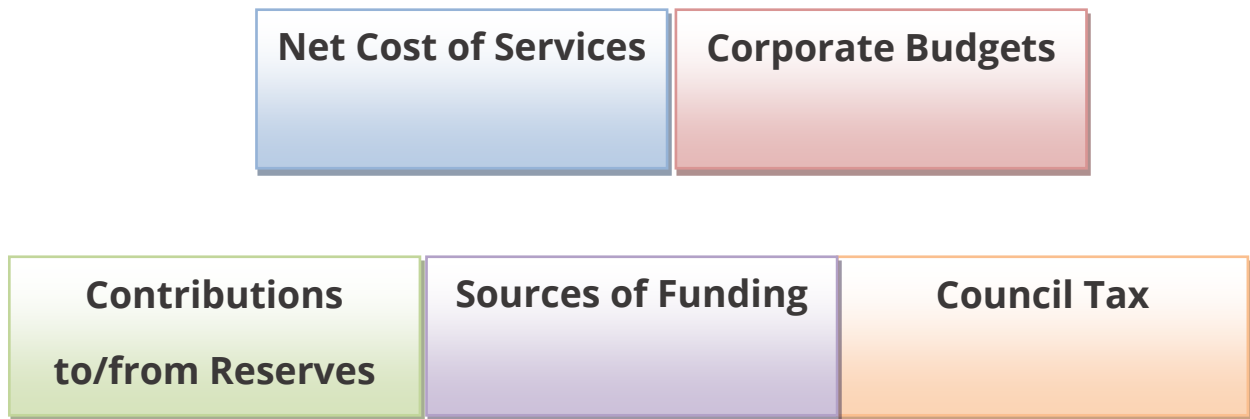
2019/20 is set out in the table below:

Table 5 – 2019/20 Council Tax Split



2.16 In setting the 2019/20 budget and onwards it was agreed that East Herts will increase its share of the Council Tax by £5 per year, the maximum increase allowed in any year without a referendum. This level of increase will be built into the Medium Term Financial Plan on an ongoing basis to mitigate the effects of the potential reductions from the Fairer Funding regime and changes to the Business Rates Retention scheme.

2.17 Consolidating the 5 Building Blocks of the budget



2.17.1 These five blocks make up the overall budget summary for 2020/21 as set out below:

Table 6 – Budget Summary

| | Revised Budget 2020/21 |
|---------------------------|---------------------------|
| | £000 |
| Net Cost of Services | 16,091 |
| Corporate Budgets | 290 |
| Contributions to Reserves | 732 |
| Total Expenditure | 17,113 |
| Sources of Funding | (6,256) |
| Council Tax | (10,667) |
| Revised Budget Gap | 190 |

2.18 Budget Pressures and Risks

2.18.1 The Council's Medium Term Financial Plan is a complex model subject to many factors and the forecasts are by necessity subject to continuous review and refinement to reflect the latest information as it emerges.

- 2.18.2 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.
- 2.18.3 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 but will be included as financial risks that, if costs materialise in year, will be met from the available reserves or balances.
- 2.18.4 Pay Awards / NJC Pay review
- 2.18.5 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.
- 2.18.6 In line with previous information, a salary increase of 2.75% has been assumed within the Medium Term Financial Plan budget planning process.
- 2.18.7 Inflation and Growth
- 2.18.8 Provision for inflation has been made in the MTFP for all contractual uplift costs based on terms and conditions set out in contractual agreements and for inflation on business rates in respect of council owned properties.

2.19 2020/21 Budget Preparation and Engagement

2.19.1 During October 2019, Members and Officers were encouraged to participate in a number of budget engagement workshops to look at the authority's Medium Term Financial Plan and to explore both money saving and money making opportunities to bridge the funding gaps in future years . These workshops looked at prioritising competing calls on expenditure in the future and exploring alternative income streams. The results feed into the 2020/21 Medium Term Financial Plan budget setting process.

2.19.2 The Budget Gap and Savings Proposals

2.19.3 An initial review of the Medium Term Financial Plan set out a funding gap of £1.037m attributable to 2020/21. The work carried out by officers has found solutions to some of the early year budget gaps especially in 2020/21. So, the budget has been re-evaluated and a summary of the budget gap and the required budget savings is shown on Table 7.

Table 7 – Budget Gap

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|-------------------|---------------------|---------------------|---------------------|
| | £000 | £000 | £000 | £000 |
| Budget gap @30.10.18 | 538 | 607 | 509 | 0 |
| Revised Service and Funding Pressures | 499 | 1,267 | 1,122 | 2,059 |
| Budget gap as at 01.11.19 | 1,037 | 1,874 | 1,631 | 2,059 |
| Additional Net Cost of Services changes | (106) | 0 | 0 | 0 |
| Budget Outturn realignment | (241) | 0 | 0 | 0 |
| Additional Millstream Income | (100) | (200) | (300) | (400) |
| Financial Sustainability Income | (200) | (400) | (600) | (800) |
| Car parking income | (200) | (400) | (600) | (800) |
| Revised Annual Budget Gap | <u>190</u> | <u>874</u> | <u>131</u> | <u>59</u> |
| Cumulative Budget Gap | <u>190</u> | <u>1,064</u> | <u>1,195</u> | <u>1,254</u> |

2.19.4 The budget paper for 2019/20 presented at Council on the 19th December 2018 detailed a number of potential savings projects that were investigated throughout 2019/20.

2.19.5 A Financial Sustainability Strategy 2019-25 (agreed by Council at its meeting on 5th March 2019) was adopted by the authority to be used as the key methodology for delivering the Medium Term Financial Plan 2020 onwards. This strategy is delivered by the Financial Sustainability Committee which considers various initiatives and manages an action plan on how the authority could raise income or reduce expenditure whilst still maintaining an expected level of service and not compromising the delivery of statutory services.

An additional £200k income is expected to be delivered per annum.

2.19.6 The directors of Millstream, the council's wholly owned company, have been asked to bring forward annual business plans to deliver an additional £100k income each year for the life of the Medium Term Financial Plan. The company's business plan for 2020/21 onwards will be considered at full Council on 29th January 2020 with revised business plan being brought to Council each year with proposals to ensure the level of income required by the council.

2.19.7 Car park charging has not increased for 6 years. It is proposed that a target of a minimum of £200k per annum is included within the budget report.

2.19.8 Table 7 shows the current budget position. 2020/21 has a budget gap of £190k that will need to be funded from savings. Appendix 'B' provides a number of potential solutions to this funding gap.

2.19.9 PAGO are requested to review these savings and recommend them to the Executive for consideration and onward transmission to Council for approval.

2.20 Reserves

2.20.1 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.

2.20.2 Table 3 in paragraph 2.12 sets out the proposed contributions to and from reserves over the next four years. It is anticipated that the New Homes Bonus Grant will cease to exist from 2023/24 so has been removed from the Medium Term Financial Plan.

2.20.3 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.

2.21 Capital Programme

2.21.1 The Capital Programme for 2020/21 to 2023/24 is included in this report at Appendix C.

2.21.2 The forecast outturn for the 2019/20 capital programme is £15.4m.

2.21.3 The details of any changes in planned expenditure for the Capital Programme are monitored and reported quarterly to Executive within the Budget Monitoring report.

2.21.4 Any slippage on significant capital projects during 2019/20 will be considered at the end of the financial year

2.21.5 The capital programme for 2020/21 onwards contains a number of newly agreed capital

schemes and also the rolling schemes agreed in previous years.

2.21.6 Currently the review of the Capital programme is undertaken as part of the quarterly budget monitoring 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.

2.21.7 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 budget monitoring report.

2.21.8 The complete proposed capital programme can be found in Appendix C including schemes already approved in previous years.

2.21.9 Prudential Code Implications

2.21.10 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.

2.21.11 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.

2.21.12 It is recommended that the capital programme being proposed in this budget report is affordable,

prudent and sustainable. The Treasury Management Strategy for 2020/21 will address any funding requirements for future years.

2.22 IT update

2.22.1 The ICT Partnership Strategy 2019/20 – 2021/22 was adopted by Council on 18th December 2019 and the Medium Term Financial Plan has been updated to include the revenue and capital investments set out in that Strategy.

2.23 2020/21 Revenue Schedule of Fees & Charges

2.23.1 The proposed schedule of charges are set out within **Appendix D**.

2.23.2 Table 8 below shows the impact of the changes proposed in the schedule of charges to the 2020/21 budget.

Table 8 – Fees & Charges

| SERVICE | 2019/20 budget | Impact of proposed average 2.5% charges increase | 2020/21 budget |
|--------------------------|------------------|--|------------------|
| | £ | £ | £ |
| Hertford Theatre | 158,500 | 4,000 | 162,500 |
| Clinical Waste | 50,850 | 1,300 | 52,150 |
| Domestic Waste | 82,600 | 2,100 | 84,700 |
| Commercial Waste | 769,250 | 19,400 | 788,650 |
| Env Health Promotions | 2,050 | 50 | 2,100 |
| Env Health Licences | 24,350 | 600 | 24,950 |
| Taxi Licensing | 148,500 | 3,750 | 152,250 |
| Development Management | 129,150 | 3,300 | 132,450 |
| Legal Fees | 32,300 | 800 | 33,100 |
| Markets | 12,000 | 300 | 12,300 |
| Residents Parking | 138,000 | 3,500 | 141,500 |
| Parking - Season Tickets | 32,550 | 800 | 33,350 |
| | 1,580,100 | 39,900 | 1,620,000 |

2.23.3 The fees and charges included in **Appendix D** have increased by an average of 2.5%, the estimated impact of this increase is additional income of £39.9k in 2020/21.

3.0 Reason(s)

- 3.1 The council is required to set a balanced budget in advance of the beginning of each financial year in accordance with the provision of the Local Government

Finance Act 1992.

4.0 Options

- 4.1 The budget process included consultation and discussion around alternative savings options. This paper presents the recommended options.

5.0 Risks

- 5.1 The Budget report considers emerging risks to the funding the council receives and sets out the mitigation of those risks.

- 5.2 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.

- 5.3 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
- 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 1992 for a balanced revenue position.

- 5.4 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.

6.0 Implications/Consultations

Consultation was undertaken with staff and members to assist in these budget options.

Community Safety

No

Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

All financial implications are included in this report.

Health and Safety

No

Human Resources

No

Human Rights

No

Legal

All statutory requirements have been considered in preparing this report

Specific Wards

No

7.0 Background papers, appendices and other relevant material

7.1 None, other than as listed at paragraph 2.8.

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