

Report of the section 151 Officer under Section 25 Local Government Act 2003

- 1 Section 25 of the Local Government Act 2003 requires the Council's section 151 Officer to report to Council on the following matters at the time the Council is making calculations under section 32 of the Local Government Finance Act 1992 (determination of the council tax requirement):
 - a. The robustness of the estimates made for the purpose of the calculation; and
 - b. The adequacy of the proposed level of reserves.
- 2 In coming to a conclusion about the robustness of the estimates, the Section 151 officer has to assess the risk of over or under spending the budget. Budgeting practices should ensure that sufficiently prudent provision is made for costs and income that are foreseeable and relatively certain.

Report Summary

- 3 The section 151 officer has concluded:
 - a. The estimates contained within the recommended budget to Council are robust for the purposes of the calculation of the Council Tax;
 - b. The forecast reserves are adequate to meet unforeseen events or emergencies arising during 2024/25;
 - c. Providing that:
 - i. the 2024/25 savings plan is delivered;
 - ii. over the next 9 months, work on the 2025/26 savings plan confirms delivery of those savings
 - iii. savings proposals to close the current 2025/26 budget gap of £1.114 million plus any savings in the current plan which are found to undeliverable

then, in the Section 151 officer's opinion, the forecast reserves are adequate in the medium term. In the long term the council needs to

build up more adequate levels of reserves to provide sufficient buffer against unforeseen events; and

- d. The recommended minimum General Fund Balance is £3.050 million. The current balance is £3.854 million.

Employee Costs

- 4 The council, in common with most other local authorities, budgets for staff on the basis that all posts are fully funded for the year. This has the advantage of allowing posts to be advertised during the notice period of any employee and replacements to come into post quickly. It also provides flexibility should agency staff be required to temporarily fill posts. A percentage vacancy factor is used to take account of the time lag in filling vacant posts. The use of a vacancy factor carries the risk that if turnover falls there will be requirement for “vacancy freezes”. This is judged to be low risk.
- 5 Each post in the establishment is costed at actual spine column point with relevant on-costs being added. Where a post is vacant then that post is budgeted for at the mid-point of the salary range in order to provide flexibility around starting pay or to provide budgetary provision for temporary cover. In the opinion of the Section 151 officer, this is a robust calculation for the purposes of the estimates.
- 6 There is a provision for a pay increase of up to 5% built into the salary estimates. The council is part of the National Joint Committee (NJC) collective pay bargaining arrangements between local authorities and trade unions and therefore the final pay award is determined by the NJC. With the cost of living crisis and the cumulative below inflation pay increases of the last decade, which makes recruitment and retention difficult, there is a medium to high risk that the pay award may be for more than the provision in the budget and the council is contractually bound to pay the award. Part of the rationale for the minimum General Fund balance is to provide an amount that can be drawn upon in year to meet the additional costs.

Running Expenses

- 7 The Council includes provision for price increases in service budgets that covers major outsourced contracts and utilities. This is based on known

inflation such as inflation clauses in contracts or inflation estimates from our Treasury advisors. All other supplies and services inflation is for service areas to absorb or to be contained through procurement savings. There is a risk inflation may increase during the course of the financial year, but indications are that inflation will continue to fall over the year. The Council maintains reserves and contingencies in order to mitigate the potential effect of this.

Major Contracts

- 8 There are agreed inflationary increases built into the major contracts and the estimates include inflation increases of up to 4%. Furthermore, some contracts have cost step changes linked to new properties, e.g. refuse and recycling collections. Contracts due for renewal do present a risk that costs may increase. Reserves are held for supplier failure risks and part of the General Fund Working Balance is retained to cushion any increases. Major contracts also stipulate non-performance bonds which the council would use to provide a temporary service until a procurement exercise had taken place.

Demand led expenditure budgets

- 9 The key demand led expenditure budgets are for housing benefits payments, Local Council Tax Support Scheme discounts and payments for temporary accommodation for homeless persons. These budgets have been set on the best information available and projections using professional judgement. The Council is reimbursed by central government for housing benefit payments. With working age claimants having transitioned to Universal Credit, over the medium term only pensioners will remain on housing benefit. Local Council Tax Support Scheme awards are given as a discount in the Collection Fund and increases in claimant numbers will result in the Council Tax Base reducing and lower income from Council Tax. For 2024/25 we have forecast an increase in Local Council Tax Support Scheme awards to reflect the balance of risks between economic growth and recession. The increase also balances out any potential optimism bias in growth estimates of new properties. Experience from the 2008 financial crash indicates that the main risk to the Tax Base will be in 2024/25 as housebuilders will have completed properties already under construction but may suspend build

out of further phases until the market picks up. Visits by Revenues Officers to inform the estimates of new build properties within the Council Tax Base reflect the plans that site managers have expressed for activity over the next 12 months.

Waste and Recycling

- 10 The garden waste service price was held at £49 in 2022/23 and 2023/24 and will be held at the same price in 2024/25 for garden waste collection to those households that opt to have this service. The figures in the budget are based on 50% of households taking up this service. This percentage is based on initial take up of the charged for service in 2021/22 and there is a low to medium risk that take up could be lower. The charge will be recalculated once the refuse, recycling and streets contract is awarded in May 2024
- 11 In the medium term, there is a medium risk of cost increases resulting from the Government's Waste Strategy which mandates the collection of food waste. The council has received £1.5 million capital funding grant towards the costs of caddies and vehicles. The government has stated that new burdens funding will be added to the council's baseline funding assessment for on-going running costs but there is medium risk that this will not meet all the costs of the new service. The MTFP does not include an estimate of the on-going new burdens funding as it is not possible to tell if the government will use a bespoke allocation model or distribute it through the grant formula.

Income from car parking

- 12 The tariffs for car parking have been increased by 6.7% in line with the charges policy of the higher of CPI inflation or 2%. The intention of the policy is to eliminate the current subsidy for on street car parking from the Council Taxpayer. With the changeover post-pandemic to a mixture of home and office working and reductions in commuting there is a low to medium risk of the budget not being achieved in 2023/24 and additional income generation from the car park estate is being investigated to mitigate

Planning application fees

13 Planning application fee income is driven by market conditions. Current Construction Products Association forecasts for the construction industry are:

- a. 2024 – 2.1% decrease in output; and
- b. 2025 – 2.0% increase in output.

14 Fees for submitting planning applications are determined nationally by DLUHC and fees increased in January 2024 by 35% for major applications and 25% for all other applications. The achievement of the budgeted income depends on activity in terms of the number and types of application. Based on the District Plan, where all except 2 of the major sites and Gilston have had permissions, based on output forecasts it is reasonable to expect major application numbers to be very low but during housebuilding recessions the number of householder applications has usually increased. There is no guarantee this will be the case this time after substantial applications following the COVID pandemic. Given the forecasts for outputs there is a low to medium risk of this income budget not being achieved.

Property Portfolio

15 The council has a property portfolio of commercial premises within the district. In addition, the council historically invested £20 million in two property funds. Both funds are closed to withdrawals and the Lothbury Fund is likely to be wound up with the sale of a core portfolio of properties sold onto another property fund. The council has received substantial income from the fund over the life of the investment but it is likely that a capital loss will occur on the investment. Due to a statutory override on losses needing to be paid for from the general fund this should have no effect on the council's finances providing the loss event occurs before the statutory override expires on 31 March 2025. Hermes Property Fund is also closed to withdrawals but is not in the position of being wound up. Once withdrawals are allowed there is a medium to high risk of capital loss. This is likely to be beyond the expiry of the statutory override. There is £.045 million set aside in an earmarked reserve to cover for capital loss on these investments.

Minimum Revenue Provision

16 The capital programme is now predominantly financed by external borrowing and the council will need to make Minimum Revenue Provision (MRP) to repay the debt principal sum. The section 151 officer advises that the proposed MRP policy is prudent and the asset lives chosen are in line with guidance issued by Government.

Treasury Investment Income Management

17 Investment income reflects the current bank base rate and decreases over time as cash is used to avoid borrowing and interest rates fall.

Section 151 officer's Conclusion on the robustness of the estimates

18 The Section 151 officer considers that the estimates contained within the recommended budget to Council are robust for the purposes of the calculation of the Council Tax.

Assessment of the adequacy of the proposed level of reserves

19 The Section 151 officer has conducted a review of the strategic, operational and financial risks facing the Council. The key risks facing the Council are detailed in the Corporate Risk Register.

20 The Section 151 officer has conducted a review of the earmarked reserves held on the balance sheet and is satisfied that they are required to fund specific expenditure in future years or are required to provide risk finance.

21 The Section 151 officer has, in the light of the risks facing the Council, calculated the minimum level of General Fund Balance that the Council should hold as £3.021 million. The rationale for this calculation is shown in the table below.

Factor for the calculation	£000	Factor	£000
Average Annual Gross Revenue Expenditure	76,220	4%	3,048
Average Annual Gross Capital Expenditure	6,738	9%	337
Adjustment for Council Tax as a funding source	(12,652)	5%	(633)
Minimum General Fund Balance			3,021

22 In calculating the minimum balance the section 151 officer has used the following factors:

- a. Gross revenue expenditure, in the 2024/25 budget and allowed for 4% of that sum for: a cash flow management buffer; risks of cost increases and provision to meet 15% of costs arising from an emergency that would not be met by the Bellwin Scheme for emergencies. Although in recent years flood hit areas have received 100% of costs the base scheme terms are 85% of eligible expenditure and it is therefore prudent to rely on 85% reimbursement.
- b. Average annual capital expenditure over the next 3 years and allowed 9% for cost increases.
- c. An adjustment is made for the certainty of Council Tax as a funding source for the Council to meet its costs. Therefore, the Council Tax requirement for 2024/25 is taken and a 5% factor applied to produce a downward adjustment.

23 The General Fund Balance estimate at 31 March 2024, and used for the purposes of preparing the estimates is, £3.854 million and above the recommended minimum balance.

Section 151 officer's conclusion on the assessment of the adequacy of the proposed level of reserves

24 In the opinion of the Section 151 officer the forecast reserves are adequate to meet unforeseen events or emergencies arising during 2024/25.

25 The adequacy of reserves and balances in the medium to long term will be dependent on the financial position dictated by changes to government grants as set by the government, economic conditions and operational factors such as changes to waste and recycling collections as a result of the new government waste strategy.

26 Providing that

- a. the 2024/25 savings plan is delivered;
- b. over the next 9 months, work on the 2025/26 savings plan confirms delivery of those savings

- c. savings proposals to close the current 2025/26 budget gap of £1.114 million plus any savings in the current plan which are found to undeliverable

then, in the Section 151 officer's opinion, the forecast reserves are adequate in the medium term. If the current savings plan is significantly off target and/or the future plans are unlikely to meet the £ further savings requirement in the MTFP by the end of 2028 at the latest then, in the medium to long term, the reserves are inadequate to meet unforeseen events or emergencies alongside meeting deficits as a result of measures to reduce net cost not being put in place, or delivered, and the section 151 officer would need to consider issuing a report under section 114 of the Local Government Finance Act 1988. The section 151 officer is confident, based on observation of the Executive and Leadership Team and the overall culture of East Herts Council, that the council will meet the current savings plan and that further realistic savings proposals will be developed to meet the MTFP savings requirements.

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21st February 2024