Public Document Pack

WELWYN HATFIELD

Please note that by law this meeting can be filmed, audio-recorded, photographed or reported electronically by the use of social media by anyone attending. This does not apply to any part of the meeting that is held in private session.

Please ask for:
Graham Seal

16 January 2017

Dear Councillor

You are requested to attend a special meeting of the WELWYN HATFIELD BOROUGH COUNCIL CABINET to be held on Tuesday 24 January 2017 at 7.30pm in the Council Chamber, Council Offices, The Campus, Welwyn Garden City, Herts, AL8 6AE.

Yours faithfully

N. W. Lory

Executive Director
Public Protection, Planning and Governance

A G E N D A
PART 1

1. APOLOGIES

2. DECLARATIONS OF INTEREST BY MEMBERS

   To note declarations of Members' disclosable pecuniary interests, non-disclosable pecuniary interests and non-pecuniary interests in respect of items on the Agenda.

3. ITEMS RELATING TO THE BUDGET AND POLICY FRAMEWORK FOR RECOMMENDATION TO COUNCIL

   To consider the following items:-

   (a) Budget 2017/18 (Pages 3 - 10)

   To recommend for approval to the special Council meeting on 6 February 2017 the budget for 2017/18 as updated following consideration at the Cabinet meeting on 10 January 2017.

(b) Resources Overview and Scrutiny Committee - 19 January 2017 (Pages 11 - 14)

To consider the comments of the Resources Overview and Scrutiny Committee at its meeting on 19 January 2017 on the budget (circulated separately).

4. PROPERTY COMPANY - OUTLINE BUSINESS CASE (Pages 15 - 18)

Report of the Executive Director (Resources, Environment and Cultural Services) presenting an outline business case to create a property company to allow commercial trading for property related investments.

5. PENSION FUND TRIENNIAL VALUATION 2016 (Pages 19 - 24)

Report of the Executive Director (Resources, Environment and Cultural Services) updating the Cabinet on the results of the 2016 valuation and seeking approval for a one-off lump sum contribution into the fund.

6. RE-INTEGRATION OF THE HOUSING SERVICE INTO WELWYN HATFIELD BOROUGH COUNCIL (Pages 25 - 28)

Report of the Executive Director (Housing and Communities) updating the Cabinet on the progress of the integration project (circulated separately).

Circulation:	Councillors	J Dean (C)	M Perkins (VC)
		D Bell	B Sarson
		H Bromley	R Trigg
		T Kingsbury	

Executive Board
Press and Public (except Part II Items)

If you require any further information about this Agenda please contact Graham Seal, Governance Services Unit on 01707 357444 or email – g.seal@welhat.gov.uk

Part I
Item No: 3(a)
Main author: Tim Neill
Executive Member: Duncan Bell
All Wards

WELWYN HATFIELD BOROUGH COUNCIL
SPECIAL CABINET – 24 JANUARY 2017
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

BUDGET 2017/18 – ADDENDUM REPORT

1 Executive Summary

1.1 The 2017/18 budget papers were discussed at the Cabinet meeting on 10th January 2017. This report provides relevant updates so Members have all the relevant information available when making a recommendation to Full Council on the budget estimates.

1.2 Members should note that the budget papers approved at the 10th January Cabinet were presented to the Resources and Overview Scrutiny Committee (ROSC) on 19th January 2017; there is a separate agenda item which deals with feedback and recommendations from that committee.

2 Recommendation(s)

2.1 That Cabinet note the content of this paper and approve the changes detailed in section 3 of this report and recommend their inclusion in the budget papers to full Council on 6th February 2017.

2.2 Cabinet consider the comments made by Resources and Overview Scrutiny Committee on 19th January 2017.

3 Explanation

Business Rates

3.1 The general fund budget estimates for 2017/18 had reflected the intention to be part of the Hertfordshire business rates pool again next year. Unfortunately the Chief Finance Officers of the authorities in the pool have had to take the decision to dissolve the pool. This is the result of risks arising from uncertainties following the 2017 revaluation. The risk of the pool making an overall loss in 2017/18 was felt to be too great. The pool will continue for 2016/17 and there will be the option to consider a pool again in 2018/19.

3.2 Following the provision from Government of the multiplier and the transitional arrangements for businesses on implementation of the 2017 revaluation the Council has also now compiled the formal estimation of business rates collection for 2017/18. This has to be submitted to central government by the 31st January and is commonly referred to as the NNDR 1 form.

3.3 As a result of these updates an updated version of table 3 in the general fund budget report is provided below and shows the total amount of retained business rates is £121k less than the estimates provided in the 10th January report and is now £3.260million. However, with an increase in the estimate for Section 31 grant to be provided as compensation for reliefs to £501k there is overall a minimal net impact on the budget estimates for 2017/18 with a slight improvement in overall estimates for 2018/19 and 2019/20:

		Original Budget 2016/17 £000	**Estimate 2017/18 (10 Jan Cabinet)**	**Revised Estimate 2017/18**
			£000	**£000**
A	Business Rates Collectable (after assumption for appeals)	60,042	58,810	58,569
B	Government share @ 50%	-30,021	-29,405	-29,284
C	HCC share @ 10%	-6,004	-5,882	-5,857
D	Tariff payable to Government	-19,911	-19,157	-19,157
E1	Welwyn Hatfield share before Levy (A+B+C+D)	4,106	4,366	4,271
E2	Adj. for Small Business Rate Relief and Shops and Empty Property reliefs'	474	319	466
E3	**Welwyn Hatfield adjusted share**	**4,580**	**4,686**	**4,737**
F	Baseline funding level	2,664	2,716	2,716
G	Welwyn Hatfield adj. share less baseline funding level (E3-F)	1,916	1,970	2,021
H	Levy payable to Government @ 50% (G * 0.5)	-958	-985	-1,011
J	**Retained business rate income (E1+H)**	**3,148**	**3,381**	**3,260**

3.4 The estimated surplus/deficit on the collection fund for 2016/17 for both council tax and business rates has been updated for December data (including the latest outstanding appeals information from the VOA). The Council's share of the overall deficit is now expected to be £198k. This is £122k lower than the estimate provided in the 10th January report and will mean it will be necessary to transfer less from the Resources earmarked reserve to cover this deficit.

Triennial Pension Valuation

3.5 A separate report provides the outcome of the revised pension fund valuation which anticipates the transfer of the Community Housing Trust fund. The recommended additional lump sum contribution of £1.286million would be split between the general fund and the housing revenue account and is, therefore, £1.4million lower than that anticipated in the opening balance of the general fund for 2017/18 in the 10th January report. The revised contributions for 2017/18, 2018/19 and 2019/20 are recommended to be 18.3% of payroll plus an annual lump sum of £1.1million. Overall the net impact of the changed assumptions on both the housing revenue account and general fund are minor and within tolerances of our overall estimates.

Minor corrections to the General Fund Budget Report

3.6 Recommendation 2.5 should reflect the return of the NNDR 1 data form to DCLG by 31 January 2017, rather than 2016 as stated.

3.7 The New Homes Bonus grant in 2017/18 will be £2.042million, rather than the £2.2million quoted in paragraph 3.21 of the original early January Cabinet report.

Overall impact on Budget Estimates

3.8 A revised appendix A to the general fund budget report is attached and reflects the changes discussed above, and in particular the funding updates with regard to business rates. There has been no change to the net operating expenditure or council tax requirement for 2017/18.

3.9 The slightly revised medium term financial summary is shown in appendix C.

3.10 Taking into account the changes highlighted above, the opening balance of the General Fund Reserve as at 1 April 2017 is now estimated to be £6.9m, and the opening HRA balance for 2017/18 is estimated to be £9.9m.

4 Financial Implication(s)

4.1 The financial implications are set out within the reports submitted to cabinet on the 10th January 2017.

5 Link to Corporate Priorities

5.1 I confirm that the subject of this report is linked to the Council's Corporate Priority "Engage with our communities and provide value for money". It should be noted that individual growth and savings items are also linked to the Corporate priorities.

6 Legal Implication(s)

6.1 The Council is required by the Local Government Finance Act 1992 to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a council tax requirement and the setting of an overall budget and Council Tax. The amount of the budget requirement must be sufficient to meet the Council's legal and financial obligations, ensure the proper discharge of its statutory duties, and lead to a balanced budget. The Council should be satisfied that the proposals put forward are a reasonably prudent use of resources in both the short and long term, and that the interests of both Council Tax payers and ratepayers on the one hand and the users of Council services on the other are both taken into account.

7 Climate Change Implication(s)

7.1 None

8 Risk Management Implications

8.1 There are considerable risks to the council's short and medium term budget strategy including the impact of public sector austerity, inflation and other changes in the national economy, spending exceeding budgets, pressures on existing budgets, further reductions in grant and legislative change demands for new spend. The budget process includes the recognition of these risks in determining the 2017/18 budget and relevant risk provisions are set out in the body of the report.

9 Equality and Diversity

9.1 In developing individual budget proposals officers have undertaken an equality impact assessment, where applicable.

Name of author	Tim Neill 01707 357425
Title	Head of Resources
Date	16/01/2017

Appendices (References as per 10th January 2017 Budget Report)

Appendix A – Budget Summary By Director 2017/18
Appendix C – Medium Term Financial Strategy 2017/18 to 2019/20

Background papers

Budget papers submitted to 10th January 2017 Cabinet

WELWYN HATFIELD BOROUGH COUNCIL

APPENDIX A - BUDGET SUMMARY BY DIRECTOR 2017/18

Description	Original Budget 2016/17	Original Budget 2017/18	Difference	Difference
	£	£	£	%
DIRECT SERVICES				
The Executive Director (Public Protection, Planning and Governance Director)				
Head of Law and Administration	1,688,970	1,111,380	577,590	34.2%
Head of Public Health & Protection	1,543,940	1,483,990	59,950	3.9%
Head of Planning	2,654,920	2,502,970	151,950	5.7%
Total for The Executive Director (Public Protection, Planning and Governance Director)	**5,887,830**	**5,098,340**	**789,490**	13.4%
The Executive Director (Resources, Environment & Cultural Services)				
Head of Resources	443,470	1,528,190	(1,084,720)	-244.6%
Head of Environment	6,275,960	5,924,870	351,090	5.6%
Head of Policy & Culture	3,155,190	3,531,780	(376,590)	-11.9%
Total for The Executive Director (Resources, Environment & Cultural Services)	**9,874,620**	**10,984,840**	**(1,110,220)**	-11.2%
The Executive Director (Housing and Communities Director)				
Head of Housing & Community	2,329,420	2,779,250	(449,830)	-19.3%
Total for The Executive Director (Housing and Communities Director)	**2,329,420**	**2,779,250**	**(449,830)**	-19.3%
Chief Executive	**426,350**	**276,270**	**150,080**	35.2%
Support Services				
TOTAL	**18,518,220**	**19,138,700**	**(620,480)**	**-3.4%**
Less Interest & Investment Income	(328,055)	(272,998)	(55,057)	16.8%
Plus interest payable on finance leases	499,000	320,341	178,659	35.8%
Less IAS19 & Capital Financing Charges	(3,337,520)	(4,374,570)	1,037,050	-31.1%
Net Operating Expenditure	**15,351,645**	**14,811,473**	**540,172**	**3.5%**
Contribution from Funds & General Fund Balances				
Contribution (from) / to Strategic Initiatives Reserve	263,112	31,558	231,554	
Contribution (from) / to GF balances to fund revenue spending	0	(139,000)	139,000	
Contribution to/(from) ringfenced reserves				
Resources Earmarked Reserves	0	(198,000)	198,000	
Governance earmarked reserves	0	(31,630)	31,630	
Building Control	231,309	0	231,309	
Hackney Carriages	0	(13,030)	13,030	
Budget after contribution to/(from) reserves	**15,846,066**	**14,461,371**	**1,384,695**	**8.7%**
Less New Homes Bonus Grant	(2,243,183)	(2,042,392)	(200,791)	
Less Council Tax Reduction Administration	0	(117,000)	117,000	
Less Business Rates S31 Grants	(501,159)	(501,382)	223	
Add Business Rates Levy	957,820	1,008,729	(50,909)	
Less Revenue Support Grant	(1,306,990)	(557,941)	(749,048)	
Less Transition Grant	(78,242)	(77,963)	(279)	
Less Business Rates Baseline	(2,664,022)	(2,716,419)	52,397	
Less Additional Retained Business Rates income	(1,441,540)	(1,553,663)	112,123	
Plus/Less collection fund deficit/(surplus)	(875,000)	198,100	(1,073,100)	
Plus payment to Parishes for Council Tax Support	66,346	28,322	38,024	
Council Tax Requirement (excluding Parish Precepts)	**7,760,097**	**8,129,762**	**(369,665)**	**-4.8%**

This page is intentionally left blank

Appendix C - Medium term financial strategy 2017/18 - 2019/20

`	2017/18	2018/19	2019/20
	£000	£000	£000
Base budget	14,426	14,908	15,404
Pay Inflation	142	184	185
Inflation	340	312	321
Growth - one -offs	509	350	350
Growth - ongoing	645	724	822
Savings	(1,298)	(1,523)	(1,767)
Interest payable	320	360	463
Investment income	(273)	(239)	(188)
Budget before transfers to/from reserves	**14,811**	**15,076**	**15,590**
Transfer to Strategic Initiative Reserve	32	373	352
Transfer from General Reserve	(139)	0	0
Transfer from Ring fenced reserves	(243)	0	0
Sub-total	**(350)**	**373**	**352**
Collection fund deficit / (surplus)	198	0	0
Council Tax Support Grant for Parish/Town Councils	28	5	0
Corporate income (Retained Business Rates + RSG + New Homes Bonus + other un-ringfenced grants)	**(6,558)**	**(5,607)**	**(5,091)**
Council Tax Requirement	**(8,130)**	**(8,318)**	**(8,510)**
Budget Gap [(Surplus) / Deficit]	0	1,530	2,341
Further Savings Plans in development	0	(650)	(900)
Budget Gap [(Surplus) / Deficit]	**0**	**880**	**1,441**

Part 1
Item No:3b
For Decision

WELWYN HATFIELD BROROUGH COUNCIL
SPIECIAL CABINET – 24 JANUARY 2017

Comments from the Resources Overview and Scrutiny Committee on 19 January 2017:-

38. <u>2017/18 BUDGET REPORTS:</u>

The Committee received a report of Executive Director (Resources, Environment and Cultural Services) which advised that the Cabinet at its meeting held on 10 January 2017 had considered the details for the proposed General Fund Budget, Capital Programme, Housing Revenue Account Budget, Medium Term Financial Strategy and Treasury Management Strategy for financial year 2017/18.

In accordance with the Council's budget and policy framework rules, the Resources and Overview Scrutiny Committee was formally invited to consider the proposals as part of the budget setting process and make comments to the Special Cabinet meeting on 24 January 2017.

Members made the following comments:

38.1. <u>Medium Term Financial Strategy 2017/18 to 2019/20</u>

Members asked about the £1.5 budget gap and what measures were in place to bridge the gap. It was explained that the budget gap had not been assumed to be met from reserve funds. It was noted that the new 100% Business Rates Retention Scheme would have an impact on budgets in the future and that there would be additional responsibilities given to local authorities; further information would be made to Members when the government consultation is published. Clarification was also sought on the new Business rates appeal process from April 2017.

Concern was expressed in respect of how further welfare reforms would impact on HRA projections and members were advised that further announcements were awaited from the Government.

The Strategy sets out principles to source efficiencies beyond 2017/18 and proposals to deliver these will be reported to Members.

38.2. Housing Revenue Account Budget 2017/18

The budget figures reflected the decision to return the management of the Housing stock directly to the Council and all housing services will be managed within a simplified structure and there will be no management fee.

Rents have been set in accordance with the proposed legislative directive to reduce council rents by 1% each year for four years. This has led to an average weekly rent for 2017/18 for £105.33. The Housing Revenue Account position for 2017/18 is an operational deficit of £4.7m. The report noted that there has been an increase in the net financing cost of loan repayments of £1.8m which has put pressure on reserves and along with further rent reduction increases the difficulty in supporting service requirements without a restructure of the loan repayments over the medium term.

Member were advised that savings had been made to cover the pressures from a reduction in the bad debt provision, staff budget reduction, increases in fees and charges and the introduction of a vacancy factor in the HRA to match that already in place in the general fund. Appendix 1 within the report was explained in terms of the HRA operating balances.

38.3. General Fund budget 2017/18

Members asked how the Government's austerity measures will affect the Council's budget, as the deficit continue to impact on local authorities. It was noted that the Borough Council proposes to increase the average Band D council tax rate by £5 and that this was the first increase in eight years.

There will be a cut in grants to parish and town councils following the decline in grant income from central government. The core grant from Government is set to drop by 18% to £3.3m.

The Executive Director (Resources, Environment & Cultural Services) explained that the business rates pooling regime for Hertfordshire has collapsed for 2017/18 but it would have a minimal impact on the 2017/18 budget. The other change to the budget recently is the impact of the triennial pension fund valuation on the 2017/18 budget, now that the valuation covers both the Housing Trust and the Council. It was noted that a decision will be made by Cabinet next week regarding the options to address the pension deficit, which will lead to a few minor changes to the budget.

A question was asked about possible funds being available for youth projects. It was explained that the 2017/18 budget includes a youth and sport budget. Members have expressed concerns regarding reduction in Community grants and would like to highlight to Cabinet that this will have an impact on the valuable service that our Voluntary sector provide, who is already facing difficulties finding volunteers to provide their service.

38.4. Capital Programme 2017/18 to 2021/22

The report noted that the Capital expenditure programme for 2017/18 was £43.6m, of which the General Fund schemes was £17.4m, S106 £1m, Affordable Housing programme £13.9m and Housing major repairs scheme £11.3m.

Members considered the capital expenditure programme for the period to 2021/22 as detailed within the report and included – General Fund capital schemes, S106 schemes, Affordable housing programme, Housing repairs schemes and other housing schemes e.g. sheltered housing refurbishment.

Clarification was sought from officers in respect of S106 receipts and the use of funds. It was explained that £0.8m during 2017/18 will support local organisation to upgrade football facilities in Hatfield and £0.2m during 2017/18 to support rugby facilities. There were no further S106 receipts identified to support non housing schemes in the future.

A question was raised in respect of the increase of charges for garages for the ongoing garage renovations. It was explained that a capital budget was required for the refurbishment of the garages following complaints from garage tenants and this would help reduce the void rates in garages. Explanation was sought on the history of increase of charges for garages, what was the typical void period for garages and whether the demand for garages was on the decline?

Members enquired about the Splashlands project in terms of timescales and officers responded that work is currently underway to get the right leisure mix to enable use of the site during the whole year to maximise the income.

Key projects highlighted for 2017/18 General Fund schemes included:

- Hatfield town Centre - £1.6m
- High View £0.4m
- Property Company £5m
- Huntersbridge car park £0.6m
- Bereavement Services £4.2m
- Splashlands £2.3m

38.5. Treasury Management Strategy 2017/18

Members enquired about the current treasury portfolio and future investments. It was noted that long term or with unrated counterparties was being increased from £35m to £45m. This was to reflect a likely increase in use of medium term pooled bond and/or equity funds. It was explained that funds were more volatile in the short term but highly diversified and were likely to yield higher returns than fixed deposits with banks.

In terms of changes being made to lending the Bank Rate remains at 0.25% for some time. Forecast predicts that a return in the region of £450k for 2017/18 based on an assumed average investment balance through the year of £50m and an average return on investments of 0.9%.

Clarification was sought on the previous monies borrowed and how the fund was utilised. Discussion ensued on future borrowing and investments. It was suggested that if the Council was taking out a further loan it would be best to borrow earlier rather than leave for later.

The investments detailed in Appendix A were explained. It was clarified that Council's treasury consultants, Arlingclose Ltd, generally recommend a secured bank deposit limit of 30% of general fund reserves and unsecured limit of 15% to ensure resilience in the event of a default. Members were advised that Arlingclose Ltd provided advice and information on investments, debt and capital finance issues.

A question was asked in respect of paying the loan back before maturity and it was explained that it would not be of benefit to the Council.

RESOLVED:

(1) That the Committee's comments on the Council's budget proposals for 2017/18 be submitted to the Special Cabinet meeting on 24 January 2017 for consideration following which the budget would be presented to Special Council meeting 6 February 2017.

(2) That the Special Cabinet consider the Committee's request for review of the reduction in grants for voluntary sector, community services, as this provision of services represents value for money.

Part I
Item No: 4
Main author: Ka Ng
Executive Member: Duncan Bell, Roger Trigg
All Wards

WELWYN HATFIELD BOROUGH COUNCIL
SPECIAL CABINET 24 JANUARY 2017
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

PROPERTY COMPANY – OUTLINE BUSINESS CASE

1 Executive Summary

1.1 The recently published Medium Term Financial Strategy clearly highlights the financial challenges which the council is facing over the coming years. Reductions in Government grant, pressures to sustain and improve frontline services, along with restrictions on increases in Council Tax are all contributing factors which mean many councils are looking to operate more commercially in order to improve the financial resilience of the council in the longer term.

1.2 The Council has historically acquired properties to provide for future service requirements or to contribute to the regeneration of a particular area (e.g. Hatfield Town Centre). It should be noted that investments undertaken purely for income return could only be made through a company in order to comply with the requirements of the Localism Act 2011.

1.3 The purpose of this report is to present an outline business case to create a property company for Welwyn Hatfield Borough Council in order to enable commercial trading for property related investments. It should be noted that if Members agree with the outline business case to establish a company, a further report will be submitted to a future Cabinet meeting setting out the operational and governance structure of the company as well as a business plan detailing its potential activities with a view that it will become operational during the 2017/18 financial year.

1.4 The proposals set out below in relation to the creation of the property company have been developed with the assistance of independent specialist advisors including consultants from East of England Local Government Association (EELGA) and Pinsent Masons for legal advice as they have a wealth of experience supporting a number of local authorities setting up various trading companies.

2 Recommendations

2.1 Cabinet agrees in principle to the establishment of a company which would be limited by shares and owned wholly by the council.

2.2 Cabinet notes that a further report will be submitted to a future meeting setting out the operational and governance structure as well as the business plan for the company, before any trading activity commences.

3 Explanation

Background

3.1 The council currently owns and manages a wide range of assets in its estate portfolio, for example, neighbourhood shopping parades, industrial units, garages, residential flats and retail space in Hatfield Town Centre. These are partially held for a mixture of social and urban town centre regeneration purposes rather than purely for delivering significant commercial benefits. These assets are in the main directly managed by the Council's existing Corporate Property team who have built up considerable expertise and skills in this area.

3.2 The establishment of a Council owned Property Company is proposed as an income generating investment vehicle. Its aims is to make significant annual contributions to the Council's General Fund in the face of funding shortfalls, and by doing so, put services on a more sustainable footing to support local people.

3.3 It should be noted that the Council has considerable experience in managing property assets and as the owner of nearly 9,000 housing stock in the Borough, the Council has a sound knowledge base to ensure that there would be reasonable returns on the investment portfolio of the new Company.

3.4 The main objectives of the company are summarised below:

- Invest in a portfolio of income generating assets that deliver returns to the Council; The MTFS assumes revenue income equating to £250k per annum will need to be achieved for 2018/19 and £500k per annum from 2019/20 onwards;

- Develop a portfolio approach that balances risk and reward across a spectrum of assets; and

- Reduce long term costs and risks to the Council tax payers

3.5 It is important to note that if the Council does not set up a separate Property Company, it could not undertake any property investments purely for income return. It could, however, continue to invest in Property Funds as part of our treasury management activities, but the Council has no control of the property portfolio and has no influence over how the assets are managed.

Property Company structure

3.6 There are a number of different types of corporate vehicle available. The advice received by Pinsent Masons has indicated that a company limited by shares is most appropriate as it tends to be used for those operations which have a commercial character, whereas a company limited by guarantee or industrial & provident society are more relevant for those which are set up to deliver community purposes or are set up for charitable purposes. Indeed, during the passage of the Localism Act through Parliament as a bill, it was understood that the Department for Communities and Local Government was referring to a company limited by shares as the company structure within the application of the Localism Act. It is therefore recommended that the council's property company structure would be set up as a company limited by shares wholly owned by the council.

3.7 In order to leave sufficient flexibility for the council to include wider commercial investment opportunities in the future, it is intended that a group structure would apply where a series of separate subsidiaries could be set up to undertake ringfenced activities or partner with a private sector partner on a project by project basis, for example, a subsidiary can be set up to deliver affordable housing in the Borough. The advantage of a group structure is that different funding packages could be developed for each subsidiary and more importantly if any discrete venture were to fail, it would not cross contaminate any other ring-fenced activities or serve to collapse the overall structure.

Project team

3.8 An officer project team has been created to look at the possible operational and governance structure, as well as the potential investment opportunities available to the property company, this team is working alongside specialist consultants from EELGA and Pinsent Masons. It should be noted that once this outline business case is approved, further workshops will be held with the project team looking at the details about the operational and governance structure of the property company as well as the business plan for the company which will determine the type of investment opportunities that the property company should invest in.

Funding for the property company

3.9 The precise funding mechanism for the Company will be considered as part of the development of the full business plan. However, such a mechanism is likely to include a loan or series of loans from the Council to the Company to enable it to invest in accordance with the business plan. Under such circumstances, borrowing costs would be met by the Company. Loans would be made available to the Company on a basis which is compliant with the terms of funding which are similar to those which would be achievable by a private funder given the importance of Competition law and State Aid rules. It should be noted that £5m in each of the next two years have been set aside on the capital programme as a source of funding from the council to the property company.

Implications

4 Legal Implication(s)

4.1 The council has power to establish a property company under the "general power of competence" introduced by Section 1 of the Localism Act 2011, which indicates that a local authority can do anything that a private individual is entitled to do, subject to certain statutory limitations. However, it should be noted that if a local authority wishes to do something for a commercial purpose, it must be done through a company under Section 4 of the same Act.

5 Financial Implication(s)

5.1 The set up costs for the property company will come from existing budgets.

5.2 The capital programme for 2018/19 and 2019/20 includes the provision of a loan of £5m per annum from the council to the property company.

5.3 The Medium Term Financial Plan assumes £250k of net revenue income will be returned to the council from the property company to support the General Fund in 2018/19 and that this will increase to £500k per annum from 2019/20 onwards.

6 Risk Management Implications

6.1 Failure to set up trading arrangement in strict compliance with legislation – Likelihood Low, Impact Medium. It should be noted that officers have engaged with specialists from EELGA and Pinsent Masons who have worked with a number of local authorities to establish a property company.

6.2 Delay in setting up the property company due to lack of capacity to manage additional work – Likelihood Low, Impact Medium.

6.3 Outline business case not agreed – Likelihood Low, Impact High

6.4 Insufficient Council expertise in managing commercial investments – Likelihood Low, Impact High.

7 Security & Terrorism Implication(s)

7.1 There are no known security and terrorism implications associated with this recommendation.

8 Procurement Implication(s)

8.1 The appointments of EELGA and Pinsent Masons have been made in line with Council's procurement rules.

9 Climate Change Implication(s)

9.1 There are no known climate change implications associated with this recommendation.

10 Link to Corporate Priorities

10.1 The subject of this report is linked to the following Council's Corporate Priorities:

- Engage with our Communities and Provide Value for Money.

11 Equality and Diversity

11.1 There are no Equalities implications arising from this report.

Name of authors	Ka Ng
Title	Executive Director (Resources, Environment and Cultural Services)
Date	December 2016

Background papers to be listed (if applicable)

Part I
Item No: 5
Main author: Tim Neill
Executive Member: Duncan Bell
All Wards

WELWYN HATFIELD BOROUGH COUNCIL
SPECIAL CABINET – 24 JANUARY 2017
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

PENSION FUND TRIENNIAL VALUATION 2016

1 Executive Summary

1.1 Welwyn Hatfield Council employees are eligible to be members of the Local Government Pension scheme. This is a statutory condition of employment available to all local government employees. The terms and conditions are set nationally.

1.2 The Hertfordshire Local Government Pension Fund is administered by Hertfordshire County Council who has outsourced the operation to London Pensions Fund Authority (LPFA). The value of the assets and liabilities of the fund are assessed on a 3 yearly basis by the fund's actuary, Hymans Robertson.

1.3 The Council has received the draft results of the triennial valuation 2016, which is used to determine the employer contribution rates for the next three years, with effect from 1 April 2017.

1.4 The purpose of this report is to update members on the results of the 2016 valuation and to seek approval for a one-off lump sum contribution into the fund to help manage the annual contributions from the general fund.

2 Recommendation(s)

2.1 That Cabinet note the contents of this report and recommend to the Council an approach to manage the pension deficit based on:

- An additional lump sum payment of £1.286m in financial year 2016/17 to be paid into the pension fund on top of the current budgeted lump sum of £888k and to be funded from general fund and housing revenue account reserves.

- Future employer's contribution rate to the pension fund to be fixed at 18.3% of pay plus an annual lump sum to be determined by the actuary but no more than £1.1million in each of the next three years (2017/18 to 2019/20).

- Create an earmarked reserve for pension contributions and contribute £100k in each of the next three years (2017/18 to 2019/20) into this reserve.

3 Explanation

3.1 The Local Government Pension Scheme (LGPS) undergoes a financial valuation every 3 years; this is carried out by the appointed actuary, Hymans Robertson. The triennial valuation is an assessment of the financial health of the pension fund and the results of which is used to determine the contributions that the Council will need to pay to the pension fund from 1 April 2017 – 31 March 2020.

3.2 The previous triennial valuation was carried out based on the valuation date of 31 March 2013 (i.e. the 2013 Valuation); the WHBC fund was shown to be £33m in deficit or 73% funded. The latest 2016 valuation is based on an assessment of the fund as at 31 March 2016 and reflects the transfer of staff from the Community Housing Trust into the Council's fund. The result shows that the deficit position has improved and is now just under £25m and the funding level has increased to 83%. The assets and liabilities of the pension fund from the two valuations are summarised in the table below.

Table 1: **Triennial Valuation Results for the WHBC Fund**

	2010 Valuation	**2013 Valuation**	**2013 Valuation Adjusted***	**2016 Valuation**
	£000	**£000**	**£000**	**£000**
Assets	86,425	89,062	104,842	120,821
Liabilities	(120,855)	(122,319)	(136,666)	(145,805)
Deficit	**(34,430)**	**(33,257)**	**(31,824)**	**(24,984)**
Funding Level	**72%**	**73%**	**77%**	**83%**

*2013 adjusted to show a comparison following the transfer of staff from the Community Housing Trust into the Council's fund.

3.3 There are a number of key factors which have contributed to the improvement on the deficit position:

- Investment returns greater than expected (+£7m)
- Salary increases less than expected (+£2m)
- Contributions greater than cost of accrual (+£4m)
- Pension increases less than expected (+£4m)
- Lower life expectancy assumptions (+£1m)

3.4 However the positive financial impact highlighted above are offset by factors such as:

- interest charged on the pension fund deficit (-£5m)
- change in financial assumptions (-£7m)
- pensioner deaths fewer than expected (-£1m)

Options to address the pension fund deficit

3.5 The Actuary is required by Regulations to set a prudent contribution rate in order to ensure the long term solvency of the pension fund. A risk based approach is taken to assess the likely forecast for the fund and since 2010 a stabilisation methodology has been used to help smooth out changes to contribution rates over a 20 year period.

3.6 At the time of the last valuation in 2013 a lump sum payment of £1.211million was made to fix contributions at the same rate for a three year period. Now we have come to the end of that three year period the starting point for a level of contributions is at the higher point as if that lump sum payment was never paid.

3.7 At the current time the Council is paying 17% on payroll as the employer's contribution to the future benefit being accrued and is also paying an amount of £888k towards funding the structural deficit of the fund. The 2016/17 Council budget for total employer's contributions to the pension fund is therefore £2.4m. The Housing Trust is paying 20.1% on payroll and the current budget is just over £1m.

3.8 Following the release of results from Valuation 2016, the Actuary has proposed to increase the cost of the future accrual (i.e. the cost related to current active members) to 18.3% of pay for the next 3 years. They have, however, suggested three options in relation to the deficit payments over this period. These options are set out in the table below:

	Lump sum payment in each year				
Option	**Additional 2016/17**	**2017/18**	**2018/19**	**2019/20**	**Total over 3 years**
	£000	**£000**	**£000**	**£000**	**£000**
Option 1 - Additional lump sum in 2016/17	1,886	888	888	888	**4,550**
Option 2 – Additional lump sum in 2016/17	1,286	1,100	1,100	1,100	**4,586**
Option 3 – increased annual lump sum	0	1,457	1,557	1,657	**4,671**

3.9 Option 1 would require an additional one-off payment of £1.886m in 2016/17 over and above existing budgets, but contributions to the past deficit in the next 3 years would remain at existing budgeted levels of £888k in each year.

3.10 Option 2 would require an additional one-off payment of a smaller amount of £1.286million in 2016/17 over and above existing budgets and the annual contributions to the past deficit in the next 3 years would increase by £212k to £1.1million in each year.

3.11 Option 3 does not require any additional one-off payment in 2016/17 but would require a budget growth of £569k in 2017/18 and then a further £100k growth in the two following years.

3.12 The pension fund is able to achieve a much greater return on investments than the Council can achieve through its treasury strategy and an up-front investment therefore results in a slight reduction in the total payment over the three years. In particular option 1 results in the lowest total payment of £4.550million, option 2 with the next lowest at £4.586million and option 3 the highest at £4.671million. The difference being £121k between the highest and lowest option.

3.13 The Council will need to inform the Administering Authority (Hertfordshire County Council) the deficit recovery option chosen and will need to make the payment by 31 March 2017.

3.14 The Council is able to make additional lump sum payments into the pension fund in order to reduce the pension fund deficit. The actuary will then recalculate the required future contributions. Ordinarily an additional contribution would be charged to the general fund and housing revenue account. However, the DCLG can give special permission (called a Capitalisation Directive) for the contribution to be capitalised when an Authority applies for such permission and can demonstrate that the payment is necessary on affordability grounds.

3.15 The Council applied to DCLG for permission to capitalise a lump sum contribution in November but unfortunately this was unsuccessful. The response stating that "Any request we grant requires us to surrender to Treasury an equal sum of budget. Given this, before we recommend that Ministers agree a request we would need to be satisfied an authority has exhausted all local options available for increasing their revenue."

3.16 The only other option available to the Authority to capitalise the lump sum payment would be to use the special direction granted by the Secretary of State, called *"Flexible Use of Capital Receipts*", which allows the use of receipts from asset sales (excluding Right to Buy receipts) received in financial years 2016/17, 2017/18 and 2018/19 for transformation projects that generate ongoing revenue savings. Whilst a case could be made that the lump sum payment would meet the criteria for qualifying expenditure the Authority has not received adequate capital receipts over the last financial year. In 2016/17 a total of £337k of non right to buy capital receipts have been received.

3.17 A balance needs to be found of maximising the benefit of paying an additional payment upfront into the pension fund when it is affordable to do so and ensuring we are planning in our budgets to pay the annual lump sum each and every year over the 20 year period. For this reason option 2 is recommended. This option keeps the annual total contributions in each of the next three years in line with current budget forecasts for both the general fund and housing revenue account. Option 1 would increase the deficit for the housing revenue account in 2016/17 beyond current forecasts and effectively increase the borrowing requirement earlier than planned.

3.18 The additional lump sum of £1.286million will be split with 68% charged to the general fund and 32% to the housing revenue account. Based on current forecasts this is affordable. The general fund balance at 1 April 2016 was £7.9million and the housing revenue account balance was £13.9million. After in year expenditure and income and a payment of £1.286million the general fund would be forecast to be £6.9million at 31 March 2017 and the housing revenue account £9.9million.

3.19 It is likely that at the next triennial valuation the Council will be faced with a similar dilemma with a proposed increase in the annual contributions. To help smooth the impact of this future budget pressure it is proposed to create an earmarked reserve for pension contributions and make an affordable contribution in each year into this reserve. A contribution of £100k is affordable on current budget forecasts for option 2. If option 1 is chosen then it is recommended that the annual contribution is increased to £300k to ensure funds are available at the time of the next valuation for the likely increase in annual contributions. If a lump sum contribution is not approved the alternative option would be to increase the annual lump sum contribution in each of the next three years as per the amounts shown in option 3.

4 Legal Implication(s)

4.1 There are no legal implications in this proposal.

5 Financial Implication(s)

5.1 As detailed in the body of this report.

5.2 Option 2 will result in a total lump sum contribution over the three year period of £4.586million. This is £85k less than option 3 (no additional contribution in 2016/17) and reflects the estimated investment return on £1.286million calculated by the actuary over this three year period. For comparison, at a base rate of 0.25% the Council is not likely to generate more than around £10k of investment return on this amount over the same period.

6 Risk Management Implications

6.1 The risks related to this proposal are:

6.2 Investment return lower than expected – the market conditions could deteriorate over the next 3 years and may not reach the assumption set by the Actuary. Likelihood – medium, Impact - medium

6.3 Pension fund deficit deteriorates further at the next triennial valuation – option 1 effectively fixes the pension contribution rate and lump sum for the next 3 years, if the deficit position deteriorates at the next valuation, a large budget growth may be required in 4 years time. To help mitigate this it is proposed to make annual contributions into an earmarked reserve over the three year period. Likelihood – Medium, Impact – High.

7 <u>Security & Terrorism Implication(s)</u>

7.1 There are no known security or terrorism implications arising from the matters in this report.

8 <u>Procurement Implication(s)</u>

8.1 There are no procurement implications to consider in relation to pension contributions.

9 Climate Change Implication(s)

9.1 There are no climate change implications to this proposal

10 Link to Corporate Priorities

10.1 The subject of this report is linked to the delivery of all the Council's Corporate Priorities. The provision of a pension to past and present employees who contribute to the delivery of all Council priorities and the council has a duty to ensure the pension fund is fully funded over time.

11 Equality and Diversity

11.1 An Equality Impact Assessment (EIA) has not been deemed to be required in connection with the proposals that are set out in this report.

Name of author	Tim Neill 01707 357425
Title	Head of Resources
Date	January 2017

Part
Item No: 6
Main author: Simone Chinman Russell
Executive Member: Mandy Perkins

WELWYN HATFIELD COUNCIL
SPECIAL CABINET –24 JANUARY 2017
REPORT OF THE EXECUTIVE DIRECTOR

RE-INTEGRATION OF THE HOUSING SERVICE INTO WELWYN HATFIELD BOROUGH COUNCIL

1 Executive Summary

1.1 Following on from Cabinet's recent decision to wind-up Welwyn Hatfield Community Housing Trust ('the Trust") and bring the housing service back into Welwyn Hatfield Borough Council ('the Council'), this reports updates Cabinet from the position reported at the Cabinet meeting on 6 December 2017.

1.2 This report confirms that we anticipate meeting the target date of 1 February 2017 for the transfer of services, staff and contracts back into the Council.

1.3 This report clarifies that the Council will be receiving all assets and liabilities from the Trust as a result of the re-integration.

1.4 This report confirms that an Insolvency Practitioner, Ernst and Young, is in the process of being appointed to act on the Trust's behalf, to wind up the company.

2 Recommendation(s)

2.1 It is recommended that Cabinet:

2.2 Notes the actions being taken by the Council in relation to the transfer of housing services back into the Council and the legal wind-up of the Trust.

3 Explanation

3.1 In September 2016 Cabinet proposed that the housing service currently delivered by the Trust should be brought back into full council control, with the aim of continuing the programme of delivering efficiencies in light of increasingly challenging operating environments for both organisations.

3.2 Following a tenant consultation and A TUPE consultation with all Trust staff the re-integration of services is proceeding in accordance with the measures set out in the re-integration project plan, as presented to Cabinet on 6 December 2016. The tenant consultation outcome was that a significant majority (67%) of those tenants who responded were in favour of the transfer and 12% were against the proposal. No comments or queries were raised by staff during the TUPE consultation process which took place in December and January.

3.3 A Transfer Agreement has been negotiated between the Trust's legal advisors (Trowers and Hamlins) and the Council's legal advisors (Bevan Brittan). Among other conditions the Transfer Agreement confirms that in taking back the service the Council will take on the liabilities of the Trust. These liabilities are already managed on a day to day basis under the authority of the Executive Director and include commitments relating to tenants, partners, creditors, contract arrangements and staff.

3.4 At the request of the Council the Trust's Board members have also confirmed, in a meeting held on 19 January 2017 that they have not, as far as they are aware, engaged in any activity outside Trust's governance arrangements which could create new liabilities.

3.5 The re-integration is on course to deliver on achieving the transfer of staff, services and contracts by 1 February 2017, at which time the housing service will once again be delivered by the Council.

3.6 The next stage will be the legal dissolution of the Trust. The Council's Executive Director (Housing and Communities) and Head of Resources will continue to work with the Board until this process is complete. Ernst and Young will be appointed by the Board later this month to carry out the statutory functions associated with the wind-up of the Trust, which could take several months. Cabinet will be kept updated on progress.

4 Legal Implication(s)

4.1 As explained above all necessary legal requirements are being followed by the Council including the Novation of contracts, fulfilment of TUPE obligations, Transfer Agreement and the legal wind-up of the Trust through a registered insolvency practitioner.

5 Financial Implication(s)

5.1 A budget has been agreed for this process, within the existing resources of the Council and the Trust, as reported to Cabinet on 6 December 2017.

6 Risk Management Implications

6.1 The two key risks arising from the re-integration process were highlighted to Cabinet previously. These were reputational risk and failure to novate the contracts for delivery of key services to customers. These risks have been successfully managed throughout the process.

6.2 The risk relating to the transfer of liabilities from the Trust to the Council has addressed in 3.3 and 3.4 above.

7 Security and Terrorism Implication(s)

7.1 None directly arising from this report.

8 Procurement Implication(s)

8.1 The novation of contracts is a key task in this process, as described above. The Council's Procurement Manager has been involved throughout to ensure that the interests of the Council are served fully.

9 Climate Change Implication(s)

9.1 None directly arising from this report.

10 Link to Corporate Priorities

10.1 The subject of this report is linked to the Council's Corporate Priorities "Meet the borough's housing needs"

11 Equality and Diversity

11.1 Equality Impact Assessments for both the Council and the Trust have been carried out and no detrimental impact identified.

Name of author	Simone Chinman Russell
Title	Executive Director, Housing and Communities
Date	20 January 2017

This page is intentionally left blank