

East Herts Council Report

Audit & Governance Committee

Date of meeting: 15 November 2022

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

Report title: Budget 2023/24 and Medium Term Financial Plan 2023 – 2028 Preparation

Ward(s) affected: All

Summary – This report sets out the revised Medium Term Financial Plan (MTFP) which is based on a less favourable and fundamentally more uncertain economic and policy climate than when the current MTFP was prepared and approved by Council in March 2022. The report also sets out Executive’s guidance to officers for preparing the detailed budget estimates and preparing a new MTFP to cover the period 2023 to 2027

RECOMMENDATIONS FOR AUDIT & GOVERNANCE:

- a)** Note that Executive 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 4%;
- b)** Note the assumption that the current local government finance system will continue for a further year and the windfall New Homes Bonus payment will be used to set aside £400k in reserves to meet part of the estimated cost of the refresh of the

District Plan with the remainder being used to support the budget through the exceptional circumstances of the current economic and political climate as detailed in Appendix B to the report;

- c) Note the savings requirements that the Transforming East Herts Programme will need to deliver in order to balance the budget in the Medium Term
- d) Note that Executive agreed that officers re-phase the capital programme and revenue impacts of capital financing and make recommendations about schemes that could be delayed or cancelled to reduce the savings requirements;
- e) Note the revised savings requirements of £0.812 million in 2023/24, £2.050 million in 2024/25, £2.114 million in 2025/26, £0.792 million in 2026/27 and £0.268 million in 2027/28.

1.0 Proposal(s)

- 1.1 The Medium Term Financial Plan (MTFP) presented to Council in March 2021 has been updated to reflect the less favourable and fundamentally more uncertain economic and policy climate. The revised MTFP position is shown in Appendix A. This takes into account the costs of the 2022/23 employer's pay offer to the unions which was £311,860 more than the budget provision. This causes compound increases in future years of the MTFP. Contract inflation was set at 4% for 2022/23 and actual inflation has been much more – in the case of the refuse contract 9.9%. Again this increased contract inflation of £529,632 causes compound increases in future years of the MTFP.
- 1.2 A number of key assumptions have been made in refreshing the MTFP and these are detailed in the following paragraphs. Please refer to the detailed economic and policy environment detailed in Appendix B for the planning context.

- 1.3 The Council Tax Base due to be set at Council in December is currently estimated to improve on the current MTFP assumptions and is provisionally 63,891.9. The assumption is that Local Council Tax Support cases will increase by 10% but there has been and is forecast to be additional growth from new properties.
- 1.4 Council Tax increases remain at the MTFP plan assumption of £5 per year, the maximum increase before a referendum is triggered. There are no signals from Government that there will be any increase above the £5 limit.
- 1.5 Although government have given a strong commitment to update the current local government funding regime, it is becoming increasingly unlikely that reforms will be implemented in 2023/24 due to the lack of time available to undertake a full consultation and implement major funding changes. The MTFP has therefore been updated to reflect the impact of a delay to funding reform to 2024/25 on current grant funding and future implementation.
- 1.6 The current planning assumptions on Revenue Support Grant (RSG) reflect actual inflation reported in September and Spending Review announcements. Ahead of funding reform and a multiyear settlement, the government has compensated for the mechanism which creates negative RSG in some authorities. The current assumption is that government will continue to compensate for negative RSG in the same way it has done in the recent years, before the RSG is reviewed as part of funding reform.
- 1.7 As part of the £1.6bn new Government Grant funding announced at SR21, the Council was allocated a one year Services Grant of £411k. The MTFP has been updated to reflect

LG Futures consideration that in the event of no funding reform this grant will continue in full.

- 1.8 New Homes Bonus (NHB) was due to end in 2021/22. However, in line with funding reform being delayed the cessation of NHB has also been delayed. The MTFP has therefore been updated to assume an additional year in advance of the implementation of funding reform. The forecast is based on a combination of historic average and share of the total anticipated national pot.
- 1.9 When the new system is introduced from 2024/25, 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.
- 1.10 The anticipated cash contribution to pay off the past service deficit arising in the pension fund has been kept at the same amount as the previous MTFP. The Actuary is completing the triennial revaluation of the fund and the actual deficit cash payment will be fed into the budget and MTFP once it is known.
- 1.11 Pay inflation, already increased by the 2022/23 employer's pay offer was originally set at 2% for 2023/24. In line with inflation forecasts this has been increased to 4% in 2023/24 and remaining at 2% in future years. Contract inflation was set at 4% in 2022/23 and 2.5% thereafter. Given the actual inflation in 2022/23 the inflation provision has been increased across each year to reflect the 9% increase on the base. In addition the inflation for 2023/24 has been increased from 2.5% to 4%.
- 1.12 The delay in Hertford Theatre has meant that the net income stream for the theatre has been moved back to 2025/26. The £1

million additional funding for weekly food collections has been moved from 2024/25 to 2025/26 to reflect the anticipated start of the new refuse, recycling and cleansing contract. In addition, a further £1 million has been added to the budget to meet potential increases in the contract costs going forward.

1.13 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 October and November. Alongside this, the viability of schemes will be tested and some non-major schemes may be recommended to be delayed, or stopped, or we may take a scheme to planning permission and then seek to sell the site with planning permission thus increasing any capital receipt. Alongside the MTFP an asset strategy will be developed with an emphasis on disposals to maximise capital receipts and replace borrowing thus reducing revenue costs of servicing debt.

1.14 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 may need to consider cancelling non-major projects and there is absolutely no further capacity for additional significant projects in the medium term.

- 1.15 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. To be absolutely clear, there will still be a customer contact centre with members of staff on the telephone for those residents who cannot use digital services and need a customer contact agent to deal with complex queries. Adopting hybrid working and adopting modern workspaces should result in space being available in Wallfields to rent out. Given that other authorities have gone further than our 50/50 model and allow staff to work from home 100% of the time we may have to consider whether to expand home working in order to radically reduce the office accommodation requirement to make further savings.
- 1.16 There are two possible significant sources of additional revenue not included in the MTFP due to the fundamental uncertainty of the amounts and timing. The Levelling Up Bill indicates a potential 35% increase in planning application fees that would yield about £460k of additional income. There is no New Burdens Funding in the MTFP for 25/26 onwards for changes to refuse and recycling. This could assist with the cost of the refuse contract.

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. Appendix B sets out further detail on this. The financial outlook remains unclear with a further one-year financial settlement anticipated for 2023/24 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 new government's agenda the impacts of which are not yet fully clear.

- 2.2 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.
- 2.3 The four priorities are:
- 2.3.1 **S**ustainability at the heart of everything we do;
 - 2.3.2 **E**nabling our communities;
 - 2.3.3 **E**ncouraging economic growth; and
 - 2.3.4 **D**igital by default.
- 2.4 Officers will continue to explore options to further reduce net cost to meet the savings target for submission in the December Executive report. This will include examining non-statutory service provision levels and also reviewing and benchmarking contracts to ensure the prices remain competitive. Given the financial position, which all the districts and boroughs in Hertfordshire are also facing, East Herts, as they are, will need to now consider the service offer to residents as no longer being protected and hard decisions lie ahead for Members as a result of the economic shocks buffeting the country.

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 and the revenue foregone from Council Tax will be lost in perpetuity.
- 4.3 In order to draw up the detailed budget and MTFP the Executive are 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 4%.

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 financial outlook remains unclear with a further one-year financial settlement anticipated for 2023/24 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 new government's agenda, the impacts of which are not yet fully clear.
- 5.2 The council faces recruitment and retention problems and will need to consider ways to deal with this which is affordable and sustainable.
- 5.3 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 – Detailed planning context

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