Finance Peer Challenge

East Hertfordshire District Council

5 February 2024 – April/May 2024

Desktop assessment report

Andrew Hardingham, Finance Improvement & Sustainability Associates (FISA)

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1. Background

This desktop review was completed by Andrew Hardingham and commissioned by the LGA and is the first part of an LGA Finance Peer Challenge. The review draws on reports issued to the council's Executive in relation to the 2024/25 budget, including the [Budget 2024/25 and Medium Term Financial Plan 2024-2034] report as published ahead of the Executive scheduled for meeting 13 February 2024.

East Hertfordshire District Council (EHDC) had an ambitious capital programme under the previous administration. Four major capital projects were undertaken: two swimming pools and leisure centres, the Old River Lane redevelopment, and the Hertford Theatre refurbishment. The two leisure centres used up a significant proportion of the council's capital reserves. The Hertford Theatre refurbishment has seen rising costs from circa £18 million to £30 million and the council must continue despite the mounting expenses due to the amount of money already committed. The Old River Lane project is a mixed development including an arts complex, and due to extended borrowing cannot now be delivered within the timeline of the Medium-Term Financial Plan.

The new administration has inherited this situation and there are some limited opportunities for asset sales to raise additional funds. The council is relying on prudential borrowing and asset sales and an independent external review could help validate if the council is making appropriate decisions regarding capital projects, reserves, and asset management. This would support the new administration in making informed decisions going forward.

The budget for 24/25 is predicted to balance, but the consequence of the budget means selling assets to reduce borrowing and reduce the debt.

Members within the administration feel that information delays have affected the new administration's ability to monitor financial performance and there is no monthly dashboard provided for finances. Without more effective budget monitoring, the council is seeking confidence that the decisions it is making are the most sensible going forward. Significant risk surrounds the ability to deliver the identified 24/25 savings and there are further major challenges to identify a further balanced budget for 25/26.

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2. Recommendations

Following the desk research and to improve the information councillors receive the LGA recommend the following:

1. The difference between the savings figures quoted in the report and those on the schedule be explained.
2. That clarification be provided as to whether the savings are cumulative.
3. That a risk schedule be produced and included in the report covering the likelihood and impact of not delivering the savings
4. That a schedule of delegated savings together with a risk schedule be produced and included in the report
5. The business case to support the civil parking enforcement be included as an appendix to the report.
6. That the rational for increasing the council tax base by 500 is explained with the options considered and discounted
7. That a statement setting out the useable reserves position is published in the budget report
8. That quarterly monitoring is reported to elected members within two months of the period end and that the portfolio holder is briefed within 4 weeks of month end.
9. That a statement setting out the useable reserves position is published in quarterly budget monitoring report
10. Recommendations for dealing with forecast over spends are included in the report and not just for noting.
11. That the capital programme be reviewed with a view to rescheduling and deferring in order to reduce the reliance on borrowing
12. The full business case for the commercialisation of the Hertford Theatre be presented to members for examination and approval.
13. That advice be sought as to the capitalisation of maintenance costs re the URC church.

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3. Budget 2024/25 and MTFP 2024-34

3.1. Savings

The budget report for 2024/25 asks members to note that savings are required in 2025/26 (£1.441m), 2026/27 (£0m) and 2027/28 (£0.526m). The figures quoted in appendix C which is referred to in the budget differ from this in the report. This needs explaining. The table below is taken from Appendix C. I assume the figures in the table are not cumulative; in other words if for example, the full £1.750m of civil parking enforcement is achieved in 2025/26 the base budget for 2026/27 will be adjusted to reflect the savings. This needs clarification.

Savings requiring Member Decision	2024/25 £(000)	2025/26 £(000)	2026/27 £(000)	2027/28 £(000)
Innovation Corridor	0	(10)	(10)	(10)
Digital Innovation Zone	0	(10)	(10)	(10)
Visit Herts	0	(5)	(5)	(5)
HGGT Joint Committee	(15)	(15)	(15)	(15)
Advertising	(18)	(38)	(38)	(38)
Asset Disposals		(528)	(528)	(528)
Invest to Save - Refuse Contract Vehicle Financing	0	(200)	(200)	(200)
Civil Parking Enforcement	0	(1,750)	(1,750)	(1,750)
Garden Waste Charges	0	0	0	0
Reduce Grounds Maintenance specification	(50)	(50)	(50)	(50)
	(83)	**(2,606)**	**(2,606)**	**(2,606)**

The budget includes a figure of £1.103m as “Savings implemented under existing delegations” and a further £0.083m subject to member decision required to balance the 2024/25 budget along with a contribution from reserves of £3m.

The budget report contains no narrative concerning the delegated savings. I would expect a statement concerning nature of these savings and the risks to delivery of these savings.

The savings requiring member decision are relatively small in 2024/25 but the target for 2025/26 represents just over 10% of net budget.

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The major saving proposal concerns £1.750m of income to be generated from a new civil parking enforcement policy. The savings item refers to a cumulative deficit of £4m on the parking account. It is unclear whether the saving (if realised) is to be used to bring the account into balance over time or used as part of the savings required in 2025/26.

The savings include a revenue saving in relation to debt repayment. To achieve this the council have identified a schedule containing assets valued a £10.979m of which £6m will be used to repay debt. To mitigate the risk of a fire sale, the council is proposing to set a reserve price for those assets auctioned. This is the second highest value saving and could pose a risk to the overall budget if not achieved.

3.2. Council Tax Base and Collection Fund

The budget includes an assumption the council tax base will increase by 500 new properties per year. I would expect to see a range of scenarios modelled based stated assumptions and a discussion of the risks associated. What is the evidence base for the estimate of 500 new properties?

The Financial Management 2023/24 – Quarter 2 Forecast to Year End report submitted to the Leadership Team on 16 January reported that “The strengthening of the team, alongside the decision for credit control to be managed centrally by the finance team will improve the aged debt position of the Council”. The collection fund is reported to be in deficit. Has the collection rate been modelled and what assumptions are made about bad debt and how have these been reflected in the Council tax base?

The chart below (LGInform – Council tax collected as a percentage of council tax due in East Hertfordshire) compares the East Hertfordshire District Council tax collection rate against the CIPFA nearest neighbours. EHDC is performing below the family average.

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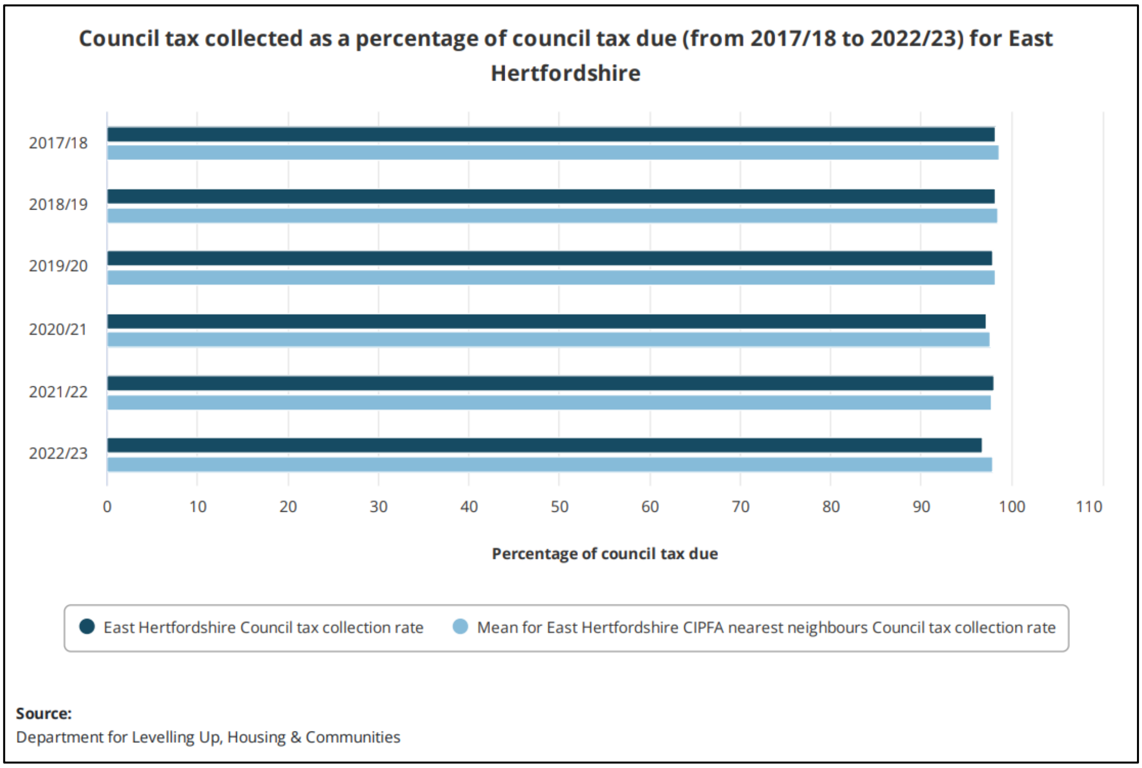

3.3. MRP

The Council's [Capital Strategy and Minimum Revenue Provision Policy 2024/25] incorporates the recommendations contained within the MHCLG Guidance issued in 2018.

3.4. Pension Fund deficit contribution (£0.637m)

The council have prudently retained provision for a deficit payment fixed at the previous triennial valuation figure for the life of the MTFS. Whilst not affecting the 2024/45 budget, there may be scope to reduce this as pension funds are reporting improved positions.

3.5. Statement of Reserves

The last published accounts are for the period 2021/22. The useable reserves reported totalled £21.3m as at March 2022. This included a NHB reserve of £6.67m, Collection Fund Reserve of £1.96m, NNDR Section 31 Reserve of £7.07m and the Insurance Reserve of £0.91m. If these are discounted the real sum of useable

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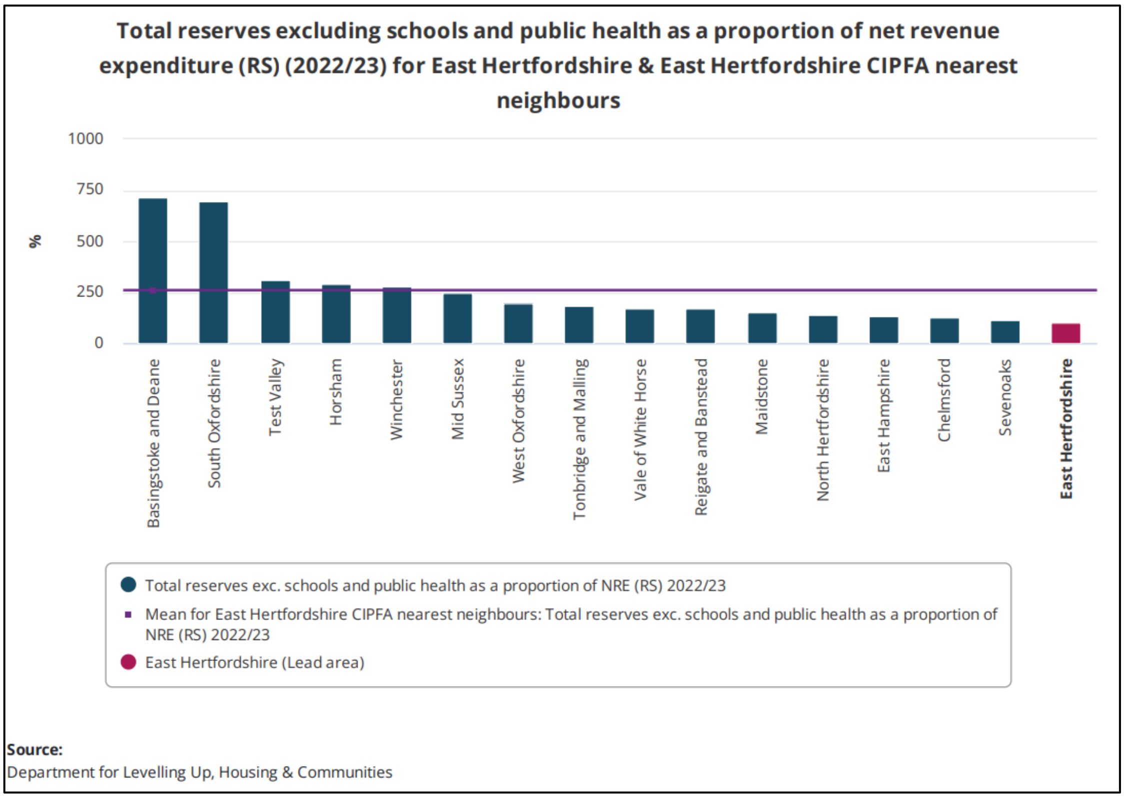
earmarked reserves is £4.7m. There is no update on the position of the usable earmarked reserves and no position statement regarding the General fund working balance. The net revenue budget for 2023/24 is £12.113m. The forecast outturn as at 30 September 2023 predicts an overspend of £0.491m with no statement as to the impact on balances.

The chart below (LGInform – Council tax collected as a percentage of council tax due in East Hertfordshire) compares EHDCs total reserves (excluding schools and public health) as a proportion of net revenue expenditure against the CIPFA nearest neighbours.



3.6. Capital

The 2023/24 Q2 capital monitoring report forecasts an outturn of £33.950m giving a variance of £4.398m above the revised capital budget for 2023/24 of £29.552m.

The most significant scheme, Hertford Theatre, is reporting an outturn of £22.995, an increase of £7.445m over the revised budget of £15.550m. Earmarked reserves of

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£3m will be applied to meet this overspend with the remainder being financed from borrowing. A further £4m is included in the 2024/25 programme. The total cost of the scheme is now estimated to cost £30.9m. The net income stream from the Hertford Theatre is budgeted to increase from £0.5m in 2024/25 to £2.1m in 2027/28.

The biggest addition to the programme for 2024/25 is £8m for Refuse & Recycling and cleansing vehicles and £1.680m for Refuse & recycling containers. It is proposed to charge MRP over 8 years so that the loans on the vehicles are fully repaid at the break or renewal point of the new waste contract.

An additional £24.2m external borrowing is required to fund the programme in 2024/25. The £10.9m of capital receipts are planned to repay debt and not applied directly to fund the capital programme.

3.7. Treasury Management

The Council has a detailed Treasury Management Strategy, setting out the councils approach to borrowing and investment.

On 31st December 2023, the Authority held £31.522m of borrowing. It is forecast this will increase to £55.2 by the end of 2024/25 and to £62.8m by the end of 2025/26. The council has an increasing Capital financing requirement (CFR) due to the underlying need to borrow for capital programme. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The approach to borrow short-term is considered prudent in the current economic circumstances. The benefits of short-term borrowing need to be monitored closely with a move to fixed long term considered if rates move.

4. Conclusions

The budget report can at best be described as a summary. There is no detail and no disclosure or discussion of options. Risks associated with the impact of savings are included on the individual savings proposal (Appendix C) but there is no disclosure as to delivery risks.

The plan to dispose of in excess of £10m of assets is needed to reduce the cost of debt. Future years budgets are heavily reliant on the success of this strategy as debt

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costs are forecast to drop from £4.7m to £0.550m per annum in 2026/27 and £0.650m thereafter.

There is no risk analysis concerning the commercialisation of the theatre, but future budgets rely on the income growth.

The Q2 monitoring report was considered by the Executive in January 2024, some four months after the end of the period. If corrective action was need it is too late to undertake anything meaningful. The report lacked substance and just asked members to note the forecast outturn (approx. 4% on net expenditure). Budget variances were described in one of the appendices.

Without a statement of usable reserves, it is impossible to assess the impact of the budget overspend in 2023/24.

The Council is proposing to increase the council tax be the maximum possible.

I consider the approach to rescheduling the capital programme sensible along with the financing proposals. However, these are heavily predicated on the sale of the assets and realising the full value. The Council has invested heavily in the Hertford Theatre and must now ensure that the commercial approach achieves the income targets needed to meet the budget targets. Relying on income from such a cultural venture could be considered risky.

The rational for providing up to £170k for essential maintenance works for the URC Church Hall in Bishop's Stortford is not clear. This is in the capital programme, but maintenance expenditure is not capital. This would need to be checked with the Councils auditors.

Overall, the budget approach is sensible in the current climate but the analysis to support what is a very scant report is missing. The Treasury Management approach is considered prudent but at some time the council will need to reconsider its approach to borrowing in the short term.

5. Next steps

The next phase of this peer challenge will be to organise a facilitation peer led workshop, with the administration. This is planned for March/April 2024.

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Rachel Litherland, Principal Adviser for the East of England, is the main contact between your authority and the Local Government Association. Rachel is available to discuss any further support the council requires. rachel.litherland@local.gov.uk, 07795 076834.

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