

# East Herts Council Report

## Audit & Governance Committee

**Date of meeting:** Wednesday 30 October 2024

**Report by:** Councillor Carl Brittain – Executive Member for Financial Sustainability

**Report title:** Budget 2025-26 and Medium-Term Financial Plan (MTFP) 2025-2035 Preparation

**Ward(s) affected:** (All Wards);

### Summary

- This report sets out the savings requirements for the MTFP for 2025-2035, assumptions included in the 2025/26 budget, the risks and uncertainties facing the council in setting the budget and the timetable for the budget setting process.

### RECOMMENDATIONS FOR AUDIT & GOVERNANCE COMMITTEE

- (A) Note the budget proposals should be based on the base case presented in paragraph 1.4; with a Council Tax increase of 2.98%, contract inflation of 2.5%, no inflation in any other goods and services budgets and that the provision for the national pay award will be 3%, as agreed by Executive on 1 October 2024;**
- (B) Note the revised savings requirements of £2m in 2025/26, rising to £2.5m in 2027/28;**

### 1.0 Background

**1.1** The Medium Term Financial Plan 2024-2034 approved at Council on 28 February 2024 included a gross savings requirement of £5.6m in 2025/26, of this savings plans of £4.195m had been agreed. Leaving a savings gap of £1.4m to be identified. Table 1

below shows the savings not yet identified for the next 4 years.

| <b>Table 1: Unidentified Savings</b>      | <b>2025/26</b> | <b>2026/27</b> | <b>2027/28</b> | <b>2028/29</b> |
|---|----------------|----------------|----------------|----------------|
|   | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      |
| <b>Gross Savings requirement</b>          | <b>5.6</b>     | <b>5.6</b>     | <b>6.4</b>     | <b>6.8</b>     |
| Savings plans 2024/25                     | (4.2)          | (4.4)          | (4.4)          | (4.4)          |
| <b><i>Savings not yet identified:</i></b> |                |                |                |                |
| <i>2025/26 savings to be identified</i>   | <i>(1.4)</i>   | <i>(1.4)</i>   | <i>(1.4)</i>   | <i>(1.4)</i>   |
| <i>2027/28 savings to be identified</i>   |                |                | <i>(0.5)</i>   | <i>(0.5)</i>   |
| <i>2028/29 savings to be identified</i>   |                |                |                | <i>(0.5)</i>   |

**1.2** The quarter one budget monitoring process has identified a number of pressures on the 2024/25 budget, currently forecasting a £1.1m overspend in 2024/25. A number of these pressures are one off that will only impact on 2024/25, pressures of £0.55m have been identified as having an ongoing impact.

### **Medium Term Financial Plan scenario modelling**

**1.3** Three scenarios have been modelled. All include the pressures mentioned above in paragraphs 1.1 and 1.2;

**1.4 Base Case** - In line with current Council Tax referendum limits a council tax increase of 2.98% is included, which gives a 2025/26 band D council tax of £201.04. A cash freeze on grants is assumed, giving a real term reduction in grant. Contract inflation of 2.5% on all major contracts and no inflation assumed for any other goods or services and a provision for national pay award of 3%. The base case MTFP is contained in **Appendix A**.

**1.5 Optimistic case** - Assumption of a band D council tax increase of 4.98%, this would give a 2025/26 band D council tax increase of £9.72. A cash freeze on grants is assumed, giving a real term reduction in grant. Contract inflation of 2.5% on all major contracts and no inflation assumed for any other goods or

services and a provision for national pay award of 3%. The optimistic base case is included in **Appendix B**.

**1.6 Pessimistic Case** - Officers have also modelled an MTFP with grant declining year on year by 2%, which based on inflation would be a decrease of 5%. The section 151 officer advises that this would leave the Council with insufficient resources to meet its financial commitments..

**1.7** Members are asked to approve officers to continue to model using the base case, as per paragraph 1.4, based on this case the unidentified savings are £2m in 2025/26.

## **2.0 2025/26 Uncertainty and Pressures**

**2.1** Ongoing uncertainty around government funding makes forward planning and setting a balanced budget more complex. The new government has indicated plans to give local authorities multi-year settlements, however it is uncertain if this will be possible from 2025/26 and we therefore expect a single year settlement with three-year settlements thereafter.

The Autumn Budget is scheduled for 30 October 2024, this will set departmental spending totals for 2025/26.

**2.2** The assumptions included in the current MTFP are a 2% increase from 2024/25 followed by for a cash freeze which represents a real terms reduction year on year of whatever inflation is. Based on the Bank of England inflation target this would be a 2.5% real terms reduction per year and a 12.5% reduction over five years.

**2.3** The paragraphs that follow highlight some of the key areas of uncertainty that the council faces when balancing the 2025/26 budget and producing the Medium-Term Financial Plan:

### **2.3.1 Extended Producer responsibility**

Indications from the previous government were that monetary payments in respect of the extended producer responsibility scheme, where councils would have been compensated for managing packaging waste collected from households, would

result in additional funding as the Settlement would not have been adjusted for the receipts. Under the new government there have been indications that any gains will be adjusted through the Settlement, resulting in a no new money for the Council.

### **2.3.2 New Burdens funding – food waste**

To date capital funding to facilitate the requirement for local authorities to introduce weekly food waste collections by March 2026 has been announced, however there have been no assurances about ongoing revenue implications, and new burdens grant to fund these. It is unlikely that any funding will cover the additional costs as the funding is allocated on a formula basis rather than a submission based on actual costs.

### **2.3.3 Interest rates on borrowing**

In recent years the council has moved to a position of borrowing following spending on large capital projects. Currently the council is utilising short term borrowing, to secure the lowest interest rates available. The MTFP makes assumptions about the interest rate that the council will be able to secure on long-term borrowing through the PWLB, variations from this will impact on the savings requirements.

### **2.3.4 Single Person Discount**

There is uncertainty around whether the new Government plans to withdraw the single person council tax discount. Whilst removal of the discount would result in additional income collected from tax payers, there is potential for a pressure of c£660k This pressure is due to the formula in the funding calculation. The Relative Resource Block in the local government funding model takes into account what is raised locally and is calculated using Average National Council Tax, which is much higher than East Herts actual council tax.

### **2.3.5 Council Tax referendum limit**

The MTFP includes a 2.98% increase in council tax for 2025/26 and all future years. There are calls for the council tax

referendum limit to be revised or abolished. A 1% increase in council tax would give c£127k additional income by year.

### **2.3.6 New Homes Bonus**

The amounts that the council has received in New Homes Bonus, a government grant linked to the increase in properties in the tax base, has reduced significantly in recent years. £250k is assumed in 2025/26 with no further allocation assumed in subsequent years.

### **2.3.7 Revenue Support Grant, Service Grant & Funding Guarantee Grant**

The MTFP is based on a cash freeze in government grants, which would produce a real terms reduction in each year.

## **2.4 2024/25 Savings included in MTFP**

**2.5** The 2024/25 saving's plans approved as part of the MTFP in February have been reviewed and stress tested by Leadership Team. **Appendix C** provides current risk register for the savings proposals.

**2.6** The majority of savings items are shown as on track as these have already been delivered or will be delivered in line with the proposals by 31 March 2025.

**2.7** The lines shown as 'at risk' or 'delayed' are being investigated by officers to ascertain the potential saving that can be achieved and to provide updated timescales for doing so.

## **2.8 Proposals to balance the 2025/26 budget**

**2.9** Leadership Team have commenced weekly meetings to work on setting a balanced budget for 2025/26. Initial actions are:

- Service managers have been requested to identify savings and unavoidable growth for 2025/26 and future years
- A review of the establishment, including vacant posts
- Transforming East Herts programme refresh

- Review of base budgets to remove inefficiency
- Review statutory and non-statutory service provision

## **2.10 Reserves**

**2.11** The Council's general fund reserves include the General Fund reserve and Earmarked reserves. The General Fund reserve is held without any specific purpose to minimise the impact of unexpected events. Earmarked reserves are held to fund specific expenditure in future years or are required to provide risk finance.

**2.12** The recommended minimum General Fund balance is £3.02m as set by the section 151 officer, after considering the risks facing the Council. The current General Fund balance is £3.854m and above the recommended minimum balance.

**2.13** Balance on all the reserves held by the Council can be found in **Appendix D**.

## **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 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.

## **5.0 Risks**

**5.1** Risk and known uncertainties are highlighted in the body of the report.

**6.0 Implications/Consultations**

**6.1** The Finance team have consulted with Leadership Team in writing this report.

**Community Safety**

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

**Data Protection**

None arising directly from this report.

**Equalities**

None arising directly from this report.

**Environmental Sustainability**

None arising directly from this report.

**Financial**

All financial implications are included in the report.

**Health and Safety**

None arising directly from this report.

**Human Resources**

None arising directly from this report.

**Human Rights**

None arising directly from this report.

**Legal**

**Specific Wards**

No

**7.0 Background papers, appendices and other relevant material**

**7.1** Budget 2024/25 and Medium-Term Financial Plan – 28 February  
2024 Council meeting

**Appendix A – Base Case MTFP**

**Appendix B – Optimistic Case MTFP**

**Appendix C – Savings tracker**

**Appendix D - Reserves**

**Contact Member**

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