East Herts Council Report

Council

Date of meeting: 28 February 2024

Report by: Councillor Carl Brittain, Executive Member for Financial Sustainability

Report title: Budget 2024/25 and Medium Term Financial Plan 2024 – 2034

Ward(s) affected: All

Summary – This report sets out the revised Medium Term Financial Plan (MTFP) and options to balance the budget in 2024/25 and 2025/26. The council's financial position will remain uncertain until the final Local Government Finance Settlement is published and officers have completed the NNDR1 forecast of business rates for 2024/25. Since the current MTFP was approved by Council on 1 March 2023, the financial situation facing local authorities has worsened, with inflation, particularly the pay award and major contract inflation, exceeding the provisions in the budget for the second year running. The council has also been subject to continuing real terms reductions in resources from Government and council tax increases have also been constrained and only been allowed at below inflation levels. This revised MTFP presents Members with difficult decisions to take to ensure the council can meet its financial commitments and remain financially sustainable. Budget proposals have been prepared so that services to vulnerable residents are protected.

RECOMMENDATIONS FOR COUNCIL:

a) To approve the budget and Medium Term Financial Plan at Appendix A, the savings programme at Appendix C, the Fees and Charges at Appendix F and increase Council Tax by 2.99%, which will result in a Band D Council Tax increase of £5.65 to £195.52 per year.

b) Note the proposed savings requirements, that will need to be delivered to balance the budget in the medium term:

	2024/25	2025/26	2026/27	2027/28
	£(000)	**£(000)**	**£(000)**	**£(000)**
Gross Savings requirement	**1,186**	**5,606**	**5,606**	**6,132**
Savings plans 2024/25	(1,186)	(4,195)	(4,195)	(4,424)
Savings not yet identified:				
2025/26 savings to be identified		***(1,411)***	***(1,411)***	***(1,411)***
2027/28 savings to be identified				***(526)***

c) Approve the amended Capital Programme at Appendix B which pauses the Old River Lane Arts Centre, reducing revenue costs of Minimum Revenue Provision and interest by £1,514k per annum on current interest rates, a total saving of £7.442 million of over the MTFP period. Comment on the capital expenditure priorities:

i. essential property maintenance to meet statutory requirements or to prevent loss or damage to neighbouring properties;

ii. investment in ICT to continue but that the budget carry forward that has not been used for two years is deleted;

iii. invest to save initiatives where the business case indicates that the cost of the investment will be recovered in under 10 years;

iv. to allow pausing of construction of the Arts Centre at Old River Lane until such time as debt levels have fallen sufficiently to make the revenue impacts of new borrowing affordable while at the same time undertaking landscaping works on the arts centre site so that it is an attractive site rather than an undeveloped area blighting the retail and commercial units in the City Heart scheme;

v. provide up to £170k for essential maintenance works for the URC Church Hall in Bishop's Stortford;

vi. completion of Hertford Theatre, at as low a cost as possible, so that the entire venue is opened and run on a strictly commercial basis to maximise income; and

vii. investment in depot works and waste containers for the new waste and recycling contract.

d) Note the implication of the Autumn Statement that a further round of austerity is proposed by the Government and that the two major parties seem intent on keeping to the announced expenditure totals which will severely reduce government funding and inevitably require service cuts.

1.0 Proposal(s)

1.1 The current Medium Term Financial Plan (MTFP) approved by Council in March 2023 has been updated to reflect current inflation impacts and the announced well below inflation increase in local government resources.

1.2 The financial situation facing local authorities has worsened over the last year with inflation, particularly the pay award and major contract inflation, exceeding the provisions in the budget for the second year running. The council has also been subject to continuing real terms reductions in resources from Government and council tax increases have also been constrained and only been allowed at below inflation levels.

Budget pressure mitigation that has been built into the proposed MTFP update

1.3 Officers have identified several mitigating measures which have been built into the proposed revised financial forecast – in summary:

1.3.1 the increase in planning application fees has been fed into the resource model;

1.3.2 higher treasury income from higher interest rates has been factored in;

1.3.3 the previous assumption of government funding declining in real terms has been replaced with the announced 3% increase in 2024/25 and an increase of 2% in 2025/26 followed by a cash freeze thereafter. That said, following the Autumn Statement which signalled a return to austerity, this assumption may be too optimistic. The impact of a 35% reduction in funding spread over the four years from 2025/26 has been modelled and the impact of this is included in the Risk section;

1.3.4 the proposal that the Arts Centre element of the Old River Lane urban renewal scheme is postponed until the borrowing to construct the building becomes affordable. In the interim, it is proposed that a civic square would be constructed with services for the new arts centre provided in one corner of the square to promote the overall CityHeart scheme. Capital expenditure on the Old River Lane Scheme contains capitalised salaries of officers managing and monitoring delivery of the scheme of £500k per year, split between the main CityHeart development and the Arts Centre site; and

1.3.5 at least £6 million of capital receipts are generated and are used to reduce the capital financing requirement and pay down external debt while enabling the capital investment priorities in the proposed MTFP to be delivered. Debt financing is held as a corporate cost in accordance with the accounting code of practice so this will reduce the corporate level of debt. Officers have identified another £4.6 million of potential asset sales and it is proposed that those receipts are used to finance the capital programme avoiding £392,533 per year in borrowing costs.

Assumptions within the MTFP following mitigation

1.4 The revised MTFP position is shown in Appendix A. Several key assumptions have been made in refreshing the MTFP and these are detailed in the following paragraphs.

1.5 The proposed MTFP takes into account the costs of the 2023/24 pay settlement which was more than the budget provision as well as the effects of inflation.

1.6 The Council Tax Base due to be set at Council in December is currently estimated to improve on the current MTFP assumptions and is 64,809.9. The assumptions provide for a prudent level of increase in the tax base overall whilst avoiding a potential Collection Fund deficit in 2024/25. Should the estimate of new properties fail to materialise or there is an upswing in Working Age Local Council Tax Support claims then this will result in a Collection Fund deficit which will be apportioned between East Herts, the County Council and the Police and Crime Commissioner according to the statutory calculation based on Council Tax Precepts and Demands. The growth assumptions in the tax base calculation have been set prudently to avoid optimism bias at 500 new properties per year.

1.7 The provisional local government finance settlement confirmed planning assumptions on Retained Business Rates, Revenue Support Grant (RSG) and other grants were rolled forward and the 3% increase, already announced by ministers, was confirmed.

1.8 New burdens funding for the introduction of food waste collections for capital items such as vehicles and containers was announced with East Herts being given £1.5 million. The actual new burdens funding for on-going revenue costs will be announced as part of the 2025/26 settlement. The grant has been used to fund capital expenditure by a charge to revenue.

1.7 The cash contribution to pay off the past service deficit arising in the pension fund is as per the just completed triennial revaluation of the fund. For budgetary purposes this figure is rolled forward over the life of the MTFP but will in reality be reset in 3 years' time at the next triennial revaluation.

1.8 Pay inflation, in line with inflation forecasts has been set at 5% in 2024/25 but remaining at 2% in future years. Contract inflation has been set at 4% in 2024/25 and 2% thereafter.

1.9 The resulting savings requirement was met by a combination of savings proposed by the Leadership Team, which are being implemented under the scheme of delegation and do not require Member approval, with the balance coming from savings proposed in Appendix C. The savings under delegation can be summarised as shown in the table below:

	2024/25	**2025/26**	**2026/27**
	£(000)	**£(000)**	**£(000)**
Transforming East Herts: transition to future operating model	(250)	(500)	(500)
Transforming East Herts: Shared Revs and Bens Service Review	(200)	(225)	(425)
Transforming East Herts Digital changes	(128)	(148)	(148)
Transforming East Herts: Commercial projects	(145)	(302)	(331)
Efficiency – ending paid overtime	(200)	(200)	(200)
Efficiencies – other efficiencies	(180)	(214)	(214)
TOTAL	(1,103)	(1,589)	(1,818)

Progress on the Transforming East Herts Programme will be reported to Executive and Audit & Governance Committee later this year.

1.9 The Transforming East Herts Programme is designed to 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 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/or need a customer contact agent to deal with complex queries. The speed at which services are made digital is likely to be increased from April 2024 when the new card payment system goes live, the current system cannot take on new payment funds and is also not compliant with industry standards. Officers are looking at how best to increase the roll out of digitisation and the removal of manual processes. Further information on the programme can be found here.

1.10 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.

1.11 Members will be aware by now that there may be a need to borrow for capital investment but that this should only be where doing so yields savings over and above the costs of that borrowing. There is absolutely no further capacity for significant additional borrowing for new projects that do not make a positive return in the medium term. An example of an invest to save bid is where the council may purchase refuse vehicles at the start of the new contract where we can demonstrate that the saving covers the borrowing costs and makes a further saving by doing so. Officers have also identified a further £4.6 million of assets to be sold which would be used to finance the capital programme and save a further £393k in new borrowing costs.

1.12 There is one possible significant source of additional revenue not included in the MTFP due to the fundamental uncertainty of the amounts and timing. This is the extended producer responsibility regime. This has been delayed by DEFRA until 2025/26 but under this scheme the producers of cardboard packaging would be required to pay for the waste they introduced into the waste stream and so cash payments would be made to the council based on tonnages collected.

Revenue savings requirement

1.15 To balance the budget a further set of savings requiring Member authorisation was considered by the Executive. The savings to be recommended to Council are in Appendix C. Savings which are not recommended by the Executive, at this time, are in Appendix D.

2.0 Background

2.1 Significant uncertainty continues to dominate the context within which the council is working towards delivering a balanced budget over the medium term. The financial outlook remains unclear with a further one-year financial settlement anticipated for 2024/25 and, officers anticipate, in 2025/26 as either a new incoming government will not have had time to consider reform to the system or if the general election is held on the last possible day then the draft settlement will be issued by the outgoing government and the incoming government will have no time to do anything other than confirm that draft settlement. There is uncertainty whether key reforms to the financing of local government will be progressed and in particular any change from the current business rates system to a different form of property taxation for non-domestic properties. No party has declared a position on changing Council Tax which is not fit for purpose having never been subject to revaluation.

2.2 The council's business and financial planning is underpinned by the Corporate Plan and its priorities, which provide a clear focus for decisions about spending and savings and direct activity across the Council. The new Corporate Plan will be presented alongside the budget for consideration by Council on 28 February 2024.

2.3 Officers will continue to explore options to put to members to further reduce net cost to meet the savings targets. Given the financial position, which all the districts and boroughs in Hertfordshire are also facing, East Herts Council can no longer seek to protect the service offer to residents and hard decisions are required for this budget and future budgets.

2.4 This report was considered by Audit & Governance Committee at its meeting on 30 January 2024 and there were no comments to bring to the attention of council.

3.0 Reason(s)

3.1 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 there are limited options available to ensure a balanced budget. Any growth will need to be balanced by reductions elsewhere.

4.2 Members may propose a lower rate of Council Tax but this will result in compound revenue foregone from Council Tax which will be lost in perpetuity. This option, given the risks and uncertainty over the local government finance system, could lead to technical insolvency being reached years earlier under the 35% grant reduction scenario – see the risks section.

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 for 2024/25 and key reforms to the local government finance system now awaiting the result of the general election. The Autumn Statement spending totals for the next few years implies real terms reductions for local government funding. The Labour Party has committed to keeping to the spending totals announced in the Autumn Statement so we must assume that if either the Conservatives or Labour win the next general election that government funding will not rise.

5.2 The MTFP is based on a cash freeze in government grants which would produce a real terms reduction in each year. We have assumed that this is the path government will take because the scenario of a repeat of funding reductions seen after 2010, the austerity period, will not be implemented as it would likely lead to the majority of local authorities becoming technically insolvent.

5.3 Officers have modelled an austerity 2 scenario of a 35% reduction in local government funding spread over 4 years from 2025/26 and the savings requirement would increase by £1.6 million in 2025/26 and imply spending on services being reduced to £13.8 million. Given that the spending on outsourced services will be c. £8.5 million and the ICT Shared Service spend will be c.2.9 million, that leaves £2.4 million to spend on directly provided services. Based on that figure it is difficult to envisage how services could be reconfigured within that resource envelope to deliver statutory service levels.

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. However, the council has historically had relatively low levels of reserves, as a result of the Large Scale Voluntary Transfer of council housing receipt from 2001, which created a negative Capital Financing Requirement of -£65 million which meant that capital expenditure could be incurred without any need to make Minimum Revenue Provision or set aside interest at the prevailing treasury rate. That negative Capital Financing Requirement has been used to support the capital programme in the last council and there is now a positive Capital Financing Requirement. The current earmarked reserve levels will be reduced in 2023/24 with the use of £3 million to fund Hertford Theatre. However, this will be repaid within 10 years as result of the capital receipts being applied to reduce debt levels and Hertford Theatre being put onto a commercial operating basis. The council will need to consider, if government funding or council tax referenda principles change to permit larger increases, whether the additional income is prioritised to build reserves levels up or is expended on services or to support new borrowing in the capital programme. As it stands, any large scale financial shock to the funding system could not be mitigated

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

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 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 – Budget and Medium-Term Financial Plan

Appendix B - Capital Programme

Appendix C – Recommended savings for Member Approval

Appendix D – Savings not recommended by Executive at this time.

Appendix E – Earmarked Reserves

Appendix F – Fees and Charges

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