

East Herts Council Report

Audit & Governance Committee

Date of meeting: 9 November 2021

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

Report title: Budget 2022/23 and Medium Term Financial Plan 2022 – 2027 Preparation

Ward(s) affected: All

Summary – This report sets out the revised Medium Term Financial Plan (MTFP) which is based on a more favourable economic climate than when the current MTFP was prepared and approved by Council in March 2021. The report also seeks guidance to officers for preparing the detailed budget estimates and preparing a new MTFP to cover the period 2022 to 2027

RECOMMENDATIONS FOR AUDIT & GOVERNANCE COMMITTEE:

- a)** Note the Executive has agreed, as guidance to officers, that the budget proposals should be based on a Council Tax increase of £5, contract inflation up to 4%, no inflation in other goods and services budgets and that the provision for the national pay award will be up to 3% (effectively 2.75% as 0.25% of the pay provision this year will be carried forward as a result of the 1.75% final pay offer from the employer's side);
- b)** Note the comprehensive spending review savings to be implemented in 2022/23 and 2023/24 as agreed by Council in March 2021 and acknowledge the requirement of Council that

compensating savings, delivered to the same timescales, have to be put in place and reported to the next Council meeting should the Executive decide that any savings proposals should not proceed, or are reduced by 10% or more;

- c)** Welcome the Collection Fund updated estimate that the Business Rates deficit being spread over 3 years will be met in full by changes to the appeals provision removing a £0.900 million pressure on the General Fund and the forecast increase in Local Council Tax Support cases has not materialised and the Council Tax Base is now forecast to increase in future years;
- d)** Note the assumption that the Transforming East Herts Programme will not start to result in revenue savings until the latter half of 2022/23 and into 2023/24
- e)** Note Executive agreed: the re-phasing of the capital programme and revenue impacts of capital financing; that existing minor projects should be subject to a full value for money test before proceeding; and that no new projects may come forward for the capital programme unless they are able to cover the capital financing costs in full or mitigate significant increases in revenue costs;
- f)** Note the revised savings requirements of £0.967 million in 2022/23, £1.520 million in 2023/24 – 2025/26 rising to £1.901million in 2026/27; and
- g)** Note Executive agreed that all service areas should review fees and charges and ensure that, where the council has discretion to set the charge, that charges should be set so as to: recover full costs; concessions should be explicitly linked to an Equalities Impact Assessment; and that services which are not currently charged for the introduction of a charge should be considered unless the service is provided generally under a statutory provision.

1.0 Proposal(s)

- 1.1 The Medium Term Financial Plan (MTFP) presented to Council in March 2021 has been updated to reflect the emerging environment and financial situation as far as it is possible in the current uncertain times. The revised MTFP position is shown in Appendix A. This takes into account the rise in employer's national insurance contributions to fund the NHS and social care announced on 7 September 2021 which will cost the council £0.105 million initially.
- 1.2 The agreed comprehensive spending review savings are key to delivery of the budget strategy and the second year of the savings plan must be delivered in 2022/23. The savings plans are attached as Appendix B. Executive are recommended to acknowledge the requirement of Council that that compensating savings, delivered to the same timescales, have to be put in place and reported to the next Council meeting should the Executive decide that any savings proposals should not proceed, or are reduced by 10% or more. This acts to reinforce across the council the requirement to deliver the savings plan.
- 1.3 Following a review of the Collection Fund the £0.900 million deficit on Business Rates in 2022/23 and 2023/24 can be met by changes in the provision for appeals and uncollectible amounts. The assumption that Local Council Tax Support cases would increase substantially has not occurred as the economy has opened up and the furlough scheme wound down therefore additional growth in the council tax base is now forecast resulting in additional Council Tax income of £0.459 million.
- 1.4 Although 2022/23 is anticipated to be a one year settlement only and the business rates reset has been deferred, the

assumption going forward is that the business rates reset will occur in 2023/24 and the baseline for retention will be adjusted to take into account business rates freezes, so that the retention amount replaces the current section 31 grants. Section 31 grants are paid by MHCLG under section 31 of the Local Government Act 2003 (power of the Secretary of State to pay grants to local authorities). These section 31 grants compensate local authorities for business rates freezes and also additional reliefs awarded in past budgets. When business rates are reset it is assumed that these section 31 grants amounts will be rolled into the baseline retention amount (they are paid from the 50% business rates share MHCLG receives).

- 1.5 In line with expectations around the Fairer Funding Formula the council's share of business rates are forecast to reduce by £0.050 million per annum as the council is anticipated to be on the floor of the system and protected by transitional protection as it moves towards a lower funding settlement as the system is predicted to treat East Herts as a wealthy area which requires less funding to provide services.
- 1.6 The anticipated cash contribution to pay off the past service deficit arising in the pension fund has been reduced by £0.126 million to reflect stock market performance and the assumption that life expectancy is predicted to remain steady against the national backdrop of life expectancy falling, as a result of Covid 19, from 80 years to 78.7 years for men and from 83.7 years to 82.7 years for females. The lower life expectancy figures are the same as a decade ago.
- 1.7 The cumulative effect of the changes to planning assumptions is an improvement in the council's financial position of £0.375 million in 2022/2023 and £1.301 million in 2023/24. The original planning assumptions in March were suitably prudent

but the success of the NHS vaccination programme, the removal of most pandemic related restrictions and the better than anticipated economic recovery now means that the planning assumptions can be changed to reflect the current state of the national picture. There does however remain the risk that the virus mutates to become vaccine resistant and the financial and economic outlooks deteriorates rapidly, national lock-down is ordered, and the financial planning assumptions return to requiring significant savings in-year.

- 1.8 The council is committed to delivering 10,000 new homes as part of the Harlow and Gilston Garden Town Partnership. Currently planning costs for this are being funded by reserves. The reserves cannot continue to fund this as the scale and complexity of the proposals and the timescales for development delivery at Gilston are exceptional. There is an ambitious planning programme covering multiple work streams over the next two years, including: the preparation of the strategic landscape masterplan and masterplans for village 1 and 7 alongside the CPO process for the river crossings; discharge of conditions relating to the outline permissions; and submission of the first reserved matters application for village 1. There is also a complex and extensive s106 legal agreement that will need to be actively monitored and managed in parallel. The total cost of the development management cost pressure is £0.620 million after Planning Performance Agreements and Section 106 contributions.
- 1.9 There has been slippage on the capital programme in 2020/21 and therefore the capital programme requires re-phasing to reflect this and therefore the capital financing costs require re-profiling which may reduce costs in earlier years and increase them in later years. This will be done alongside work on the

capital programme during the budget estimate exercise to be completed during September and October and reported to the Audit & Governance Committee and Executive during November.

- 1.10 The council's capital programme has traditionally been financed through the significant capital resources that were achieved through the large scale voluntary transfer of the housing stock in 2002. Those resources have now been fully expended and capital expenditure can only be funded by either revenue or borrowing (with revenue implications in terms of Minimum Revenue Provision and interest costs). The current capital programme has effectively used up the borrowing headroom that the revenue account is able to sustainably resource in the medium term and it is vital that the capital programme is tightly controlled and that any additions should not increase revenue costs. Newly emerging policies and strategies should be framed in the light of capital resources being scarce and not creating a revenue pressure in future years. In the current environment a large number of councils are contemplating cancelling capital projects. East Herts is not in that position but there is no further capacity for additional significant projects in the medium term. Therefore the Executive is recommended to mandate that existing minor projects should be subject to a full value for money test before proceeding; and that no new projects may come forward for the capital programme unless they are able to cover the capital financing costs in full or mitigate significant increases in revenue costs. This may necessitate extending maintenance schedules and allowing some assets to deteriorate in the short term but the value for money review will take this into account and ensure that delay does not significantly increase costs in a few years' time.

- 1.11 The Transforming East Herts Programme will modernise the council and deliver services that are digital by default ensuring end to end services are available 24/7 on the web. Adopting hybrid working and adopting modern workspaces should result in space being available in Wallfields to rent out. Initial indications from letting agents are that after some modernisation the council could expect in the region of £0.090 million per annum for letting out a floor but that is subject to the office accommodation being modernised. Subject to benefits realisation plans being produced for projects it is anticipated that savings of £0.100 million will be achieved in 2022/23, a further £0.800 million in 2023/24 and the final £0.100 million in 2024/25. The £1.0 million savings target remains the minimum target for the Transforming East Herts Programme and further savings may result assisting with the savings targets in future years.
- 1.12 News Homes Bonus is forecast to end as a revenue stream to the council in this MTFP. The Government consulted on a changed New Homes Bonus distribution mechanism (the Government's response is awaited) but the new mechanism makes it unlikely that more than a handful of councils would be awarded any bonus due to the large increase in the "dead weight factor" (the assumed number of houses that would be built anyway) so that councils would have to specifically have awarded permission for significant numbers of houses which were built very quickly (probably through modern methods of prefabricated construction) in order to qualify.

2.0 Background

- 2.1 Significant uncertainty continues to dominate the context within which we are working towards delivering a balanced budget over the medium term. The ongoing impact of Covid-19

remains hard to predict, both in terms of the potential for further waves of infection, and the scale and nature of the undoubted far-reaching implications on our residents and businesses which will influence need and therefore demand for our services. The financial outlook remains unclear with a further one-year financial settlement anticipated for 2022/23 and key national reforms having been subject to further delay. The national policy agenda continues to evolve rapidly, with legislative and policy changes that respond to the UK's departure from the EU and new global positioning, societal changes brought and exacerbated by the pandemic, and the climate emergency. This is alongside a range of public service reforms signalled by Government, the impacts of which are not yet fully clear.

2.2 In developing our medium and longer term plans we will need to have regard to the broader context in which we will be working. This includes:

2.2.1 The impact of operating in an economy recovering from the Covid driven recession. The Government will have to consider how it begins to pay off the borrowing it has undertaken during the pandemic – this could mean a mixture of higher taxation, with possible impact on economic recovery, and reductions in public service expenditure. Both would impact on the Council's income and ability to spend;

2.2.2 The shape of the post-Brexit and post-Covid economic and policy agenda, the impact of new post-EU funding regimes and the Government's Levelling Up programme;

2.2.3 Specific uncertainty over the future of local government funding, and delays to key reforms. The level of Government funding that the council will receive from

2022/23 onwards is not confirmed; Spending Review 2020 was for a single year and therefore funding for this planning period will be announced at Spending Review 2021 which is likely to be in the autumn. Additionally, the Fair Funding Review and Business Rate Retention reform have now been confirmed delayed until at least 2022/23. These are significant areas of change that currently are not fully understood and cannot be fully quantified but will have potentially significant financial impact.

- 2.2.4 The lasting impact the pandemic will have on young people in terms of education and employment opportunities;
- 2.2.5 The growing impact of climate change, the national and local commitments to achieve carbon neutrality and the introduction of a range of new measures through the Environment Bill;
- 2.2.6 The impact of Government reviews and reforms of public services and changes in policy– for example changes to infrastructure, transport and planning and potential structural changes;
- 2.2.7 The ongoing need to support post-Covid recovery and adjustment, both in our services and for society and the economy, against a backdrop of residual risk of further waves of infection and the potential need for an ongoing vaccination programme; and
- 2.2.8 Reviewing the way that we work and accelerating our planned changes to move towards a more hybrid way of working, and evolving our working practices to ensure we have modern, flexible workspaces and workstyles as part of the Transforming East Herts Programme.

- 2.3 The Council's business and financial planning is underpinned by the Corporate Plan and its four priorities, which provide a clear focus for decisions about spending and savings and direct activity across the Council.
- 2.4 The four priorities are:
- 2.4.1 **S**ustainability at the heart of everything we do;
 - 2.4.2 **E**nabling our communities;
 - 2.4.3 **E**ncouraging economic growth; and
 - 2.4.4 **D**igital by default.
- 2.5 Officers will continue to explore options to further reduce net cost to meet the savings target for submission in the November Executive report. This will include examining non-statutory service provision levels and also reviewing and benchmarking contracts to ensure the prices remain competitive. A recent review of the office furniture contract resulted in an indicative 68% saving by switching to an alternative framework. A procurement strategy and indicative procurement timeline both featured in the improvements identified in the Annual Governance Statement endorsed by Audit & Governance Committee.

3.0 Reason(s)

- 3.1 The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, together with contributions from reserves, in order to determine a net budget requirement to be met by government grant, Business Rates and Council Tax.

4.0 Options

- 4.1 Given the financial outlook the Executive have very few options available to ensure a balanced budget. Any growth the

Executive wish to propose must be balanced by reductions elsewhere.

- 4.2 The Executive may propose a lower rate of Council Tax but this will result in additional savings requirements which will require significant changes to the service offer.
- 4.3 In order to draw up the detailed budget and MTFP the Executive were recommended to agree, as guidance to officers, that the budget proposals should be based on a Council Tax increase of £5, contract inflation up to 4%, no inflation in other goods and services budgets and that the provision for the national pay award will be up to 3% (effectively 2.75% as 0.25% of the pay provision this year will be carried forward as a result of the 1.75% final pay offer from the employer's side.
- 4.4 The Executive were also recommended to agree that all service areas should review fees and charges and ensure that, where the council has discretion to set the charge, that charges should be set so as to: recover full costs; concessions should be explicitly linked to an Equalities Impact Assessment; and that services which are not currently charged for the introduction of a charge should be considered unless the service is provided generally under a statutory provision. Where charges recover full cost they should rise by a minimum of 5%.

5.0 Risks

- 5.1 Significant uncertainty continues to dominate the context within which we are working towards delivering a balanced budget over the medium term. The ongoing impact of Covid-19 remains hard to predict, both in terms of the potential for further waves of infection, and the scale and nature of the undoubted far-reaching implications on our residents and businesses which will influence need and therefore demand for our services. The financial outlook remains unclear with a

further one-year financial settlement anticipated for 2022/23 and key national reforms having been subject to further delay. The national policy agenda continues to evolve rapidly, with legislative and policy changes that respond to the UK's departure from the EU and new global positioning, societal changes brought and exacerbated by the pandemic, and the climate emergency. This is alongside a range of public service reforms signalled by Government, the impacts of which are not yet fully clear.

- 5.2 The council faces contract cost pressures from shortages of HGV drivers as refuse freighters are classified as HGVs and the haulage of waste from waste transfer stations requires HGV drivers which means costs pressures from short notice requirements to tip at alternate waste transfer stations. Costs may also increase due to supply chain shortages as a result of HGV driver shortages, Brexit trade delays and import/export documentation and global delays as a result of the Suez Canal being blocked earlier in the year causing shipping schedule delays.
- 5.3 The Harlow and Gilston Garden Town Partnership central staff has been funded by MHCLG but this has been on the basis of a bid basis and funding is not certain. MHCLG has indicated it may not continue to provide funding and there is a high risk that the central costs of £1 million per year may fall on the partners or that the policy and co-ordination work will have to stop which may be detrimental to the overall delivery and vision for the Garden Town.
- 5.4 The adequacy of the General Fund balance to meet unexpected expenditure will be considered by the Head of Strategic Finance and Property and be reported to Council as part of his report under Section 25 Local Government Act 2003 on the

robustness of the estimates made in drawing up the budget and the adequacy of the proposed level of reserves.

6.0 Implications/Consultations

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

Community Safety

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

Data Protection

No

Equalities

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

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

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

Environmental Sustainability

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

Financial

These are contained in the main body of the report.

Health and Safety

No

Human Resources

The budget will provide a provision for a pay award of up to 3% but the actual award is subject to national NJC negotiations. This provision is set in the light of forward inflation estimates for September 2021 in the Bank of England Monetary Policy Report August 2021.

Human Rights

No

Legal

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

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

Section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer to report to the Full Council if there is or is likely

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

Specific Wards

No

7.0 Background papers, appendices and other relevant material

Appendix A – Medium Term Financial Plan Initial Projection

Appendix B – Savings Plan agreed at Full Council March 2021

Contact Member

Cllr Geoffrey Williamson

Geoffrey.Williamson@eastherts.gov.uk

Contact Officer

Steven Linnett, Head of Strategic Finance and Property

01279 502050

Steven.Linnett@eastherts.gov.uk

Report Author

Steven Linnett, Head of Strategic Finance and
Property

Steven.Linnett@eastherts.gov.uk