WELWYN HATFIELD BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2017/18 TO 2019/20

CONTENTS

1 KEY MESSAGES FROM FINANCE PORTFOLIO HOLDER AND EXECUTIVE DIRECTOR

1.1 The medium term financial view for the Council has been prepared in unprecedented times of economic uncertainty and declining levels of public sector funding. Grant funding for local government in the traditional sense of revenue support grant will disappear completely over the current Parliament and local authorities will become more reliant on the more volatile income source of business rates.

1.2 After publishing our Efficiency Plan in the summer the Government has confirmed the Council will be granted the multi-year settlement with a view to providing more certainty of the levels of funding over the term of the Parliament. However, with the terms of the 100% business rates retention scheme yet to be finalised, a revaluation of the business rates underway, a new appeals process to start from April next year, the New homes Bonus scheme may be subject to further changes and the continuing fundamental review into local government funding, the level of resources available to the Authority over the medium term is actually much less than certain.

1.3 The Council has needed to deliver £11m of savings since the start of public austerity in 2010 and so many quick win saving opportunities have been exhausted. The council will face some major decisions when considering its budget in the medium term. The priority has always been to safeguard frontline services where possible, but inevitably there have been and will continue to be some difficult decisions that result in changes to services for our residents, customers and businesses.

1.4 The Medium Term Financial Strategy (MTFS) sets out the Council's commitment to provide the best possible value for money for the community. It provides a framework for the Council to plan and manage its revenue resources up to 2019/20; the Council also operates a five-year capital programme (2017/18 – 2021/22) detailing our long term investment plan for the community.

1.5 The Council starts the next three years in a reasonably strong financial position with £10m in general fund revenue reserves at the start of 2016/17. Capital reserve balances for general fund activity are £36.5m at the start of 2016/17 but are reducing and internal borrowing is being used to support some capital schemes. The ongoing sustainability of the capital investment programme will continuously need to be reviewed and prioritisation given to projects which are "invest to save" in nature and have a business plan which demonstrates a reasonable pay back of resources.

1.6 The Housing Revenue Account (HRA) reform came into effect in April 2012. Although the Council now keeps all of the rent it collects, it took a one-off debt of £305m which has a cost of servicing and repayment. This is met through the HRA and is included as part of the MTFS.

1.7 The HRA will have a good level of reserves going into 2017/18, amounting to around £10m; however, a number of significant changes such as the impact of welfare reform, the changes to the national rent setting policy, the Council's affordable housing programme as well as the uncertainty on the supporting people grant will continue to have a material impact on the HRA balance going forward.

1.8 It is with this context that after a period of seven years with no increase in council tax our strategy over the medium term is to increase council tax by a small amount each year but below the level of inflation where possible.

1.9 As we move forward we are determined to continue with our successes and the medium term financial strategy provides the resources needed to achieve the ambitions set out in the Council's Business Plan.

1.10 There remain a number of uncertainties and risks to the Council's finances in the medium term, the details of which are contained within this strategy. Local government is being compelled to become financially self-sustainable and over the term of this MTFS it is expected that local tax and fees and charges for services and other locally driven income sources will become yet more important. We will continue to experience significant pressures on our services arising from demographic changes and an increasing population, the uncertainties surrounding the economy and continued high expectations of service delivery. We will keep our MTFS under review and make changes accordingly to reflect the rapidly changing environment in which we work.

Duncan Bell	**Ka Ng**
Executive Member for Resources	**Executive Director**

2 INTRODUCTION

2.1 Medium term financial planning is an important component of the Council's strategic planning framework. No more so than in the current economic climate in which we are faced with unprecedented reductions in public expenditure. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year. Forward planning offers the opportunity to link service and financial planning, as decisions taken on an annual basis are constrained in what they can achieve.

2.2 The Medium Term Financial Strategy (MTFS) provides the foundation against which the Council will strive to deliver the best possible value for money in the provision of efficient and cost effective services across the Borough. Through the effective development and delivery of the Authority's financial and other resource strategies it seeks to build upon past achievements as well as provide clear direction to the attainment of the Council's longer-term goals.

2.3 The medium-term financial planning process has been in place for a number of years and is an established part of the budget setting process. It provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Council over the period. It identifies any shortfalls and sets out how this will be managed. This document is reviewed at least annually; regular review and update is essential to ensure the MTFS takes full account of any changes in the Council's aspirations, strategic and service delivery priorities, changes in government legislation, financial regulation and funding streams.

2.4 The Medium Term Financial Strategy (MTFS) sets out how the Council will manage its revenue finances up to 2019/20 and also covers a five-year capital programme. The MTFS supports the delivery of the Council's objectives and priorities as set out in the Council's Business Plan.

2.5 Underpinning the Business Plan are the individual service plans and a number of other key strategies and plans as set out below. In each case, these set out the detail of how the Council will achieve its objectives and the relevant milestones that will measure progress.

- Asset Management Strategy
- Capital Strategy
- Climate Change Strategy
- Information Technology Strategy
- People Strategy
- Procurement Strategy
- Risk Management Strategy
- Treasury Management Strategy

2.6 The development of the 2017/18 budget has taken place within the context of a longer term strategic and resource planning process. In particular it takes account of the latest Spending Review and the uncertain economic climate. The review of the MTFS reported to the Cabinet in August 2016 identified the financial pressures facing the Council in the medium term and projected the level of resources that would be available to meet them.

2.7 These reports concluded that the Council's future financial outlook was likely to be more challenging over the next few years, because of reductions in overall public spending and the continued high expectation of public service delivery from the public. Given that the relatively easy wins for finding efficiency had already been taken Cabinet was advised that meeting new cost pressures would require an increasingly rigorous and innovative approach to new ways of working, identifying efficiencies, enhanced productivity, and re-prioritisation of spending within services.

3 OBJECTIVES

3.1 The objectives of the Medium Term Financial Strategy are:

- To provide a financial plan of the resources available to deliver the Council's priorities and objectives.

- To ensure priorities identified as part of the Corporate Planning process inform the MTFS including importance, timing and financial implications

- To provide projections of spending, including spending pressures and income; and set expectations on council tax increases, over the next three years

- To provide projections for our investment in assets, (our capital spend) and its impact on general day to day revenue spending

- To test sensitivity of, and apply risk analysis, to projections.

- To provide a framework for consultation with the public and partners about our service priorities and resources allocated to them.

4 VISION FOR WELWYN HATFIELD

4.1 The MTFS supports the Council's overall vision of what it aims to achieve:

"To make Welwyn Hatfield a great place to live, work and study with a vibrant, growing economy."

5 LOCAL CONTEXT

5.1 Welwyn Hatfield contains two new towns. The borough also comprises a variety of large villages and small settlements.

5.2 A large part of the borough is open countryside and nearly 80 per cent of the area is Metropolitan Green Belt. Welwyn Hatfield is highly accessible by both road and rail. Motorway connections are good with the A1(M) passing through the borough north-south and connecting to the M25 to the south.

5.3 Welwyn Hatfield is estimated to have a resident population of just over 114,000. The Borough is regarded as one of the areas with the highest population growth within England and Wales.

6 WELWYN HATFIELD BUSINESS PLAN

6.1 The Business Plan is influenced by a number of strategic documents which shape the council's work in the borough. These documents are listed below:

- **The Local Plan**
- **The Medium Term Financial Strategy**
- **Service Team Plans**
- **The Community Strategy**
- **The Equality and Diversity Delivery Plan**

In addition the Plan is supported through partnerships with:

- **Welwyn Hatfield Alliance Community Partnership**
- **Hertfordshire Forward Community Partnership.**

6.2 These exist to help elected members, staff and partners to work together to make Welwyn Hatfield the best that it can be. This requires an effective balance between support for national and local priorities.

6.3 **The Welwyn Hatfield Business Plan 2015-18** identifies all local and many national priorities.

6.4 Welwyn Hatfield has a list of Corporate Priorities which are

- **Maintain a safe and healthy community**
- **Protect and enhance the environment**
- **Meet the Borough's housing needs**
- **Help build a strong local economy**
- **Engage with our communities and provide value for money**

6.5 These priorities also represent the challenges faced by the council as it seeks to improve local quality of life for everyone who lives, works or visits the borough.

6.6 Everything we do is under pinned by our values. Our values demonstrate what is important to us in our dealings with residents, businesses, partners and staff. These are:

- We will be honest, clear and consistent about what we do
- We will be approachable, accountable and transparent in the way we communicate and conduct our business
- We will have respect for residents, businesses, partners and employees
- We will be fair in a policies and decision making, listening to the views and feedback we receive

6.7 The budget setting process takes into account the priority framework and the priorities have a direct implication on the acceptability of the budget.

6.8 The People Strategy sets out the key priorities for improving the way in which the Council manages its workforce in order to achieve the Corporate & Community targets. Our greatest asset is our employees and we must have committed, skilled and empowered employees in order to provide the best possible service standards to the residents of the Borough.

6.9 The medium term financial strategy sets out the resources required to deliver the priorities stated within the Business Plan and how those resources will be obtained.

7 CONSULTATION STRATEGY, APPROVAL AND COMMUNICATION PROCESS

7.1 The council has a Duty to Consult[1] and as such will carry out regular consultation with local people, customers, stakeholders, and partner organisations to establish current and future needs, the priorities of the community and how the Authority should fulfil its Best Value Duty[2] to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

7.2 The council will consult in a variety of ways including postal questionnaires (e.g. My Council survey), public meetings, attendance at community events, service feedback forms, and online consultation via the council's website (e.g. You Choose budget survey). As well as listening to local views, service teams recognise the importance of providing timely and meaningful feedback to local communities on what can be, or has been done, to address any issues raised. In some instances, issues raised are turned into measurable targets which help the council demonstrate a positive outcome for local people.

[1] Section 3(2) of the Local Government Act 1999
[2] Section 3 of the Local Government Act 1999 (as amended by s137 of the Local Government and Public Involvement in Health Act 2007)

7.3 The MTFS is submitted to Cabinet in January of each year for approval. It is subject to challenge and scrutiny through the Resources Overview and Scrutiny Committee before final approval by Full Council alongside the budget and tax setting decisions in February.

7.4 Once approved, the MTFS will be communicated to all stakeholders and staff. This will include using the internet/intranet and newsletters to staff and customers.

7.5 It is reviewed at least annually against the outturn and forecasts and updated as necessary.

Consultation with Business Ratepayers and local community and voluntary organisations

7.6 The Council will consult annually on its budget proposals with business ratepayers in accordance with statutory requirements

7.7 The Council will also consult with local community and voluntary organisations at appropriate times where there is likely to be interest in a proposed service change and in particular where the authority is considering the decommissioning of a service or funding.

8 FINANCIAL PLANNING FRAMEWORK

8.1 The Council operates a medium to long term revenue and capital investment programme. The revenue plan covers a three year period, whilst the capital programme takes a five year view. The programme is revised annually to roll forward so as to incorporate a new year, as well as to review and revise the old financial years.

8.2 The future impact of all known issues have been considered as part of the 2017/18 budget setting process, including those which we already know about which may not impinge on our budgets until after the first year (2017/18). Outlined in the table below are the key stages involved in producing the budget.

June/July	Strategic priorities for the following year agreed by Members and Officers. Cabinet approves the framework for the budget setting process for the following year.
August/September	Officers are asked to submit bid forms requesting schemes to be incorporated into the capital and revenue programme.
September/October	The MTFS budget is updated to reflect the new schemes submitted / amendments made to existing schemes. All of the schemes are initially challenged by Director (Finance & Operations) to ensure that the bids submitted have complied with the approved budget guidance.
October- December	All capital and revenue bids are then challenged and scrutinised by the Executive Board, then to a Members forum (Strategic Leadership Group) for comments and recommendations. Budget consultation with the public is also analysed and fed into the budget decision process.
November/December	Provisional Local Government Finance Settlement announced by the Government (this indicates the levels of capital and revenue grant given to the Council).
January	The draft capital and revenue programme is presented to the Executive Board, Resources and Overview Scrutiny Committee, then Cabinet for approval.
February	Full Council approves next financial year's capital and revenue budget, and the remaining years budget is noted and acknowledged as part of the Council's medium financial strategy for further investment needs
April	The new financial year commences and the budget approved is then assessed under the monitoring process.

9 ECONOMIC OUTLOOK

9.1 The Chancellor's Autumn Statement provided an updated forecast for growth in GDP, as shown in the table below. The table shows that the forecast of UK economic growth in 2016/17 has remained at 2.0%. Figures show some revisions downwards throughout the period - from 2.2% to 1.3% in 2017/18, from 2.1% to 1.9% in 2018/19 and then unchanged in 2019/20.

Year	Economic Growth
2016/17	2.0%
2017/18	1.3%
2018/19	1.9%
2019/20	2.1%

9.2 The Consumer Price Inflation (CPI) and Retail Price Index (RPI) forecasts published on the day of the Autumn Statement are shown below:

Year	CPI	RPI
2016/17	1.0%	2.0%
2017/18	2.5%	3.2%
2018/19	2.5%	3.5%
2019/20	2.0%	3.1%

9.3 Many of the Council's contracts are linked to either RPI or RPIX as an inflationary increase. Low inflation means the pressure on contract budgets is lower but as can be seen from the table below inflation is expected to rise to over three per cent. As such, an assumption of annual inflation to reflect the above forecasts is built into the medium term estimates.

9.4 The Bank of England base rate remains at a historical low level of 0.25%. The estimates assume this low base rate will continue until 2019 and is consistent with the forecasts from our treasury advisors. With a steady reduction in available cash balances this will result in a gradual decline in investment income over the period.

10 GENERAL FUND REVENUE BUDGET

Financial Context

10.1 The development of the 2017/18-2019/20 Medium Term Financial Strategy has taken place in an era which continues to be one of the most challenging periods for Local Government.

10.2 While there have been some recent signs of improvement in the economic outlook the continuing austerity measures have led to unprecedented reductions in Local Authority funding. The austerity programme is likely to last until at least 2019/20.

10.3 A review of the MTFS was submitted to Cabinet for discussion in August 2016. The report set out the broad principles and objectives for setting the 2017/18 budget and also examined the key issues and pressures facing the Council over the next three years.

Risks and Opportunities

10.4 This section highlights the risks and opportunities facing the Council in the medium term.

- Demographic
- External Income
- Inflation
- Service Demand
- Business Rates Retention
- Other Developments

Demographic

10.5 Demographic factors affect the Council's planning in a number of ways:

- Changes in the number of households affect the tax base for Council Tax purposes, and hence the total amount which will be raised from this source

- The characteristics of both population and households can help identify specific implications for the type and nature of many services provided by the Council

- All of the above factors affect the level of demand for, and use of, services provided by the Council

The Office for National Statistics (ONS) estimated in previous Census that the population in Welwyn Hatfield was around 97,600 in 2001. This had increased substantially by 17% to 114,061 (based on mid-2013).

The Local Plan, subject to the outcome of the consultation, suggests a growth in domestic properties of around12,100 over the life of the plan to accommodate a growing population.

The tax base is calculated using the latest property data and an assumption for growth and a rate of non-collection. For 2017/18 our estimates suggest an increase in tax base of around 2%, or 854 properties compared to 2016/17, bringing the total number of properties for tax setting purposes to 40,324.2. This increase reflects a catch up on the number of properties delivered during 2016 and also an improved collection rate. In future years an assumed growth in the tax base of 0.8% is assumed.

External Income

10.6 The Council relies on a number of external income sources. The economic downturn had an adverse impact on some of our income streams, although in recent times the economic recovery has resulted in a corresponding improvement.

- The service areas affected by falling income during the economic downturn were principally planning, building control, and income from the sale of recyclables.
- Historically a key income stream for the council has been the income generated from investment of cash balances. The low rate set by the Bank of England has resulted in a large reduction in this income in recent years. Every 1% of movement in interest rates is equivalent to approximately £0.1m in income; however, the actual interest earned will also be affected by the level of cash balances.

10.7 The Council has a policy to maximise income from fees and charges where possible and practicable, however the current economic climate has restricted the amount of income that could be generated externally.

Inflation

10.8 The financial impact of a 1% movement in pay inflation represents around a £0.1m change in the general fund employee budget. A 1% pay increase is anticipated for each year of the MTFS and will be subject to the national local government pay negotiations.

10.9 Budgets for contract payments are uplifted by appropriate indices as stated in the conditions of the contracts. The financial impact of a 1% movement in contractual inflation is around £0.1m. An allowance is also made for changes to business rates incurred by the Authority and also insurance costs. The draft published rateable values and multiplier suggest an increase in business rates payable in 2017/18 and along with a small increase in insurance premiums result in growth in 2017/18 of around £0.250m. No inflationary increase has been applied to the general services budget, except specific items such as utilities.

Service demand

10.10 Under the current economic climate the demand for Council services remains high compared to historic levels. There is also an imposed demand by Central Government on local authorities to take a major part to revitalise the local economy and at the same time bear a significant part of the governments overall austerity measures from reduced funding.

10.11 While there has been a recent improvement in UK growth it is unknown whether this will be sustained, however the increase in the demand on our services coupled with the loss of external income will restrict our ability to make radical improvements to our discretionary services.

Business rates retention and the multi-year settlement

10.12 Since April 2013 business rates are no longer pooled and redistributed in full nationally. Local authorities retain a proportion of business rates instead and get to keep a share in any growth in the baseline position.

10.13 The Provisional Settlement for 2016/17 was announced on the 17th December 2015 and the Council's Revenue Support Grant funding reduced by 40% to £1.3m. Indicative figures were also provided for 2017/18, 2018/19 and 2019/20 and the Government announced the intention to confirm the multi-year settlement for those Authorities that signed up to an efficiency plan. The Council's Efficiency plan was published in October 2016 and the Government has confirmed the Authority met the criteria for the multi-year settlement. As can be seen in the table below Revenue Support Grant is expected to fall to zero in 2019 and then effectively go into the negative as a further "adjustment" is introduced to the tariff. The total settlement is expected to continue to reduce over the period.

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Revenue Support Grant	1.307	0.558	0.104	(402)
Business Rates Baseline	2.664	2.716	2.797	2.886
Total Settlement	**3.971**	**3.274**	**2.901**	**2.484**
Year on year change	-17%	-18%	-11%	-14%

10.14 Confirmation of the multi-year settlement should mean that the indicative settlement figures in the above table represent the minimum level of funding over the medium term. However, this level of funding is dependent on the amount of business rates actually collected and so there is a risk this will not be achieved as well as an opportunity that funding will be greater if the collection of business rates is better than expected.

10.15 On 5 July 2016, DCLG published the consultation paper, "Self-sufficient local government: 100% Business Rates Retention". Government intends to introduce 100% Business Rates Retention to local government by the end of the Parliament (2019). It is expected that, at the same time, the government will update the relative needs formulae (i.e. that determine the amount of resources that an authority will have if it collects at its business rates target). A discussion paper on the review of the Baseline Need figure was also published on 5 July 2016.

10.16 There are a number of questions asked in the consultation about the principles underlying the system including the additional responsibilities that will be transferred to local government. While there are many unknowns at the moment about how this will impact on the Council's funding it is clear that the system will have to include a means of redistribution and so while the sector may retain all the business rates collected it will not be possible for each individual Council to retain all the business rates collected in its particular area.

10.17 In the absence of any alternative system to model, our current forecasts assume the continuation of the current business rate retention scheme. In this scheme of the business rates collected the Council pays 50% to Central Government, 10% to Hertfordshire County Council and then a further "tariff" to central government before a levy is calculated on the growth above the "baseline". This levy is then also paid to Central Government. The result of this redistribution is that Welwyn Hatfield Borough Council keeps around 6pence of every £1 collected.

10.18 The amount of business rates collected has grown above the Government's assessed "baseline" for the Borough. This means the amount forecast to be retained is more than the amount indicated in the financial settlement as the baseline and a levy is due to be paid. This is demonstrated in the table below. In 2015/16 the Council benefited from a reduced levy as a result of being included in the Hertfordshire Business Rates Pool. It is hoped this benefit will continue but will be dependent on the performance of all Councils in the pool.

Table 3: Total forecasted amount of business rates retained by Welwyn Hatfield Borough Council

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

10.19 The Council is now exposed to the risk of successful appeals which reduce the rateable value of properties. As such, it is necessary to estimate the level of success for current and future appeals and make an appropriate provision. This is done by applying a success and likelihood factor to the list of current outstanding appeals based on past experience. By nature there is significant scope for variation in the actual amount of successful appeals and so it is likely the collection fund will either be in surplus or deficit at each year end, which has to be charged to the general fund in the following financial year. To help mitigate this potential volatility the Council will hold a reserve balance of over-achieved retained business rates to use to cushion against future deficits.

Council tax support grant for parish and town councils

10.20 Direct identifiable funding for the provision of our Local Council Tax Reduction Scheme ended in 2013/14. Since then the Authority has had to manage the cost of the scheme through the tax base and the collection fund.

10.21 Previous Local Government Ministers have stated that billing authorities should carry on passing on a local council tax support grant to town councils and parishes to help mitigate any reduction in their tax base due to the local Council Tax support scheme even though this funding to the Borough Council ended and was wrapped into the reducing financial settlement.

10.22 There is no legislative duty for billing authorities to pass down funding to Parish and Town Councils. The policy is to continue to reduce the level of grant each year over the term of the MTFS by the same amount as the reduction in revenue support grant from central government. As such, the grant will reduce by 57% in 2017/18 to a total of £28,000, to £5,000 in 2018/19 and then will cease completely in 2019/20.

New Homes Bonus Scheme

10.23 The New Homes Bonus Scheme was introduced in 2011/12 as a way to encourage local authorities to facilitate housing growth. In essence, for every additional property built or brought back into use, the government match funds the additional council tax, with an additional amount for affordable homes, for the following six years. The grant has been paid as an un-ringfenced grant and split 80% to lower tier Authorities and 20% to the upper tier. Welwyn Hatfield received a New Homes Bonus grant of £2.243m in 2016/17.

10.24 The Government has consulted during 2016 on proposed changes to the scheme and changes were confirmed as part of the 2017/18 provisional settlement announcement in December 2016. In anticipation of this reduction in this funding, a proportion of the annual amount received is transferred into the strategic reserve for one-off strategic projects. This will ensure that in the short term funds are available for innovative projects and will also reduce the financial reliance on uncertain funds for the general running expenditure of the Council. This will help the Council to become financially self-sustainable over the course of the MTFS.

Other Developments

Pension

10.25 Welwyn Hatfield Borough Council employees are eligible to be members of the Local Government Pension scheme, of which the Government sets the terms and conditions nationally. This is a statutory condition of employment available to all local government employees.

10.26 The most recently published actuarial draft valuations (2016) for the whole fund show that the Welwyn Hatfield Council element of the fund continues to be in deficit. The overall deficit position of the pension fund has improved slightly compared to valuation 2013, however the fund is only 78% funded. The position is, however, subject to the transfer of the pension fund for the Community Housing Trust into the overall Council Fund.

10.27 The actuary has agreed to the smoothing of funding the structural deficit over a 20 year timeline. Even so the current draft valuation for the Council requires employer contributions of 17.9% of pensionable pay plus an annual lump sum payment of £1.533million in 2017/18 and growing by £100k per annum. The Council could choose to make a lump sum upfront contribution in order to mitigate these increases over this period. This would assist in balancing the annual budget and enable the Council to take advantage of an improved rate of return on investment than is achieved on the Council’s own cash investments.

10.28 Automatic Enrolment has been established by the Government as a requirement for employers to provide a pension scheme for employees. The Local Government Pension Scheme (LGPS) is a qualifying scheme for the purposes of Automatic Enrolment within the terms set out by the Pension Regulator.

10.29 The Pensions Act 2008 includes a duty on employers to automatically enrol their eligible jobholders into a workplace pension scheme that meets certain requirements, and provide a minimum employer contribution. From early 2014, the Council must:

- Enrol any new employees into the qualifying approved scheme;
- Enrol any employees who are not a member of the scheme but reach the age of 22; and
- Enrol any employee who is passing the rate of salary to £9440 per annum for the first time

10.30 It should be noted the employee can still choose to opt out of the scheme, but the Council must not mention any option of how to opt out of the scheme during enrolment as it could be seen as an inducement not to join the scheme and could expose the council to a fine from the pensions regulator.

Universal Credits

10.31 Universal Credits has been introduced through the Welfare Reform Bill and was launched for new single claimants in receipt of job seekers allowance in the Borough in October 2015. The government intends to begin the roll out of further elements of the Universal Credits service in December 2017. The roll out is happening in stages across the Country with a view to complete implementation by 2022.

10.32 Universal Credits is an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. For local authorities, this means the link between Housing Benefit and Council Tax Support will be broken and that universal credits will be administered by the Department for Work and Pensions. Although current plans do not change the delivery of housing benefit for pensioners.

10.33 The Council currently administers housing benefit and receives an administration grant for housing benefit administration. At this stage the indications are that the Council will continue to have a role in delivering housing benefit to pensioners for the foreseeable future, although it is less clear whether there is a role for local authorities to deal with non-mainstream Housing Benefit cases (e.g. people living in supported or temporary accommodation) and what role the Council will have to play in delivering face-to-face contact for those who cannot use other channels to claim. The transition to universal credit will have profound implications for many council employees, councils systems and contractual arrangements with private suppliers. For the purpose of the MTFS, it is assumed that the costs resulting from the reform will be fully met by the government under the new burdens doctrine.

Land Charges (transfer of responsibility to Land Registry)

10.34 Section 34 of the 2015 Infrastructure Act enables the transfer of responsibility for all local land charges searches from local authorities to Land Registry, creating a single and central electronic register. The transfer will happen in stages and we will be notified of relevant dates following the necessary secondary legislation. Local Authorities will continue to be responsible for collecting and updating information and also for making CON29 searches. The Government has suggested that the Land Registry will meet all costs for the transfer.

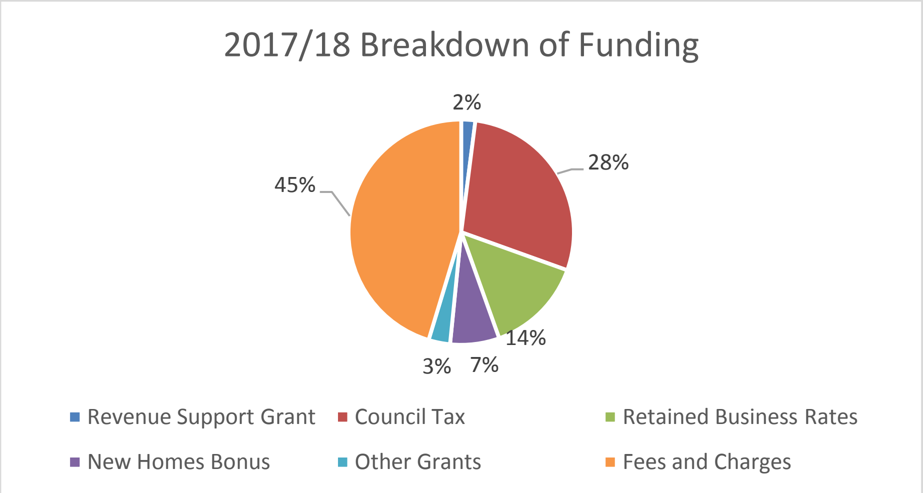
2017/18 General Fund Budget

10.35 As part of the budget setting process, Members have examined information provided by Directorates relating to the level of existing resources in each service areas, including the number of staff employed and comparisons have been drawn with historical expenditure data to identify savings areas. All budget options have been considered in the context of current service performance and priorities and all the growth bids went through a challenge process.

10.36 The details of the 2017/18 general fund revenue budget, including growth and savings can be found in the 2017/18 General Fund Revenue Budget report submitted to the Cabinet in January 2017.

10.37 The general fund net budget consist of expenditure incurred to deliver the wide range of services provided by the Borough Council and income directly generated for those specific services. This can be in the form of fees and charges, rental income, government grants etc. For 2017/18 the gross expenditure is estimated to be £74.1million (including Housing Benefit payments) and gross income is estimated to be £59.3million, resulting in an estimated net general fund budget of £14.8million.

10.38 The net general fund budget is funded by non-specific government grants, local taxation and use of earmarked and general reserve balances. Over recent years government funding has been reducing, council tax has been frozen and so income generated via fees and charges and retained business rates has become more critical areas of funding for the Authority. The pie-chart below demonstrates the estimated proportion of income from these sources:



11 RISK MANAGEMENT

11.1 Risk Management is a key feature of the Council's financial planning process

11.2 The Council is very aware of the need for effective risk management and considers that the assessment and minimisation of all types of risk to be vital. It has a Risk Management Strategy in place, and the financial risks to the Council are assessed in the context of the overall approach to risk management.

11.3 To mitigate risk the Council regularly monitors its budgets, the TEN system is used by Welwyn Hatfield to identify, monitor and reports on risks. The quarterly performance clinics provide a platform for the Members to scrutinise the financial and non-financial performance (e.g. local and national indicators)

11.4 Details of some of the key financial the risks facing the Council are highlighted in section 10 and the table below summarises the financial implications if assumptions made in the MTFS change in the future (the details of which are included in section 10 also). This gives some indications to the kind of risks which need to be allowed for in considering the level of reserves in future years.

Scenario	Estimated Cumulative financial impact		
	2017/18	2018/19	2019/20
	£m	£m	£m
Inflation - Pay award 1% higher than assumed	0.1	0.1	0.1

Inflation on contracts - 1% higher than assumed	0.1	0.1	0.1
Average investment interest rate - 1% lower	0.1	0.2	0.2
Ongoing growth (10% higher than forecasted)	0.1	0.1	0.1
Savings (10% of savings not delivered)	0.1	0.2	0.3
Corporate Income - 5% lower than assumed	0.4	0.3	0.3
Income from fees and charges (5% lower)	0.6	0.6	0.6
Budget requirement - 1% overspent	0.2	0.2	0.2
Total	**1.7**	**1.8**	**1.9**

12 COUNCIL TAX

12.1 The Council is committed to do all it can to reduce the financial burdens placed upon its residents during a period of difficult economic circumstances. The Council has frozen its average band D council tax for seven consecutive years. This has resulted in a cumulative erosion in the income from council tax.

12.2 The government outlined its intentions for council tax referendum thresholds in the technical consultation over the summer. The principles are expected to be confirmed around the time of the final settlement announcement. The Council will be allowed increases of less than 2% or up to and including £5, whichever is higher, without triggering the need for a referendum. If Welwyn Hatfield chose to increase the average band D council tax by £5 in 2017/18, this increase alone would result in an extra £670k income over the life of the MTFS. The MTFS assumes a £5 increase in 2017/18 followed by a below inflation 1.5% increase in both 2018/19 and 2019/20.

Effect of a £5 increase in 2016/17 and a 1.5% increase in 2018/19 and 2019/20			
	2017/18	**2018/19**	**2019/20**
Council Tax Band D increase (WHBC portion only)	**£5 (or 2.5%)**	**1.5%**	**1.5%**
Average Band D tax	201.61	204.63	207.70
Adjusted tax base taking into account council tax support scheme	**40,324.20**	**40,646.80**	**40,972.00**
Additional precept as a result of increases (£000)	202	326	455
Council Tax Precept (£000)	**8,130**	**8,318**	**8,510**

12.3 The local growth plan is likely to suggest a continuing upward trend in the population growth and this should be reflected in the council's tax base. To summarise, the projection of tax base is estimated to be increased by 0.8% per annum after 2017/18.

12.4 A copy of the medium term financial forecast on the general fund is attached in appendix A

13 VALUE FOR MONEY AND EFFICIENCY

13.1 Value for Money (VFM) is an assessment of whether or not we obtain the maximum benefit from the goods and services we both acquire and provide, within the resources available to achieve it. This assessment includes considerations about suitability, quality, whole life costs and the relationship between economy, efficiency and effectiveness.

13.2 Value for money remains an integral part of the external audit opinion. Although the Use of Resources regime has been abolished a considerable amount of work had been input by both officers and the external audit team. The general feedback was that the council had consolidated previous improvements and demonstrates good value for money across our services.

13.3 The Council's Value for Money Strategy provides a framework on how the Council will optimise the use of its resources.

Efficiencies

13.4 A key part of the Council's ethos is its focus on achieving efficiencies. This is a main driver during the budget and planning process; ensuring resources are directed in the appropriate areas and is embedded across the whole authority. Service efficiencies are monitored and reviewed highlighting where savings can be made.

13.5 The Council is committed to delivering efficiencies to drive costs down and improve services.

13.6 It is evident from the spending review that finding efficiencies to deliver a balanced budget will be a significant challenge as well as looking for opportunities to invest in improving services. Our approach to source efficiencies beyond 2017/18 will be via:

- Exploring new areas of income generation activities
- Asset use optimisation and seeking commercial opportunities
- Effective use of assets – challenging the asset base and the use of assets and looking to manage and plan maintenance in the most effective way
- Working in partnership with both private and public bodies to improve quality and scope of service and reduce costs, including models for sharing

- Improving efficiency where possible but the scale of the financial constraint will almost certainly require reductions in services.

- Smarter procurement processes and ways of working.

13.7 While the budget setting process is focused on the preparation of the budget for the following financial year it is clear from government funding forecasts that the Authority is facing a growing budget gap over the medium term period. In order to ensure the Council looks to future and takes the necessary action to maintain financial sustainability the annual budget process also focusses on the delivery of longer term projects to deliver efficiencies and increased income in future years.

13.8 Longer term projects are likely to require some upfront investment and so an annual allowance for corporate projects will be maintained in the base budget and a strategic reserve maintained with contributions of the New Homes Bonus to ensure resources are available as and when required.

13.9 The Council's efficiency plan is annually updated with progress against the longer term projects to inform the budget setting process.

14 INCOME GENERATION

Forecasting Income

14.1 The assumptions built into the MTFS regarding grants from central government are highlighted in section 10, this section covers the income from fees and charges.

Policy on Fees and Charges

14.2 The Council is looking to maximise the potential from fees and charges. A significant proportion of our income is from fees and charges and a balance has to be struck between meeting our statutory responsibilities and our subsidies on providing discretionary services. The Council takes the view that raising charges to recover part of costs is more preferable to removing the service completely. Charges are set after taking into account local circumstances (including economic conditions) and the user's ability to pay. The Council's fees and charges will normally increase at least in line with inflation or where appropriate statutory defined fees and charges increases. Increased or reduced income due to volume changes or charge proposals above or below inflation are addressed through the budget setting process.

14.3 The full list of fees and charges is shown in the General Fund January Cabinet report.

14.4 It is recognised that in developing a strategy for specific charges it is important to consider a number of factors on an options appraisal basis i.e. considering affordability, comparability and the implications of changing charges on forecasted income levels.

14.5 Concessionary charges should be as appropriate to the circumstances of the customer while encouraging increased participation for less advantaged groups. This should not lead to unjustifiable preferential treatment.

14.6 The Council's longer term policy has three fundamental principals:

• Services should raise income wherever there is a power or duty to do so.

• The income raised should cover the full costs of providing the service including all overheads.

• Any departures from this policy must be justified in a transparent manner with reference to the Council's priorities and policies.

14.7 When the Council does not raise income in areas where it has the power to do so, it foregoes the opportunity to raise money to improve services and leaves less money available for spending on high priority services. Members must be supplied with information to allow them to make decisions in a structured and explicit manner. A decision to forego income or to subsidise a service is a policy decision about resources as significant as any decision made in the budget setting process.

Developing the New Trading and Charging Powers

14.8 The Council has developed a number of partnership arrangements for delivery of services, and would not view extension of its own provision of services as a high priority. However, there are a number of possibilities that could be considered as Local Government provides more examples of models of this form of service provision.

Income and Debt Management

14.9 The Council has a good history of debt collection. The Council continues to build on this to maximise income received and minimise income written off. Monitoring information which is produced monthly has been enhanced to provide information on evaluating the effectiveness of debt recovery actions, associated costs, and the cost of not recovering debt promptly.

15 USE OF RESERVES

15.1 The Council will retain its approved minimum reserve level of £1.6m, reviewing this regularly in the light of changing financial risk assessment. Based on previous guidance from the Audit Commission (that reserves should be at least 5% of turnover), the Council should set an absolute minimum level of around £0.8m.

15.2 Risks to the Council's financial position could derive potentially from budget overspend, loss of income, contractual/legislative failure or challenge and emergency events. Historically, the Council has a very good record of outturn financial position being within budget. However, local government finance reform is continuing to transfer greater risk and opportunity to Local Authorities with regard to the retention of business rates. This key source of income is uncertain (unlike the previous regime when grant funding was certain for the year) and so holding additional provision in reserves is prudent.

15.3 The level of risk posed by contractual or legislative failure and emergency events is difficult to predict, but it would be a low probability with a potentially high impact. However, it is not appropriate to set aside large amounts of reserve against the possibility of this happening. Therefore it is felt prudent to set aside a further amount of £0.8m that is similar to the previously recommended minimum level.

15.4 In setting budgets and projections for individual years, it is important that the use of reserves is not increasing and creating an unsustainable future problem. To achieve this it is important to note the requirement to meet the budget gap savings identified in Appendix A.

15.5 A summary of the proposed use of reserves is shown in the table below and is based on a budget projection that includes aspects such as inflation, pension fund contributions and a number of priority and statutory growth pressures offset by savings identified. The overall aim is ensure that reserves do not fall below £1.6m and the current projections keep well within this target. A copy of the policy for reserves and balances can be found in appendix C.

Balances Movement (taking into account known movements in 16/17 budget)	**2017/18**	**2018/19**	**2019/20**
Balance b/f			
General Fund Reserves	5,735	5,596	5,596
Strategic Reserves	1,044	1,076	1,449
Ring-fenced/Earmarked Reserves	1,414	1,049	1,049
Total	**8,194**	**7,721**	**8,094**
Projected Movement			
General Fund Reserves	(139)	0	0
Strategic Reserves	31	373	352
Ring-fenced/Earmarked Reserves	(365)	0	0
Total	**(473)**	**373**	**352**
Balance c/f			
General Fund Reserves	5,596	5,596	5,596
Strategic Reserves	1,076	1,449	1,801
Ring-fenced/Earmarked Reserves	1,049	1,049	1,049
Total	**7,721**	**8,094**	**8,446**

16 CAPITAL

Capital spend and funding

16.1 The Council's Capital Strategy sets out how the Council will manage its capital investments in the future. It is agreed on an annual basis and serves the following purposes:

- It sets out how capital contributes to the achievement of the Council's corporate objectives.
- It establishes the criteria for the allocation of capital resources.

- It provides a framework for the administration of capital projects and monitoring of outcomes.

16.2 The Council's capital programme has in general always been funded by the use of capital receipts, contributions, major repairs reserve or from capital grants. However, levels of capital receipts have fallen over time as the number of assets identified for the disposal list has reduced. This has meant it has been necessary to internally borrow cash balances to fund some of the capital programme.

16.3 The current five year capital programme is underpinned by capital receipts generated through the sale of homes through the right to buy programme as well as further internal borrowing.

16.4 The extent of the capital programme will be influenced by the ongoing affordability of the level of internal borrowing needed to fund the programme. A minimum level of revenue provision is charged to the general fund to repay the borrowing over the life of the asset. New capital schemes for the programme will, therefore, be prioritised if there is a financial business case which can demonstrate a revenue return on the investment to the general fund and/or the Housing Revenue Account.

16.5 The Council is able to use receipts from sales of General Fund assets and limited income from Council House sales to fund any type of capital expenditure. In addition there are ring-fenced funds for capital spend on housing from the Major Repairs Allowance.

16.6 The current programme for 2017/18 to 2021/22 has been set out in detail and is deemed to be affordable.

16.7 A summary of the programme and funding is given at Appendix B.

Revenue implications of capital programme

16.8 The key driver for the Council's approach to capital expenditure is revenue affordability.

16.9 Most Capital Projects have financial implications on the annual Revenue Budget. The revenue implications can take a variety of forms and they include:

- Capital financing costs
- Loss of investment income
- Annual non-capital financing costs, e.g.
    - Salaries
    - Rent
    - Rates
    - Energy costs
    - On-going maintenance costs
    - Income generated from the scheme or project

16.10 The revenue implication of the capital programme has been built into the general fund forecasts in the MTFS.

17 HOUSING REVENUE ACCOUNT (HRA) BUDGET

17.1 Since April 2010, the council's housing stock has been managed by an arms length management organisation (ALMO), Welwyn Hatfield Community Housing Trust. The HRA and its element of the capital and revenue programme has ultimately remained the responsibility of Welwyn Hatfield Borough Council and with the decision taken to end the management agreement with the Trust during 2016/17 this responsibility will now be delivered directly by the Council.

17.2 The HRA is a ring-fenced account relating to the council's landlord function. Historically, the resources available to spend on the housing stock were dictated by the government's national subsidy system. However, in 2012/13, this system was replaced with a one off debt allocation and the costs for servicing the debt are included in the current MTFS. The self-financing system for the HRA removed the uncertainty caused by the old annual subsidy announcements and has allowed for better longer term financial planning for the ring fenced account. Since April 2016 the government have decided to implement direct control over council rent setting and have instigated a four year programme of 1% reductions for social housing rents. This is a reversal of previous policy and has led to a revision of the debt strategy for the HRA moving forward.

17.3 The core constituents of the account are rent income; both capital and revenue maintenance of the housing stock; management costs; and debt repayments. As the account has been carrying a fairly high balance, the council has also been making revenue contributions to capital expenditure as well. This has been most recently used for the provision of new properties, supplementing retained right to buy receipts. However, with the incorporation of the new government rent strategy into the projections these contributions will cease. As a ring fenced account, any balances at the year-end are accumulated and carried forward for use in future years.

17.4 A large proportion of the expenditure on the account relates to services provided through long-term partnering contracts, linked to maintaining the decent homes standard and sound asset management. These contracts were aimed at improving value for money and generating ongoing efficiency savings. This is particularly true of the 15 year maintenance contract, with Mears, which commenced in October 2007. The council have also let a long term gas maintenance contract to TSG in 2014 that is expected to deliver an improved and more efficient service over a contract term of 10 years. While these two contracts form the bulk of maintenance spending, further procurement work has continued on some of the smaller electrical and specialist maintenance areas, with the expectation of greater value for money and efficiency gains.

17.5 The process for setting financial targets for HRA services is the same as for general fund services in terms of links to the Corporate Plan, Corporate Objectives and service planning and setting the approved budget.

17.6 The HRA projection is set with regard to the council's overall Housing Strategy, overall HRA business planning and the trust's annually agreed Delivery Plan.

17.7 The table below shows the HRA position to 2021/22 based on projected activity and including the government's planned rent reductions. The table also includes restructured debt payments, necessary due to reducing rent levels and for investment in new stock, in support of the affordable housing programme. This entails additional borrowing of £4.9million in 2019/20 and £5.9million in 2020/21. This will enable the HRA to replace some of the sold stock and continue to meet the council's legal duty regarding qualifying homelessness cases and is well within the headroom available.

17.8 In previous years the council has taken the position of a managed reduction of the balances held in the HRA, with the intention of leaving a reasonable reserve in the accounts of £5m. The HRA will then remain at a breakeven position over the rest of the projected period, due to the inclusion of further borrowing to support current levels of service. The projections also include a target of savings to offset the 1% 'year on year' rent reductions.

17.9 Right to buy sales continue to reduce stock numbers, but this is being mitigated by the affordable housing programme. In the longer term continued reduction in stock numbers would damage the economies of scale within the account and this is considered as part of the HRA business planning process.

17.10 The government policy to force the sale of high price void properties to fund the right to buy in the registered provider sector will have an impact on the HRA as it is implemented and will need to be factored into the forecasts as more detail is known. The previous government intention to charge higher rent for households earning above a defined maximum has been withdrawn in its current form but any further government proposals may impact on the HRA financial position and will need to be factored in as they become known.

17.11 As reported last year, welfare reform continues to be a large threat to the sustainability of the account, mainly as many of the changes are still not finalised or fully implemented and some have not had time to take full effect. To date financial performance has remained strong and rent collection levels have continued to be very high. Further reductions to the benefit cap, wider roll out of universal credit payments direct to customers and the cumulative impact of previous reforms make this a continued area of concern. Due to the difficultly in modelling these changes, it is important to note that this position is likely to change, as more data becomes available.

HRA Projections	2016/17	2017/18	2018/19	2019/20	2020/21
	Budget	Projection	Projection	Projection	Projection
	£m	£m	£m	£m	£m
Dwelling and Hostel Rent	49.4	49.3	48.8	48.3	49.3
Other Income	2.6	3.0	3.1	3.1	3.1
HRA expenditure (excluding repairs)	10.5	11.0	10.5	10.0	10.2
Revenue Maintenance	11.0	11.1	11.2	11.4	11.6
Depreciation	11.2	13.4	13.8	14.2	14.6
Debt Principal and Interest	19.9	21.5	16.8	15.8	16.0
Revenue Contributions to Capital	3.7	0.0	0.0	0.0	0.0
HRA Surplus/(Defecit)	**-4.3**	**-4.7**	**-0.4**	**0.0**	**0.0**
HRA Balance	**10.1**	**5.4**	**5.0**	**5.0**	**5.0**
Tenanted Stock	**8,963**	**8,905**	**8,858**	**8,823**	**8,790**

17.12 The Major Repairs Allowance (MRA) will continue to be the primary source of capital funding for the housing stock, with no anticipated funding from capital receipts for general housing maintenance related schemes. The current asset management plan has been funded within this allowance. Depreciation on the housing stock is now a direct charge to the account and transitional arrangements have come to an end. This has resulted in a higher contribution to the Major repairs reserve and a balance over and above that needed for the capital programme. As such, the remaining balance will be used to make some of the loan repayments, as is allowable under legislation.

17.13 The table below illustrates that the current capital allowances are able to fund the maintenance requirements of the stock over the next five years. There is a proposed scheme of £1.3m over three years for the refurbishment of sheltered housing schemes that is shown as funded from capital receipts. A detailed project is currently being undertaken in order to more accurately define costs for this project and it is likely that the overall budget and funding for this work will need to change.

Capital	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Brought Forward	**1.2**	**1.8**	**4.4**	**0.9**	**0.0**	**0.0**
Planned Expenditure						
MRA Schemes	11.2	11.3	11.3	11.3	11.1	11.3
Non-MRA Schemes	3.7	0.0	0.0	0.0	0.0	0.0
Repayment of Debt	0.0	0.0	6.3	3.8	3.5	3.7
Total	14.9	11.3	17.6	15.1	14.6	15.0
Funding						
MRA Funding	11.3	13.4	13.8	14.2	14.6	15.0
Direct Revenue Funding From HRA	3.7	0.0	0.0	0.0	0.0	0.0
Capital Receipts	0.5	0.5	0.3	0.0	0.0	0.0
Total	15.5	13.9	14.1	14.2	14.6	15.0
Carried Forward	1.8	4.4	0.9	0.0	0.0	0.0

17.14 Overall, the HRA and its supporting capital programme are projected to be in a sustainable position over the next five years, but this is only possible by re-financing the current debt on the account and making considerable service savings. There are also still significant risks in the medium term, particularly to income streams, from the changes to the welfare system and the potential of large payments to the government to support the extension of the right to buy programme.

18 TREASURY MANAGEMENT LINKS WITH FINANCIAL STRATEGY

18.1 The Council will continue to invest in accordance with the Treasury Management Strategy and will plan any consideration of borrowing closely through the financial strategy and Asset Management Plan and five year Capital Budget.

18.2 Investment income is used to support the budgets of the authority and movements in interest rates can result in significant changes. This is considered in more detail in the Treasury management and Investment strategy which is submitted for Cabinet Approval.

19 WORKING WITH PARTNERS

19.1 The council works with partners and other key stakeholders to deliver services within Welwyn Hatfield.

19.2 Four significant financial arrangements are with:

Serco

19.3 The Council has a £5.3m per annum contract for provision of street scene activities, grounds maintenance and refuse collection. The contract expires on 31 March 2020.

Mears

19.4 This is a 15 year contract for provision of housing maintenance for council dwellings, to the value of £14m per annum. The contract expires on 30 September 2022.

Finesse

19.5 This is a Leisure Trust that provides leisure facilities within the borough for a fee of £0.9m per annum. Finesse manages the Hatfield Leisure Centre and Swim Centre, the Panshanger Golf complex, Stanborough and King George V parks and a number of smaller playing fields. The leisure management agreement expires on 18 January 2029.

Steria

19.6 The Council has a 12 year contract for the delivery of Council Tax, Housing Benefits, ICT and Customer Services to the value of £3m per annum. This contract expires on 31 December 2022.

Local Strategic Partnership

19.7 A well organised Local Strategic Partnership exists to promote strong partnership working in areas where we are not the lead organisation.

Shared Services

19.8 Some shared arrangements exist for providing services within the organisation. The Authority is a partner of the Hertfordshire Shared Internal Audit Service and in 2016 became one of 7 Authorities to start a joint Building Control service across Hertfordshire. The Council also shares a Procurement Officer with other Hertfordshire districts and works with North Hertfordshire District Council in the provision of the Local Land and Property Gazateer service.

John O'Conner

19.9 The contract for the maintenance of cemeteries was re-tendered during 2015 and was won by John O-Conner.

20 EQUALITY IMPACT ASSESSMENTS (EIA)

20.1 The council is committed to ensuring equality and diversity issues are given proper consideration. Equality Impact Assessments an important part of our decision making to enable us to asses the impact of decisions on our residents, stakeholders and customers. Where the impact is high mitigation plans can be developed to reduce the impact of decisions. These are completed in accordance with national guidance and best practice.

20.2 In developing individual budget proposals officers are requested to undertake an equality impact assessment.

21 CONCLUSION

21.1 The MTFS should be considered in the context of the following issues:

- The unprecedented reductions to local government funding as indicated in the Chancellor's Autumn Statement.
- The Council's robust financial management as shown by the healthy General Fund balances, robust financial controls and excellent track record in achieving efficiency savings
- That challenging decisions will still need to be made to safeguard frontline services and maintain a balanced budget.

21.2 The next three years will see the Council use some cash balances for internal borrowing for the capital programme. Key schemes included in the capital programme have been designed to improve the position of the general fund over the medium term, which currently has an anticipated £2.4million gap to be achieved. The HRA can no longer support the affordable housing programme and the aggressive debt repayment schedule and as such the repayment of this debt will start to be pushed out to later years.

List of Appendices
Appendix A sets out medium term projections for the General Fund
Appendix B sets out the medium term projections for Capital
Appendix C shows the Policy on reserves and balances

Appendix A - 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	479	350	350
Growth - ongoing	645	724	822
Savings /Increased income	(1,268)	(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 (from)/to Strategic Initiative Reserve	31	373	352
Transfer (from)/to General Reserve	(139)	0	0
Transfer (from)/to other earmarked reserves	(365)	0	0
Sub-total	**(473)**	**373**	**352**
Collection fund deficit/ (surplus)	320	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)	**(6,556)**	**(5,492)**	**(4,970)**
Council Tax Requirement	**(8,130)**	**(8,318)**	**(8,510)**
Budget Gap [(Surplus) / Deficit]	0	1,644	2,462
Further Savings Plans in development	0	(650)	(900)
Budget Gap [(Surplus) / Deficit]	**0**	**994**	**1,562**

Appendix B – Summary of Capital Programme and Funding 2017/18 – 2021/22

Capital Receipts & Reserves 2017/18 to 2021/22

	Forecast Outturn 2016/17 £	Original Budget 2017/18 £	Original Budget 2018/19 £	Original Budget 2019/20 £	Original Budget 2020/21 £	Original Budget 2021/22 £
CAPITAL GRANTS						
OPENING RESERVES - as at 1st April	**706,780**	**474,225**	**595,045**	**715,865**	**836,685**	**957,505**
DCLG Disabled Facilities Grant	591,820	591,820	591,820	591,820	591,820	591,820
In year grants received	**591,820**	**591,820**	**591,820**	**591,820**	**591,820**	**591,820**
In year grants expenditure	**1,194,200**	**471,000**	**471,000**	**471,000**	**471,000**	**471,000**
Less schemes part funded by UCR's:						
Disabled Facility Grants	306,450	206,400	206,400	206,400	206,400	206,400
Chantry Lane Chalk Mines	63,375	0	0	0	0	0
CLOSING RESERVES 31ST MARCH	**474,225**	**595,045**	**715,865**	**836,685**	**957,505**	**1,078,325**

OPENING S106 RESERVES - as at 1st April	**380,000**	**1,154,040**	**154,040**	**154,040**	**154,040**	**154,040**
In year receipts	**1,059,040**					
In year S106 expenditure	**285,000**	1,000,000	0	0	0	0
Total S106 Reserves	**1,154,040**	**154,040**	**154,040**	**154,040**	**154,040**	**154,040**

RECEIPTS ALLOCATED TO HATFIELD TOWN CENTRE SCHEMES						
OPENING RESERVES - as at 1st April	**635,055**	**0**	**0**	**0**	**0**	**0**
In year receipts	**0**	**0**	**0**	**0**	**0**	**0**
In year expenditure	**2,838,025**	**630,000**	**850,000**	**0**	**0**	**0**
In year borrowing (Internal)	**2,202,970**	**630,000**	**850,000**			
CLOSING RESERVES 31ST MARCH	**0**	**0**	**0**	**0**	**0**	**0**

AFFORDABLE HOUSING RESERVES						
OPENING RESERVES - as at 1st April	**23,164,052**	**16,456,474**	**15,647,094**	**16,412,134**	**14,744,663**	**13,024,045**
One for One Reinvestments Reserve **(net of pooling payments)**	6,073,022	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
RTB Attributable Debt 50% - HRA Use	2,000,710	919,700	702,320	737,440	774,310	774,310
Internal borrowing	0	2,500,000	2,500,000	2,500,000	2,500,000	0
External Borrowing	0	3,700,000	1,500,000	7,734,019	8,557,102	2,787,290
HRA High Value House Sales	564,900	0	0	0	0	0
HRA Revenue contributions to capital	3,700,000	0	0	0	0	0
In year receipts	**12,338,632**	**13,119,700**	**10,702,320**	**16,971,459**	**17,831,412**	**9,561,600**
In year expenditure	**19,046,210**	**13,929,080**	**9,937,280**	**18,638,930**	**19,552,030**	**5,088,000**
CLOSING RESERVES 31ST MARCH	**16,456,474**	**15,647,094**	**16,412,134**	**14,744,663**	**13,024,045**	**17,497,645**

USEABLE RECEIPTS RESERVES						
OPENING USEABLE RECEIPTS RESERVES - as at 1st April	**8,168,275**	**6,816,150**	**2,277,785**	**2,854,505**	**5,537,245**	**6,366,855**
HTC redevelp. professional fees	25,000	20,000	0	0	0	0
Finesse KGV Football Pitches (7yr loan) ends Dec 2018	25,210	25,210	18,910	0	0	0
In year Contributions	**50,210**	**45,210**	**18,910**	**0**	**0**	**0**
Jubilee Care Trust Loan capital	14,800	14,800	14,800	14,800	14,800	14,800
SERCO vehicle repayments	221,540	169,580	0	0	0	0
Gosling 10 yr Loan Start 2009_10	90,000	90,000	90,000	90,000	0	0
In year Loan Repayments	**326,340**	**274,380**	**104,800**	**104,800**	**14,800**	**14,800**
Council House Sales	595,000	595,000	595,000	595,000	595,000	595,000
DCLG Repayment of Grants and Loans	35,000	35,000	35,000	35,000	35,000	35,000
RCCO non AHP (EDP & Orchard) + Sheltered Housing for 17/18 & 18/19	280,000	0	0	0	0	0
Sale of Ludwick way garages site residential units	0	0	500,000	0	0	0
Sale of Moors Walk Flat 109	277,200	0	0	0	0	0
RTB Attributable Debt 50% - GF Use	228,870	919,700	702,320	737,440	774,310	774,310
Sale of Garages, Homestead Lane (9 garages)	60,000	0	0	0	0	0
Sale of 1 & 3-9 Hatfield Town Centre Long Term Lease	0	0	0	2,400,000	0	0
Sale of Flats 2 & 9 White Lion House Hatfield	0	240,000	0	0	0	0
Sale of council interest in Salisbury Square	0	400,000	0	0	0	0
Freehold Reversions - over £10k	23,000	60,000	60,000	60,000	60,000	60,000
In year Useable Capital Receipts	**1,499,070**	**2,249,700**	**1,892,320**	**3,827,440**	**1,464,310**	**1,464,310**
In year expenditure funded by Usable Capital Receipts	**3,530,205**	**16,301,115**	**6,439,310**	**1,249,500**	**649,500**	**670,001**
In year borrowing (Internal)	**644,890**	**9,193,460**	**5,000,000**	**0**	**0**	**0**
Plus schemes part funded by UCR's						
Disabled Facility Grants	288,050	206,400	206,400	206,400	206,400	206,400
Chantry Lane Chalk Mines	54,380	0	0	0	0	0
CLOSING USEABLE RESERVES 31ST MARCH	**6,816,150**	**2,277,785**	**2,854,505**	**5,537,245**	**6,366,855**	**7,175,964**

OPENING RESERVES - MRR 1st April	**3,468,849**	**1,156,769**	**3,273,769**	**2,992,469**	**2,710,869**	**2,428,569**
Major Repairs Allowance	11,226,720	13,412,300	11,006,500	11,020,000	11,046,400	11,050,700
Total MRA Capital Spend	13,538,800	11,295,300	11,287,800	11,301,600	11,328,700	11,080,889
CLOSING RESERVES - MRR 31st March	**1,156,769**	**3,273,769**	**2,992,469**	**2,710,869**	**2,428,569**	**2,398,380**

SUMMARY						
OPENING RESERVES 1ST APRIL	**36,523,012**	**26,057,659**	**21,947,734**	**23,129,014**	**23,983,503**	**22,931,015**
IN YEAR RECEIPTS (less pooling payment)	**27,091,832**	**27,193,110**	**21,816,670**	**30,015,519**	**28,448,742**	**22,683,230**
INTERNAL BORROWING	**2,847,860**	**12,323,460**	**8,350,000**	**2,500,000**	**2,500,000**	**0**
EXTERNAL BORROWING	**0**	**3,700,000**	**1,500,000**	**7,734,019**	**8,557,102**	**2,787,290**
IN YEAR EXPENDITURE	**40,432,440**	**43,626,495**	**28,985,390**	**31,661,030**	**32,001,230**	**17,309,890**
CLOSING RESERVES 31ST MARCH	**26,030,264**	**21,947,734**	**23,129,014**	**23,983,503**	**22,931,015**	**28,304,355**

Appendix C – Policy on Reserves and Balances

Purpose

A Policy for Reserve and Balances represents good financial management and should be reviewed annually.

CIPFA guidelines were reissued in November 2008 under LAAP Bulletin No. 77. The main issues covered in the guidelines are set out below together with Welwyn Hatfield's approach.

Application

The general principles set out in this Reserves and Balances Policy apply to the General Fund and to the Housing Revenue Account for Welwyn Hatfield Council. It applies to reserves only and not provisions.

The Existing Legislative/Regulatory Framework

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

The Local Government Finance Act 1992 and Local Government Act 2003 set out that a range of safeguards to mitigate against local authorities over-committing themselves financially. These include:

- the balanced budget requirement
- Chief Finance Officers' duty to report robustness of estimates and adequacy of reserves when considering the budget requirement.
- . Requirement for local authority to make arrangements for proper administration of their financial affairs and that the Chief Finance Officer is that responsible person (section 151 duties)
- the requirements of the prudential code.
- the auditor will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

Generally, the balanced budget requirement is sufficient discipline for the majority of local authorities. This requirement is reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Finance Officer in England and Wales to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice by the Chief Finance officer cannot be taken lightly and has serious operational implications.

The prudential code requires chief finance officers to have full regard to affordability when making recommendations about future capital programmes.

Guidance on specific levels of reserves and balances is not given in statute or by CIPFA (the recognised accountancy body for local government finance) or the Audit Commission. There is no statutory minimum level of reserves. It is up to local authorities themselves to set their own level of reserves and balances on the advice of the Chief Finance Officer.

The Role of the Head of Resources

Within the existing statutory and regulatory framework, it is the responsibility of the Head of Resources to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.

The Council then, acting on the advice of the Head of Resources must make its own judgements on the level of reserves and balances taking into account all the relevant local circumstances. These include the operational and financial risks, and the arrangements in place to manage them, including adequate and effective systems of internal control. The duties of the Chief Finance Officer in relation to the level of reserves are covered by the legislative framework described in 3 above. Under the Local Government Act 2003, the Chief Finance Officer must report to the Council on the adequacy of reserves(section 27) and reserve transactions must be taken account of within the required budget monitoring arrangements (section 28).

Types of Reserves

Reserves can be held for three main purposes:

• a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves

• a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves

• a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

The Council also holds other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves are not resource backed and cannot be used for other purposes :

• Pensions Reserve (required under IAS19). This is a specific accounting mechanism used to recognise the Council's share of pension fund liabilities in its balance sheet. As this is a reserve which arises from an accounting standard it is not available to finance Council expenditure.

• Revaluation Reserve – this records unrealised gains in the value of fixed assets.

• Capital Adjustment Account – this is a specific accounting mechanism used to reconcile different rates at which assets are depreciated under proper accounting practice and financed through the capital controls system.

For each earmarked reserve held by the Council there should be a clear protocol setting out:

• the reason for/purpose of the reserve

• how and when the reserve can be used

• procedures for the reserve's management and control

• a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

This Reserves and Balances Policy ensures that when establishing reserves, Welwyn Hatfield Council complies with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and in particular the need to distinguish between reserves and provisions.

Policy and Principles to Assess the Adequacy of Reserves

The principles used by the Chief Finance Officer to assess the adequacy of unallocated general reserves when setting the budget, ensure that account is taken of the strategic, operational and financial risks facing the authority.

Setting the level of reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. This is carried out as part of the four year Service and Resource Planning Process. Account is taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors are considered:

• The treatment of inflation and interest rates

• Estimates of the level and timing of capital receipts

• The treatment of demand led pressures

• The treatment of planned efficiency savings / productivity gains

• The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments

• The availability of other funds to deal with major contingencies and the adequacy of provisions.

• The economic situation, unforeseen events etc.

• The risks identified by the authority as part of its risk management arranagements

The Council holds two types of reserves

• General non earmarked reserves (the Council's General Fund Balances)

• Earmarked reserves held for specific purposes

It is the current policy of Welwyn Hatfield Council for the *General Fund non earmarked reserves* (the General Fund Balances) to be held at a level of, at least, £1.6M. This is reviewed at least annually, during the setting of the budget. Factors which are taken into account during the review include; the level of balances as a percentage of the net revenue requirement, budget management and monitoring procedures, risk levels and financial projections for future years. The HRA balance is also reviewed annually.

One earmarked reserve is referred to as our strategic reserve. The strategic approach has been to draw down on this reserve to meet one-off items of spending in the budget.

Reserves can be created or increased to ensure that the Service and Resource Planning Process takes account of any need to increase due to factors which may arise and to fully account for these factors.

In addition, the regular budget monitoring process carried out by the Council throughout the year will report on any changes in the level of balances or reserves.

The Reserves and Balances Policy is set in the context of the authority's Medium Term Financial Strategy and does not focus exclusively on short-term considerations. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, where reserves are to be deployed to finance recurrent expenditure this will be made explicit. Advice will be given by the Chief Finance Officer on the adequacy of reserves over the lifetime of the medium term financial projections. This is addressed in the Medium Term Financial Strategy.

A New Reporting Framework

The Chief Finance Officer has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds. Compliance with this Reserves and Balances Policy assists in allowing the Chief Finance Officer to be satisfied that there is proper stewardship of public funds. The level and utilisation of reserves is determined formally by the Council at its meetings to approve the annual budget and the final accounts. These decisions are informed by the advice and judgement of the Chief Finance Officer.

The Reporting Policy for Welwyn Hatfield Council is:

• The Medium Term Financial Strategy report to the Council includes a statement showing the proposed use of, or contribution to, general and earmarked reserves for the year ahead. Reference should be made as to the extent to which such reserves are to be used to finance recurrent expenditure

• The budget report itself includes a statement from the Chief Finance Officer on the adequacy of reserves in respect of the forthcoming financial year and the authority's medium term financial strategy.

• The Councils' annual statement of accounts includes a schedule of all reserves in the balance sheet, showing opening balance, net movement in year and year-end balance. Notes to individual reserves are given in the accounts and significant reserve movements are explained in the Chief Finance Officer's foreword to the accounts and the covering report to Council which accompanies the presentation of the accounts.

• The regular in-year Budget Monitoring reports to Cabinet include details of any transactions affecting the Council's reserves.

Good Governance

It is important that local authority councillors take responsibility for ensuring the adequacy of reserves and provisions when they set the budget. This will be subject to the advice of the Chief Finance Officer and the arrangements for reviewing and reporting on the level of reserves and balances as set out above.