

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 17 SEPTEMBER 2019
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND
CULTURAL SERVICES)

REVIEW OF THE MEDIUM TERM FINANCIAL STRATEGY

1 Executive Summary

- 1.1 The Council's Medium Term Financial Strategy (MTFS) 2019/20 – 2021/22 was approved by Cabinet in January 2019 and it was subsequently approved by Full Council in February 2019. This report summarises the review of the MTFS as the opening stage of the 2020/21 Budget Setting process.
- 1.2 The Council is in a strong financial position with general revenue reserves standing at £8.7m at the start of 2019/20, which is a direct result of robust financial management and our excellent record in achieving efficiency savings.
- 1.3 In spite of the continuous funding cuts since 2010, the Council has delivered an ambitious savings programme equating to more than £13m with minimal impact on frontline services. Along with the rest of local government, the Council will find it increasingly difficult to find further savings and efficiencies to balance the books without placing some reliance on reserves.
- 1.4 The HRA also remains in a strong position with reserves at the start of 2019/20 amounting to £2.6m.
- 1.5 When the last MTFS was approved by Full Council, savings of £1.5m were required to close the budget gap in 2020/21 and the council will need to find another £0.3m of efficiency savings to close the indicative budget gap in 2021/22.
- 1.6 External Audit continues to examine the council's financial sustainability as part of the annual Statement of Accounts audit, which includes an assessment on the Council's reserves position and our ability to address the budget gap in the medium term. Whilst the council has always received a clean bill of health from External Audit and that our auditors have not raised any concerns through their work on the Value for Money conclusion, it is extremely likely that the whole of the local government finance sector will continue to be questioned around our financial sustainability.
- 1.7 The recent Peer Review report commented positively on how the council has managed our finances and that the council is in a strong financial position and has a proven track record of delivering savings. Officers have followed up the recommendation from the Peer Review that baseline budget should be reset in order to release savings and this is summarised in this report.
- 1.8 The local government financial position remains unclear beyond the current 2019/20 budget. In particular, the Government has recently announced a one year spending round covering 2020/21 departmental expenditure limits on 4th

September 2019, and that the fair funding review and reform of the business rates retention system has been deferred to 2021/22. The Leader of the Council wrote to the Chancellor and Secretary of State for Housing, Communities and Local Government in August urging the government to publish information about future year's funding as soon as possible and seeking support to address the spending pressures that are faced by District Councils such as Welwyn Hatfield.

- 1.9 This report sets out the broad principles and objectives for setting the next Budget and also examining the key issues and pressures facing the Council in the medium term. It should be noted that the Council has been proactive in identifying savings required for future years and that the council's modernisation agenda will play a central part to ensure our financial sustainability going forward.

2 Recommendation(s)

- 2.1 Cabinet is asked to note the contents of this report and to approve the principles to be adopted for the 2020/21 budget setting process as highlighted in section 3.3.8, in particular the 2020/21 budget setting process should focus on closing the indicative budget gap beyond next year.

3 Explanation

3.1 Financial Position (approved by Full Council in February 2019)

- 3.1.1 The Medium Term Financial Strategy (MTFS) approved by the Council in February 2019 shows that the Council delivered a balanced budget for 2019/20, but that the Council had challenging savings targets to meet over the next two years.
- 3.1.2 Table 1 below summarises the indicative budget gap in the MTFS agreed by Full Council in February 2019:

	2020/21	2021/22
	£000	£000
Net cost of services	14,000	13,819
Remove one off budgets	(234)	(167)
Base budget	13,766	13,652
Pay Inflation	256	261
Contractual Inflation	372	420
One off growth items	167	23
Ongoing growth	22	26
Savings	(764)	(192)
Ne Cost of Services	13,819	14,190
Interest Payable and MRP	1,337	1,337
Transfer from earmarked reserve in relation to business rates deficit	0	0
Transfer (from)/ to Other Earmarked Reserves	109	346
Corporate income (Retained Business Rates + RSG + New Homes Bonus + other grants)	(4,601)	(4,643)
Council Tax Income	(9,121)	(9,378)
Cumulative Budget Gap	1,542	1,851

3.2 Changes in Budget Assumptions since February 2019

Spending Review (SR)

- 3.2.1 The Government had previously stated its intention to hold a SR in 2019, which normally covers a multi-year period. There had been increasing views that due to political turbulence around Brexit that a one year settlement would be the most likely outcome.
- 3.2.2 On 8 August 2019, the Government confirmed that they would be undertaking an accelerated one year spending round, to ensure Government Departments can continue to focus on delivering Brexit.
- 3.2.3 The one year SR was announced on 4th September and the next multi-year SR will now be carried out during 2020.
- 3.2.4 The key announcements included in the one year Spending Review are summarised below:

Fair Funding Review (FFR)

- 3.2.4.1 The Government has previously indicated their desire to review the funding baseline for local authorities and it was widely expected that the fair funding review would be completed by the time of the 2020/21 local government finance settlement. However it was announced on the 4th September that this will be deferred until 2021/22.

Reforming Business Rates Retention (RBRR)

- 3.2.4.2 The Government has been consulting on the reform of the business rates retention system and how the 75% business rates retention system should look like. The reform looks at a number of the key factors, such as the frequency at which the system should be 'reset', the level at which safety net is set, and the apportionment of income between preceptors.
- 3.2.4.3 It was previously expected that the government was due to publish a consultation in summer 2019, however this did not take place and it is unclear what the outcome of this review will be for the Council. Along with the FFR, the reform of the business rates system has been deferred to 2020/21.
- 3.2.4.4 All Hertfordshire authorities were accepted by the government as part of the 2019/20 Business Rates Retention Pilot Scheme. The one year Spending Round indicated that the 19/20 Pilot area is likely to end. At this stage, it is unclear whether there would be an opportunity to apply for business rates pooling scheme in 2020/21.
- 3.2.4.5 The Government has previously indicated that as part of the reform of the business rates, they would be looking at fair and affordable options for dealing with negative revenue support grant (RSG). It was indicated as part of the Spending Round announcement that negative RSG will be removed for 2020/21 and details of how this would be funded are likely to be contained in the forthcoming Technical consultation for 2020/21 Local Government Finance Settlement.

New Homes Bonus Reform

- 3.2.4.6 At the time of the 2019/20 local government finance settlement, the Government indicated that they would carry out a further reform of the New Homes Bonus grant before the 2020/21 Local Government Finance Settlement. It was widely expected that a consultation was to be published in summer 2019 to provide some indication of what changes may be made to the new homes bonus grant, however this did not take place and it is unclear whether there would be any changes to the calculation of the future of new homes bonus for 2020/21.

Council Tax Referendum Limits

- 3.2.4.7 The 2019/20 Council Tax Referendum Limits for district councils were set at the higher of £5 or 3%. It was indicated in the Spending Round that the referendum limit for next year would be set at 2%, however it is unknown at this stage whether this limit would apply to all classes of local authority. Our MTFS currently assumes a 1.5% council tax increase for 2020/21.

Technical Consultation on the 2020/21 Local Government Finance Provisional Settlement

- 3.2.4.8 It is expected that the Ministry of Housing, Communities and Local Government will be publishing a technical consultation covering the details of the key announcement in the Spending Round prior to the 2020/21 Provisional Settlement. This is likely to include further details on New Homes Bonus as well as the allocation methodology on the £54m grant to combat rough sleeping and homelessness.

Pay and Grading Review

- 3.2.5 The council forms part of the National Joint Council (NJC) pay agreement. A two year agreement had been reached, for which 2019/20 was the last year.
- 3.2.6 This will remain an uncertain position until an agreement is reached nationally, and this has historically been an area which has reached agreement after the start of the financial year.
- 3.2.7 The MTFS assumes a 2% increase in line with the previous two year settlement.

3.3 Options to Address the Budget Gap

- 3.3.1 The Council's financial strategy remains to support an affordable level of council tax by reducing costs, maximising income, sharing good practice, simplifying delivery processes and shrinking the Council's administration cost.
- 3.3.2 In light of the continued uncertainties and risks set out in section 3.2, consideration will be given to a range of options for services to deliver savings for the 2020/21 budget setting process.
- 3.3.3 The use of reserves will be considered as part of the budget setting process; however this will need to balance the need for a minimum reserve level that the Council must retain to meet any unanticipated costs arising in any given year, and ensure an adequate level of reserves is maintained for delivery of corporate aims and objectives.
- 3.3.4 Following a positive outturn on the 2018/19 financial position, and as recommended by the Peer Review, the Finance team have led on resetting the baseline position. In particular, an exercise has been undertaken to cap expenditure budgets, or increase income budgets, using the past three years of financial outturn data.
- 3.3.5 This exercise has proved to be very successful, generating around £700k of efficiencies. These savings will also be reviewed in the current financial year and will be reported as part of the future budget monitoring report.
- 3.3.6 As reported in Q1 Capital Budget monitoring, the crematorium project will re-phased, which will lead to a pressure of £400k in the short term. Consideration will be given to the approach to be adopted for dealing with this one off pressure, during the budget setting process.
- 3.3.7 Notwithstanding the above, the council has a challenging target of savings to meet, and proposals will be worked through with Member Portfolio Holders and Cabinet over the autumn months.

3.3.8 In order to ensure progress can be made at the pace required to deliver the financial challenge, it is recommended that the 2020/21 budget setting process should adopt the following principles:

- Budget growth (including one-offs growths) should be the last resort and they are primarily reserved for invest to save projects.
- Services will need to find savings/income to fund budget pressures.
- As in previous years, all the budget growth will be subject to approval by Cabinet.
- Improve income generated through fees and charges following a review on the existing fees and charges policy. All (non-statutorily set) fees and charges will increase by a minimum of inflation except in exceptional circumstances (where there is a clear case for not doing so).
- Savings proposals must be submitted with a view to find ways to address the budget gap beyond 2020/21.
- Review the Policy on Reserves and Balances to ensure that it supports the delivery of the corporate priorities and the council's modernisation agenda.

3.4 Housing Revenue Account

3.4.1 The budget and longer term forecasts were prepared on the basis of the following high level principles:

- The Council will continue to maintain existing stock to at least decent homes standard.
- The Council will continue with its aim to maintain stock levels at around 9,000 dwellings.
- The Council will continue to develop new homes through its Affordable Housing Programme, to fully make use of the retained right to buy receipts available to it and replace those properties sold through Right to Buy.
- The Council will continue to take a balanced approach to its level of Housing debt, borrowing to support development and ensuring some flexibility is maintained for any future legislative or policy changes.

3.4.2 At the time the 2019/20 original budget was set, it was anticipated an in-year surplus of £0.193m, with working balances at £2.790m forecast for the end of the year. The closing position on the working balances equates to 5.4% of turnover, and is within the range of 5%-10% of turnover as approved in the MTFS.

3.4.3 No material changes have been made to the assumptions in the HRA forecast. A fundamental review is currently underway of the business plan, alongside business planning for the Housing Company, and both will be presented to Members in the coming months. A summary of the forecasts for the HRA from the Budget Setting report for 2019/20 is shown in the following table, updated for opening balance adjustments.

	2020/21 Forecast Budget	2021/22 Forecast Budget
	£'000	£'000
Rental Income	49,917	51,695
Void Losses	(399)	(414)
Service Charges	2,612	2,667
Non-Dwelling Income	552	564
Grants & Other Income	262	264
Total Income	52,944	54,776
General Management	(8,301)	(8,476)
Special Management	(3,785)	(3,864)
Other Management	(1,802)	(1,840)
Rent Rebates	0	0
Bad Debt Provision	(507)	(525)
Responsive & Cyclical Repairs	(9,761)	(10,047)
Total Revenue Expenditure	(24,156)	(24,752)
Interest Paid	(7,024)	(7,309)
Finance Administration	0	0
Interest Received	95	94
Depreciation	(15,102)	(15,419)
Net Operating Income	6,757	7,390
Revenue Contribution to Capital	(7,039)	(7,112)
Net surplus/(deficit)	(282)	278
Opening HRA Balance	2,790	2,508
Closing HRA Balance	2,508	2,786

Rent Setting

- 3.4.4 The Government announced in 2015, a statutory requirement for Local Authorities to reduce rents by 1% for the financial years 2016/17 to 2019/20. The current financial year will be the last year of this four year policy.
- 3.4.5 In October 2017, the Government confirmed its intention to end the rent reduction policy after the fourth year, by stating that “increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020”.
- 3.4.6 The Regulator of Social Housing (RSH) has recently carried out a consultation on their proposed Rent Standard from 2020. This consultation confirms the rent proposals for CPI+1% increases from 2020/21, and our forecasts have been modelled on this basis. The government’s response to this consultation is expected to be published later this year and the result of which will be used to inform our budget setting process.

Right to Buy

- 3.4.7 As highlighted in previously in monitoring reports, the Council has seen a decline in the number of right to buy sales. The most recent forecasts are around 40 per annum, compared to the 70 per annum seen in previous years.
- 3.4.8 This change has a positive effect on the Councils ability to maintain stock levels at around 9,000, but has a negative impact on the receipts available to fund new build schemes.
- 3.4.9 However, the HRA continues to have a significant level of headroom (against the previously nationally set borrowing limit), and any shortfall in retained right to buy receipts can be offset by additional borrowing.

National Context

- 3.4.10 In 2018, the Government consulted on a number of proposals in relation to the Right to Buy Retention system, in order to attempt to improve local authorities' abilities to accelerate build.
- 3.4.11 These proposals included consideration of the amount of receipts that could be used towards a development scheme (currently 30%), and other factors such as the period in which the receipts are required be used within.
- 3.4.12 As with many of the other reviews set out in section 3.2, there has been no further communication from the Government on the outcome of this consultation, or its intentions. It is not expected that any announcements will be made on this before 2020/21.

3.5 Capital Programme and Borrowing

- 3.5.1 The Capital Programme has been structured to enable delivery of the Council's Business Plan and the HRA Business Plan over the medium to long term.
- 3.5.2 The Programme includes all of the capital schemes within both the General Fund and the Housing Revenue for 2019/20 to 2023/24.
- 3.5.3 Although there are some schemes expected to be re-phased from 2019/20, which are reported through the regular budget monitoring reports, it is not anticipated at this stage that this will impact on the Councils finances over the five year period, as the funding of the schemes will also be rephrased in line with project expenditure.
- 3.5.4 The majority of the Councils borrowing requirement is generated through the Housing Revenue Account, which is continuing to see a moderated level of right to buy sales. In order to maximise the use of the receipts it can retain, the Council is committed to the continuation of the Affordable Housing Programme (AHP). This programme will create income generating assets, which will cover the cost of external borrowing.
- 3.5.5 The Council will continue to seek to borrow externally for the HRA to support the continuation of the AHP, and to refinance part of its current debt, but will take advantage of the historically low interest rates and minimise interest costs through utilising a mix of short and long term borrowing in line with the Treasury Management Strategy.

3.5.6 Current forecasts show the Capital Programme as affordable, but do highlight that the General Fund capital balances will be significantly reduced by the end of the programme. This will need to be considered in the longer term context, and will form part of the 2020/21 budget setting process.

3.5.7 The Capital Strategy will also be reviewed in line with the council's regeneration ambition and as recommended in the Peer Review.

3.6 Next Steps

3.6.1 The Council's budget setting process integrates service and financial planning into a single, seamless process and aims to ensure that resource allocation both reflects corporate priorities and is affordable.

3.6.2 Over the autumn months, officers will be preparing assessments of their service that take into account the Council's policies, priorities and performance, national policy, service and budget risks, and value for money.

3.6.3 The resulting growth and savings options will include an assessment of their service and financial impact, achievability, sustainability and equalities impact. These options will be reported to Cabinet in January together with overall proposals for the Council's budget.

4 Risk Management Implications

4.4 There continue to be a high level of uncertainties from a funding perspective. The Council has been prudent in its assumptions, basing forecasts on previous information and the most up to date information available. These uncertainties do however lead to a high level of risk that the savings requirement could be impacted by national announcements.

5 Security & Terrorism Implication(s)

5.1 There are no security or terrorism implications arising from this report.

6 Procurement Implication(s)

6.1 There are no procurement implications arising from this report.

7 Climate Change Implication(s)

7.1 There are no direct climate change implications to consider.

8 Health and Wellbeing Implication(s)

8.1 There are no direct health and wellbeing implications to consider.

9 Link to Corporate Priorities

9.1 The subject of this report directly linked to the delivery of all of the Councils objectives.

10 Communications and Engagement

10.1 Part of the 2020/21 budget communication and engagement plan includes engaging with opposition members early and that a budget seminar will be

delivered to all Members. Engagement with public and businesses will be put into place once more details about the budget proposals are available.

11 Equality and Diversity

- 11.1 An Equality Impact Assessment (EIA) has not been carried out in connection with the proposals as there are no equalities or diversities issues arising from the report.

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