Part I
Item No: 6
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All Wards

WELWYN HATFIELD BOROUGH COUNCIL
SPECIAL COUNCIL – 6 FEBRUARY 2017
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

BUDGET AND COUNCIL TAX 2017/18

1 Executive Summary

1.1 This report sets out the budget and council tax proposals for 2017/18 for Welwyn Hatfield Borough Council and summarises the key points contained in the detailed finance reports discussed at Cabinet on the 10 and 24 January. These reports can be viewed via the weblinks shown in the background papers section.

1.2 The Council is required under the Local Government Finance Act 1992 to set the Council Tax for its area by no later than 11th March 2017. The Council has always aimed to approve the budget by early March in order to ensure prompt despatch of bills and hence quicker collection of sums due.

1.3 This report sets out the proposals for Council approval of the 2017/18 Welwyn Hatfield Council budgets for revenue (General Fund and Housing Revenue Account) and capital and also asks the Council to approve the Council's element of the Council Tax for 2017/18 (final approval of Council Tax will be sought on 23 February 2017). These are decisions by law that the Council is not permitted to delegate. The report also asks for approval of the Treasury Strategy. It should be noted that all the budget proposals were considered by Cabinet at their meetings on 10 and 24 January 2017.

1.4 At the time of writing this report the Final Local Government Finance Settlement has not been announced. The final settlement is expected to be announced early February.

1.5 Since the start of the Government's austerity programme in 2010 the Council has delivered efficiency savings in the region of £11m. The average Band D Council Tax has been frozen during the same period while the Council's core grant has been cut by over 50%. The Council's reserves, available for general fund purposes, have however remained strong at around £8m.

1.6 The budget proposals for 2017/18 will add another £1.3m to the savings programme which will focus on income generation and efficiency in the delivery of services and protect front-line services as much as possible.

1.7 The Council also sees an opportunity to invest and improve services with general fund growth of around £1.1million. This includes the planning inspection period for the Local Plan.

1.8 The Council recognises that most of the quick-win savings have been exhausted and that austerity will continue with further cuts to government funding until at least 2019/20. As such a number of longer term projects have been identified to be

delivered over the medium term and deliver further savings. These will require up-front investment and as such there is budget allowance for the delivery of corporate projects.

1.9 The development of the 2017/18 budget has been subject to scrutiny by the Executive Board, Cabinet members (individually and sitting as Cabinet) and the Resources Overview and Scrutiny Committee. Businesses and the public have also been given the opportunity to comment.

1.10 The Council's net operating expenditure for 2017/18 before drawdown from balances and excluding parish precept will decrease by around 3.5% to £14.8m (See Appendix A). After movement in balances the budget is £14.5m.

1.11 The view of the Head of Resources (the 'Chief Finance Officer' within the meaning of section 151 Local Government Act 1972) is that a modest drawdown of general fund reserves of £139k is sustainable given the Council has plans to balance the budget over the medium term. However, after a seven year freeze a £5 increase in the average Band D council tax is appropriate as part of those plans. This means the average Band D council tax (excluding parish precepts) will be £201.61 in 2017/18 (this figure includes special expenses, although the final amount that residents will pay depend on where they live), with subsequent increases to be reviewed each year in the light of emerging risks.

1.12 The Capital programme has been set at £43.6m for 2017/18 and is financed through, capital receipts and reserves, MRA, grants and borrowing. Available capital receipts continue to diminish as they are used to fund capital spend and borrowing will be required over the medium term for both general fund and Housing Revenue Account capital programmes. (See Appendix B).

1.13 The 2017/18 Housing Revenue Account (HRA) budget is proposed with a planned in year deficit of £4.7m. The balance of the HRA reserve at the end of March 2018 is projected to be £5.4m. This position is consistent with the Medium Term Financial Strategy that has set out a programme of reducing HRA reserves to a lower level, matching reduced income following rent reductions with savings plans and restructuring the borrowing to continue with the affordable housing programme. (See appendix C).

2 Recommendation(s)

2.1 That Council note the recommendations from Cabinet and the statement of the Chief Finance Officer on robustness of budgets and adequacy of reserves (appendix I) and approves:

2.1.1 The 2017/18 Revenue (General Fund) budget proposals resulting in a net budget of £14.461million, as shown in appendix A,

2.1.2 A £5 increase in Council Tax, bringing the Council's charge on an average Band D to £201.61,

2.1.3 A Council Tax requirement (excluding Parish precepts) of £8,129,762.

2.1.4 The 2017/18 Capital budget programme of £43.626million, as shown in appendix B, and note the programme contains plans to spend a further £109.958million over the following three year period to 2021/22.

2.1.5 The 2017/18 Revenue (Housing Revenue Account) budget proposals resulting in a net budgeted deficit on the account of £4.721million, as shown in appendix C,

2.1.6 The Medium Term Financial Strategy 2017/18 to 2019/20, a summary of the forecasts shown in appendix D.

2.1.7 The fees and charges listed in appendix E.

2.1.8 The prudential indicators as presented to the Cabinet, approving the authorised borrowing limit for 2017/18, as shown in appendix F of this report.

2.1.9 The Annual Minimum Revenue Provision Policy Statement as set out appendix G.

2.1.10 The Special Expenses scheme as applied in 1994/95 and reviewed in 2014, be continued for 2017/18 in accordance with the details set out in appendix H of this report

2.1.11 The Treasury Management Policy and Investment Strategy as presented to Cabinet 10 January 2017.

2.2 That it be noted the following amounts for the year 2017/18 have been set in accordance with regulations made under Sections 31A and 31B of the Local Government Finance Act 1992 and agreed by the Cabinet on 10 January 2017:

- The gross 2017/18 Tax base is 41,273.50 prior to an assumed collection rate of 97.70%.

- 40,324.2 being the amount calculated by the Council, in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 (the Regulations), as its Council Tax Base for the year 2017/18; including deductions for council tax support and a collection rate of 97.70%.

- Part of the Council's Area being the amounts calculated by the Council, in accordance with Regulation 6 of the Regulations, as the amounts of its Council Tax Base for the year for dwellings in those parts of its area to which one or more special items relate.

	100% TAXBASE	97.70% TAXBASE
Welwyn Garden City	16683.5	16299.8
Hatfield	11206.1	10948.3
Welwyn	4556.2	4451.4
Ayot St Lawrence	70.9	69.3
Ayot St Peter	119.2	116.5
North Mymms	4325.2	4225.7
Essendon	431.1	421.2
Northaw & Cuffley	3343.0	3266.1
Woolmer Green	538.3	525.9

3 Explanation

General Fund Revenue Budget – Financial Framework

3.1 The Government’s austerity measures to bridge the national deficit continue to impact significantly on local authorities. The Council is facing a decline in grant from central government and so funding for services is increasingly being derived

from local funding (i.e. Council Tax, Business Rates and charges for services); at the same time local demand on Council services has increased.

3.2 The requirement to set a balanced budget demands a stringent process to deliver efficiencies, preserve as far as possible the quality of front line services, and retain the ability to generate income and to recognise the increasing demand on key services.

3.3 The proposed draft budget (before contribution to/from reserves) i.e. net operating expenditure, for 2017/18 totals £14.8m (excluding Parish precepts) and is £0.54m (3.5%) lower than the 2016/17 original budget of £15.4m reported to Full Council in February 2016. The movement between years is shown in summary in table 1.

Table 1: Reconciliation of 2016/17 to 2017/18 Original Budget

	£'000
2016/17 Original Budget	**15,352**
Less: 2016/17 one-off growth	(755)
Less: Reduction in interest payable	(179)
Add: Reduction in interest receivable	55
Add: 2017/18 One-off Growth	479
Add: 2017/18 ongoing growth	645
Less: 2017/18 savings	(1,268)
Add: Pay inflation	142
Add: Contract Inflation	341
2017/18 Original Budget	**14,812**

Settlement Funding Assessment and other Corporate Grant Income

3.4 The Council received confirmation from Central Government that its submission for the Multi Year Settlement Offer was accepted. Therefore as part of the Local Government Finance Provisional Settlement announcement, received on the 15 December 2016, the Council has settlement figures for 2017/18, 2018/19 and 2019/20.

3.5 The Local Government Finance Provisional Settlement outlines the funding level from government. This is consistent with the indicative multi-year settlement announced in February 2016. For 2017/18 Revenue Support Grant has reduced by 57% to £558k and the business rates baseline has increased by 2% to £2.716million, as shown in the table below. The final settlement announcement is expected sometime in early February.

Table 2: Provisional Settlement for 2017/18

	Final Finance Settlement 2016/17 £'000	**Provisional Finance Settlement 2017/18 £'000**	% Change
Revenue Support Grant	(1,307)	(558)	-57%
Business Rates Baseline	(2,664)	(2,716)	+2%
Total: Settlement Funding Assessment	**(3,971)**	**(3,274)**	**-18%**

3.6 Once the final settlement figures are available, the Council will be certain on the amount of Revenue Support Grant it will receive in 2017/18. However, the amount of funding received of the funding assessment will depend on the actual amount collected from Business Rates and this will be influenced by amongst other factors, the Business Rates collection rate, business growth across the District and also the provision for successful appeals.

3.7 The impact of the national revaluation of Business Rates and its outcome locally will also impact on collection rate and appeals provision for Business Rates. This is all estimated in the National Non Domestic Rates 1 form which will be submitted at the end of January 2017. It is these estimates which have formed the budgeted estimate for retained business rates in 2017/18, rather than the business rates baseline shown above:

Table 3: Retained Business Rates

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

3.8 The estimated amount of business rates retained by the Authority after payment of a levy in 2017/18 is £3.260million and is £544k higher than the baseline. This will mean that the growth in retained business rates only goes part of the way to offset the reduction in revenue support grant and the overall reduction year on year is estimated to be £637k or 14%:

Table 4: Net Reduction in Business Rates and Revenue Support Grant

	Estimated Funding 2016/17 £'000	Estimated Funding 2017/18 £'000	% Change
Revenue Support Grant	(1,307)	(558)	-57%
Retained Business Rates (after levy)	(3,148)	(3,260)	+4%
Total	**(4,455)**	**(3,818)**	**-14%**

3.9 It should be noted that since the start of the Government's austerity programme in 2010 the Council has delivered efficiency savings in the region of £11m. Despite a reduction in government grant over the same period of 59%, offset partly by the locally retained business rates, the average Band D Council Tax rate has been frozen. The Council's General Fund reserve has, however, remained strong as at 1st April 2016 of £8m.

The New Homes Bonus (NHB)

3.10 The New Homes Bonus Scheme was introduced in 2011/12 as a way to encourage local authorities to facilitate housing growth. For every additional property built or brought back into use, the government agreed to match fund the additional council tax, with an additional amount for affordable homes, for the following six years.

3.11 On the 15 December 2016 the government announced the results of the consultation on reforms to the New Homes Bonus and has decided to reduce the length of payments from 6 to 5 years in 2017/18 and then to 4 years in 2018/19 and also to only award a bonus for a growth in homes above 0.4% per annum. These changes have allowed the transfer of some funding from District and Boroughs to top tier authorities for the provision of social care. From 2018/19, the government will consider withholding payments from local authorities that are not *"planning effectively, by making positive decisions on planning applications and delivering housing growth".* Further, a consultation is planned regarding withholding payments for homes that are built following an appeal.

3.12 In line with the Medium Term Financial Strategy (MTFS) the reliance on New Homes Bonus income to support base budget expenditure is being reduced, with the transfer of 25% in 17/18 and then 50% in each year thereafter, to the Strategic Reserve. This is to fund one off growth for projects which will create capacity for service transformation, deliver improved efficiency and generate sustainable additional income.

3.13 The New Homes Bonus grant is calculated based on the average Band D council tax rate multiplied by the net increase in tax base adjusted for demolition and empty properties. The Council will receive £2.0million New Homes Bonus funding in 2017/18. This is £0.2million less than the amount received in 2016/17. It is estimated there will be a further drop in funding to £1.4 million in 2018/19.

2017/18 Budget Assumptions

3.14 The 2017/18 budget has been built using the following inflation and service assumptions:

- Pay – the 2017/18 budget anticipates a 1% pay increase for the financial year.
- Employers Contribution to the Pension Fund – 18.3% of annual pay budget
- The Autumn Statement published on 23 November 2016, increased the 'national living wage' from £7.20 per hour to £7.50 per hour, the impact on the General Fund budget is estimated to be immaterial; as the current wage rate is £7.49 per hour for 70 council workers.
- Major Council Contracts –inflation has been included in the budget in line with agreed contract indices.
- Utilities **-** inflation has been budgeted in line with contract prices.

- National revaluation of Business Rates – An increase of 21.5% has been included in the budget proposals for Council owned properties.
- Insurance Costs –for insurance budgets, in line with advise, a 30% increase has been added to property related insurances and a general insurance increase of 10%. This provision will cover the cost of the 2% increase in insurance premium, announced in the Autumn Statement effective from June 2017.
- Sale**s,** Fees and Charges – either set by statute or market conditions. The Council has a policy of maximising income from fees and charges, subject to local circumstances. The full fees and charges schedule is listed in Appendix E
- Grants and subsidies – in line with relevant guidance.

Re Integration of the Housing Service

3.15 In September 2016, Cabinet proposed that the housing service currently delivered by the Housing Trust should be brought back into full council control, with the aim of delivering service transformation and efficiencies for both General Fund and Housing services over the medium term. Following consultation, Cabinet confirmed this decision on the 6 December 2016.

3.16 Budgets in the general fund and HRA for 2017/18 reflect this changed arrangement with no management agreement with the Trust. This has required a comprehensive review of recharging between the HRA and the general fund. Further the merging of the senior management team and support services has resulted in a number of staffing posts transferring between the HRA to the general fund. Overall the £500k efficiency target built into the base budget through the 2016/17 budget process has been achieved through these means.

Employment Budgets

3.17 The original salaries and wages budget for 2016/17 was approximately £11.4m, comprising 255.89 (Full Time Equivalents) FTE's. The proposed 2017/18 budget is £11.7m representing 259.17 FTE's; an increase of £0.3m in the budget and an increase of 3.28 FTE's.

3.18 The results of the Council's 2016 Pension Fund triennial valuation have been used to update the employer pension contribution rates for the next three years, with effect from 1st April 2017. This assumes the approval of an additional lump sum contribution of £1.286million in 2016/17 to maintain annual lump sum contributions over the next three years at £1.1million.

Growth and Savings

3.19 Inevitably the key emphasis has been on identifying budget savings and efficiencies in 2017/18 and the ensuing 3 years up to 2019/20 to deliver a balanced budget and an organisation that is fit for purpose in meeting the challenges ahead. This has also involved consideration of increased budget pressures.

3.20 The Appendix A budget summary includes all the savings/efficiencies and growth items that are summarised at Table 5.

Table 5: Savings and Growth Items for 2017/18

	2017/18 £'000
Savings	(1,268)
One-off Growth	479
Ongoing Growth	645
Net Impact	**(144)**

Savings

3.21 The Council aims to protect frontline services as much as possible. The savings schedule is mainly focused on income generation either from the Council's commercial activities or fees and charges, along with efficiencies from procurement. The level of savings incorporated into the 2016/17 budget are expected to be achieved overall at this stage on an ongoing basis.

3.22 The savings schedule for 2017/18 totals £1.268m of further savings and comprises the following strategies:

- review of operations and structures - £0.2m
- reduction in corporate projects £0.1m
- income generation - £0.771m. Including increased garage rents to reflect market demand to generate £0.144m and the introduction of a charge for collection of garden waste to generate £0.400m.
- procurement efficiencies and contract savings - £0.109m.
- electoral service saving as no election in 2017/18 - £0.073m.
- Other savings/efficiencies totalling £0.015m.

Growth

3.23 There are ongoing revenue growth items that amount to £0.645m, which include £0.1m for the pensions auto-enrolment review which will be undertaken in 2017, £0.140m to reflect changes in demand/market position for the recycling scheme, £0.044m for IT investment, £0.044m reflects a further reduction in Housing Benefit grant for administration of the scheme and £0.080m for the delivery of a fly tipping service. Other growth items total £0.237m.

3.24 There are also a number of one-off growth items amounting to £0.479m in 2017/18. This includes £0.345m for investment in planning services; the planning inspection period being extended from 4 to 6 weeks and the budget includes an estimate of the associated cost of potential legal challenge. It is proposed that this service investment is funded from the Strategic Reserve in 2017/18. A proposed budget of £0.1m has been included for retirement costs associated with further reorganisation.

Council Tax support funding for parish and town councils

3.25 The council tax support funding for billing authorities is provided through the business rates retention system. It should be noted that the funding is not ring-fenced and that the town and parish element of the funding is no longer identifiable. There is also no legislative duty for billing authorities to pass down funding.

3.26 Given the pressure on the Council's resources and the continued reduction in grant funding from Government it is proposed to further reduce the council tax support grant passed to parish and town councils in 2017/18 and 2018/19, by the same amount as the reduction in revenue support grant provided by Government with no grant funding in 2019/20. The following table shows the grant to be allocated to each parish and town council in each financial year.

Table 6: Council Tax Support Grant to Parishes and Town Councils

	2015/16 Council Tax Support Grant £	**2016/17 Council Tax Support Grant £**	**2017/18 Council Tax Support Grant £**	**2018/19 Council Tax Support Grant £**
Parish and town council areas	**Actual**	**Budget**	**Indicative**	**Indicative**
Ayot St Lawrence	2.82	1.70	0.73	0.14
Ayot St Peter	0	0	0.00	0.00
Essendon	742.15	447.62	191.08	35.68
Hatfield	85,479.25	51,556.15	22,008.83	4,109.71
North Mymms	7,206.38	4,346.47	1,855.47	346.47
Northaw & Cuffley	4,709.51	2,840.50	1,212.58	226.43
Welwyn	10,666.98	6,433.71	2,746.49	512.85
Woolmer Green	1,150.07	693.66	296.12	55.29
Total	**109,957.16**	**66,319.81**	**28,311.30**	**5,286.57**

Interest receivable and payable

3.27 Interest from investment income is an integral part of the budget considerations. The current economic forecast predicts that the Bank of England base rate will remain at its current low of 0.25% in the medium term. As reported in the Treasury Management Strategy for 2017/18 the Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held and it is expected that investment balances are likely to range between £35 and £60 million in the 2017/18 financial year.

3.28 In addition the Treasury Management and Investment Strategy operates within a tighter framework to minimise the risk on investments. As a consequence of this the estimate for investment income will remain relatively low in 2017/18 to reflect the current market situation. The estimate for 2017/18 is £0.294m, a reduction on the original budget for 2016/17 of £34k. The level of interest is also being influenced by the capital programme and the level of capital receipts held.

3.29 Interest payable amounts to £0.32m and relates to finance leases and the minimum revenue provision related to internal borrowing taken out to support a number of capital projects.

General Fund Reserves and Use of balances

3.30 As at 1 April 2016 the Council had available a total of £7.97m for general fund activities and £2.193m of general fund earmarked reserves.

General Fund Reserves

3.31 It is important the Council maintains a reasonable level of general fund reserves to cushion against unanticipated budget pressures. Given the funding risks around the retention of business rates and the associated business rates appeals provision; the proposed devolution of demand lead services and ongoing funding changes from Government it is considered prudent to hold balances at a level above a sustainable minimum.

3.32 Table 7 identifies the forecast movements on the General Fund Reserve to March 2018. The balance as at 1st April 2017 has been reduced to reflect the payment of the deficit lump sum of £1.286m. The balance is expected to reduce by £139k during 2017/18 in order to meet all anticipated expenditure. The forecast balance as at 31st March 2018 is expected to be £6.5m.

Table 7: General Fund Reserve Forecast for period to 31st March 2018

	Actual Balance as at 1st April 2016 £'000	**Pension Lump sum contribution payable 2016/17 £'000**	**Forecast Balance as at 31st March 2017 £'000**	**Forecast Balance as at 31st March 2018 £'000**
General Fund Reserve	7,970	(1,286)	6,684	6,545

Earmarked Reserves

3.33 Table 8 identifies the forecast balances for General Fund Earmarked Reserves for the period to 31st March 2018. Earmarked reserves are retained for specific purposes and risks. The following specific proposals are made for the application of the reserves and transfers into the reserves:

Strategic Reserve: for 2017/18 it is proposed to finance £0.345m of planning service investment from the reserve. This is a reasonable application of the reserve which has been built up through the transfer of New Homes Bonus (NHB) Grant, as detailed at paragraph 3.18. In line with this policy 25% of the 2017/18 NHB grant has been transferred to the reserve.

Resources Reserve: for 2017/18 there is an estimated collection fund deficit of £198k to be funded by the general fund reserve. The Resources reserve consists of the gain in previous years in retained business rates as a result of a reduced levy calculation on the Hertfordshire Pool and is put aside to help mitigate the volatility in the collection fund of the collection of business rates.

Pension Contributions Reserve: A new reserve from 2017/18 to help smooth the impact of an increase in annual pension contributions after the next triennial valuation in 2019.

Table 8: General Fund Earmarked Reserves

Name and Purpose of Reserve	Balance as at 1 April 2016 £'000	Forecast Balance as at 1 April 2017 £'000	Forecast Balance as at 31 March 2018 £'000
Strategic: For use on one-off specific General Fund projects across the General Fund Services.	968	1,045	1,076
Building Control: Building Control accumulated balances.	(231)	0	0
Resources: To manage volatility in Business Rates income and changes to the Business Rates funding	1,103	1,082	884
Planning: Previous year surplus put aside for Development control projects.	171	171	171
Pension Contributions: To manage the step change in annual lump sum payments into the Pension Fund	0	0	100
Performance Reward Grant: Held for community inclusion projects as and when required	58	58	58
Governance: The electoral registration grant to be used for individual registration.	61	61	29
Public Health and Protection: Grant received from HCC held for relevant projects.	45	45	45
Hackney Carriages: The reserve is necessary to account for in year surplus/deficit positions. The service must break-even over time.	6	-15	-28
Other minor reserves: Any unconditional grant received in advance of need will need to be held in an earmarked reserve.	12	12	12
Total Earmarked Reserves	**2,193**	**2,459**	**2,347**

*Hackney Carriages showed a deficit reserve balance when reported as at period 6. However, there has been a subsequent revision to the Fees and Charges following the reporting of the use of the reserve and the forecast is now potentially a small contribution to the reserve in both 2016/17 and 2017/18.

3.34 The Chief Finance Officer has reviewed the reserve position and advises that the current anticipated balances, together with the Council's plans for addressing the on-going and increasing budget gap, are adequate to ensure continued financial sustainability and a protection against unexpected financial shocks. This will need to be kept under close review over the course of the medium term financial strategy.

Council Tax

3.35 The average Band D council tax rate is proposed to increase by £5 in 2017/18 to £201.61 from the 2016/17 level of £196.61. This equates to approximately a 2.5% increase per annum for residents, or 9.6 pence per week and is the maximum amount of increase allowable without triggering a referendum as per the draft principles issued by Government in the provisional settlement.

3.36 An increase in the council tax rate does have a compounding impact on income for the Council in future years. If a 2% increase in Council Tax had been applied each year since 2010 the Council would have collected around £3.4m more by the end of 2016/17 and the average Band D council tax rate would be £221 per annum. By not increasing the rate by at least inflation the Council has reduced its overall spending power. The government now includes the Council Tax requirement in its calculation of the Councils spending power, and anticipates a maximum increase each year in the settlement. As such, if we were not to increase there would be a reduction on the spending power below government assumptions.

3.37 A £5 increase in Council Tax is estimated to generate an additional £201k in precept for the Authority in 2017/18. Each 1% increase equates to roughly a £80k increase in precept.

3.38 The tax base to be used for council tax setting purposes for 2017/18 was agreed by Cabinet at its meeting on 10 January 2017. The tax base consists of 40,324.2 "band D equivalent" properties, after allowing for a non-collection rate of 2.3%.

3.39 In terms of the 2016/17 Collection Fund projection, Welwyn Hatfield Borough Council's share of the forecast net deficit is a total of £198,000. This consists of a surplus of £436k relating to Council Tax and a deficit of £634k relating to Business Rates.

3.40 The council tax requirement (including special expenses but excluding parish precepts) for 2017/18 is calculated as follows:

Table 6: Council Tax Requirement

	£
Welwyn Hatfield Borough Council's budget (excl. parish precepts)	14,461,371
Less: non-specific Grant from Central Government	-6,013,097
Less: Collection Fund Surplus	198,100
Add: Payment to local precepting authorities for council tax support	28,322
Less: Retained Business Rates Growth (after levy)	-544,934
Council Tax Requirement (excluding parish precepts)	**8,129,762**

3.41 In accordance with the legislation under the Local Government Finance Act 1992, all Parish Precepts have to be charged to the Council's General Fund. At the time of writing this report not all Parish information was available. It is envisaged that the parish data will be reported at the Full Council meeting on 23 February 2017 for tax setting purposes.

Budget Consultation

3.42 The Council has undertaken an online budget consultation. Appendix G of the 10 January General Fund Cabinet report provides a summary of the feedback. Opportunity was also provided to Business ratepayers to comment and ask questions about the budget.

Medium Term Financial Strategy

3.43 The Council is currently in a good overall financial position with revenue reserves at £10m at the start of 2016/17 and a housing revenue account (HRA) balance of £13.9m. This is a direct result of robust financial management and a prolonged period of achieving efficiencies to balance the budget as government funding has reduced. However, in line with other local authorities, the Council is facing further severe financial constraints as central government grants continue to reduce. At the same time the demand on some of the Council's services continue to grow and further responsibilities will be transferred from central government.

3.44 Our best estimates suggest the Council is required to find a further £4.1m of savings on the general fund by 2019/20 in order to live within its means and maintain a reasonable cushion in reserves. This is a significant challenge and whilst the focus remains on safeguarding services it will not be possible to find efficiencies of this magnitude and guarantee no impact upon frontline services. The budget for 2017/18 includes the identification of £1.3million of efficiency proposals, growing to £1.8million by 2019/20, to be delivered towards the target of £4.1million leaving £2.3million to be found.

3.45 The current healthy general fund reserve balance provides an opportunity for some longer term planning and delivery of significant transformational projects over the medium term to help deliver the savings target. Initial estimates suggest an ongoing £900k of savings can be found from the projects already underway. This currently leaves an estimated budget gap of £1.44million by 2019/20 to be found from other longer term projects and initiatives and could include the outcome of work on the Customer Services strategy, a review into the provision of leisure services and identifying alternative ways of working. Working in this planned way should reduce the need for hasty cuts to services in order to balance the budget over the medium term.

3.46 The capital programme includes an allowance for investment to help alleviate the pressure on the general fund and the delivery of new facilities needed by residents of the Borough, including a substantial affordable housing programme to replace properties lost through the Government's Right to Buy scheme. The capital programme anticipates investment of around £153.6m over the five years. This level of investment will require further borrowing of around £50m.

3.47 Despite confirmation from the Secretary of State that the Council was successful in its application for a multi-year settlement, the MTFS has been written at a time of unprecedented uncertainty in local government funding. Forecasting the Council's likely level of income over the next three years has required a large

degree of judgement and estimation. In particular there are key changes in relation to national non-domestic rates to take into consideration:

- A Revaluation which comes into effect on 1 April 2017
- A new appeal process for businesses called “check, challenge, appeal” also coming into effect on 1 April 2017
- The government’s intention to move towards the retention of 100% of business rates in the local government sector by the end of this parliament
- The transfer of additional responsibilities to Local Authorities in return for 100% business rate retention.

3.48 Further, the Government has announced changes to the New Homes Bonus scheme and there is work continuing on the fundamental review of the Local Government funding regime.

3.49 The government’s rent reduction programme and other housing related government policy proposals do create challenges for the sustainability of the HRA over the medium term. A savings programme is being developed to offset the direct reduction in rents but it is clear that it will be necessary to effectively restructure the debt repayment schedule by taking out further borrowing over a longer time frame in order to maintain the HRA in a sustainable position.

3.50 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. The Council will continue to experience pressure on services arising from demographic and government policy changes 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.

3.51 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 former Audit Commission (that reserves should be at least 5% of turnover), the Council should set an absolute minimum level of around £0.8m.

3.52 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 to the Medium Term Financial Strategy.

Table 7: General Fund Reserve balances

Balances Movement (taking into account known movements in 16/17 budget)	2017/18	2018/19	2019/20
Balance b/f			
General Fund Reserves	6,684	6,545	6,545
Strategic Reserves	1,044	1,076	1,449
Ring-fenced/Earmarked Reserves	1,414	1,271	1,271
Total	**9,142**	**8,892**	**9,265**

Projected Movement			
General Fund Reserves	(139)	0	0
Strategic Reserves	32	373	352
Ring-fenced/Earmarked Reserves	(143)	0	0
Total	**(250)**	**373**	**352**
Balance c/f			
General Fund Reserves	6,545	6,545	6,545
Strategic Reserves	1,076	1,449	1,801
Ring-fenced/Earmarked Reserves	1,271	1,271	1,271
Total	**8,892**	**9,265**	**9,617**

Special Expenses

3.53 The Council introduced in 1994/95 a scheme of "Special Expenses" whereby some of the expenses of the District Council were charged specifically to certain specified parts of the district only. Following a series of meetings with the Parish/Town Councils a list of items to be included in a "Special Expenses" scheme was agreed between us. The areas of expenditure to be included within the scheme were open spaces, playing fields, community centres, allotments and public conveniences.

3.54 It is not intended to change the principle and methodology used for the 2017/2018 allocation of special expenses which is the same methodology used since the last review in 2014.

3.55 The rationale behind the Special Expenses calculation has not changed compared to previous years, that is, the Council's own expenditure to be included in the scheme has been analysed and apportioned to each relevant Town and Parish Council area. The result is that these "Special Expenses" are charged directly to the Parish or Town Council in which the expenditure has been incurred.

3.56 The proposed amount to be included in the "Special Expenses" scheme for 2017/18 is £579,790 which is an increase of £66,140 from 2016/17. Appendix H shows the detail on the expenditure for these items including:

- Details of the Council's expenditure over the various Parish/Town Councils.
- The impact on each Parish/Town Council of implementing the scheme using the tax base for 2017/18.

3.57 The first page of appendix H shows the net effect of the Special Expenses Scheme on council tax for each of the Parish/Town Council, these are worked out by reducing the Borough Council's Council Tax in all areas by £14.38 at the first stage. The special expenses are then added back into the relevant areas only. The calculation shows that Welwyn Garden City as the net contributor under the Special Expenses Scheme.

Capital Budget

3.58 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. The current five year capital programme is underpinned by capital receipts generated through the sale of surplus properties as well as further borrowing.

3.59 The extent of the capital programme will be influenced by the ongoing affordability of the level of 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.

3.60 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 housing from the Major Repairs Allowance.

3.61 The programmes for 2017/18 to 2021/22 have been set in detail, any schemes above this level would need to seek alternate external funds or new capital receipts from the sale of assets.

3.62 The key points to note are:

- The total estimated expenditure is £44m in 2017/18, £29m in 2018/19, £32m in 2019/20, £32m in 2020/21 and £17m in 2021/22.

- This affects the total level of available resources. At 1 April 2017 resources are estimated to be £36.5m and by 31 March 2022 are budgeted to have reduced to £28.3m.

3.63 It is important to note that the capital programme includes future schemes which are known at this time. It is likely that there will be additional schemes added into the programme as we move forward and new expenditure is required.

3.64 The programme is split into General Fund, Affordable Housing, and Housing Major Repairs Allowance (MRA) schemes and they are described below:

General Fund Schemes

3.65 The 2017/18 - 2021/22 general fund expenditure programme of £29m includes significant spending on schemes for Hatfield Town Centre Redevelopment, Highview redevelopment, investment through a property company, improvements to Huntersbridge car park, Bereavement Services and Splashlands.

Affordable Housing Scheme

3.66 The Affordable Housing budget has been put in place to underwrite the Right to Buy (RTB) Replacement Programme. The Council has signed up to the “one-for-one” replacement scheme which allows retention of RTB sales receipts. The scheme is complex and is monitored closely as there are penalties built into the scheme if receipts are not spent within the time frame.

3.67 Under the Government’s scheme the Council will only be able to fund a maximum of 30% of the cost of replacement housing from the RTB sales receipts, which must also be used within three years. For this reason an underlying budget of has been put in place to both support the other 70% of costs for direct provision of replacements, but also to enable an ongoing programme of development that can

be sustained regardless of the level of receipts. This is required to meet the operational difficulties of matching sales receipts to complex building projects in a relatively short three year timescale.

3.68 For 2017/18, the social housing scheme is expected to be about £13.9m.

Housing MRA Schemes

Council Housing Landlord Services

3.69 The Housing Refurbishment Programme and Major Repair's expenditure are a continuation of the current programme and are supported by the stock condition survey, the asset management plan and the requirement to achieve compliance with the Government's Decent Homes requirements. The majority of this work is done by Mears as part of a long term contract and the budget is £7.3m for 2017/18.

3.70 The remaining works outside of this contract include all heating work, insulation and other specialist areas.

3.71 The total budget funded by the MRA in 2017/18 is £11.3m, and for future years the majority of capital investment will be funded from this source.

Prudential Indicators and Prudential Finance Regime

General

3.72 The Government's "prudential" finance regime is to ensure that Councils only embark on capital investment plans that are affordable, prudent and sustainable. At the same time the Code has the objective of being consistent with and supporting local strategic plans, local asset management planning and proper option appraisal.

3.73 To demonstrate that authorities have fulfilled these objectives the Code sets out a number of indicators that must be used in decision-making as well as other factors that must be taken into account.

3.74 It is important to understand that these indicators are not designed to be comparative performance indicators and as CIPFA clearly point out the use of them in this way would be misleading and counter-productive, as each authority's position is unique.

3.75 The Code sets out a clear governance procedure for the setting and revising of prudential indicators. The Head of Resources will be responsible for ensuring that all matters required to be taken into account are reported to the decision making body for consideration, and for establishing procedures to monitor actual performance against the indicators.

3.76 In setting or revising their prudential indicators a local authority must have regard to the following matters:-

- Affordability (e.g. implications for Council Tax and Housing rents)
- Prudence and Sustainability (e.g. implications for external borrowing)
- Value for Money (e.g. option appraisal)

- Stewardship of Assets (e.g. asset management planning)
- Service Objectives (e.g. strategic planning for the authority)
- Practicality (e.g. achievability of the forward financial plan)

The Prudential Indicators

3.77 The Prudential Indicators contained in appendix F include information for the 2016/17 forecast outturn, and 2017/18 to 2019/20 budget. The indicators are as follows:

Capital Expenditure. This indicator represents the value of the total planned capital expenditure for the authority against the financing for the 2016/17 revised budget, and budgets 2017/18 to 2019/20.
Capital Financing Requirement (CFR). This indicator changes to reflect any use of previously reserved receipts to fund capital expenditure. The 2017/18 CFR is calculated using the information from the 2015/16 Statement of Accounts. The Authorities CFR includes the Housing Self Financing debt of £305M taken on by the authority during 2012/13. The General Fund indicator is £22.394M and includes internal borrowing and borrowing repayments. Overall the CFR is forecast to fall by £11.213m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.
Borrowing Limits – Operational Boundary and Authorised limit
Affordability – Ratio of Financing Costs to Net Revenue Streams and Incremental impact of Capital Investment.
Prudence – Gross Debt, Capital Financing Requirement and HRA limit on Indebtedness

Treasury Management Strategy

3.78 The 2017/18 Treasury Management Strategy reflects the CIPFA Treasury Management Code of Practice 2011. Due to high investment balances and the likely increase in use of medium term pooled bond and/or equity funds the permitted limit on non-specified investments has been increased from £35m to £45m.

3.79 An average return of 0.9% is currently forecast for 2017/18.

Current Treasury Position

3.80 As at 17 November 2016 the Council's treasury portfolio was as follows:

Table 8: Investments and Borrowing as at 22 November 2015

	Amount £000
Short term deposits	36,473
Money Market Funds	25,906
Instant access	3,999
Long term deposits	13,201
Total investments	**79,579**
Short term loans	14,400

Long term loans	244,299
Total borrowing	**258,699**

(Short term defined as <365 days remaining to maturity; CCLA Property Fund included in long term)

3.81 The weighted average investment rate on the day was 0.82% (assuming a 3% return on the CCLA Property Fund investment in Q3) and year to date 0.97%. The weighted average borrowing rate on the day was 2.48%.

3.82 The maturity profile of the outstanding investments and borrowing is shown below.

Current Investments		Amount £000
Maturing	2016/17	28,621
	2017/18	8,867
	2018/19	3,001
	2019/20	3,185
	2020/21	2,000
Property Fund		4,000
Instant access & MMFs		29,905
Total		**79,579**

Current Borrowing		Amount £000
Maturing	2016/17	6,800
	2017/18	15,300
	2018/21	55,900
	2021/24	68,300
	2024/28	112,399
Total		**258,699**

<u>In-house Investment Strategy for 2016/17</u>

3.83 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held and it is expected that investment balances are likely to range between £35 and £60 million in the 2017/18 financial year.

3.84 Both the CIPFA Code and the CLG guidance require that funds be invested prudently and regard be given to the security and liquidity of investments before seeking the highest rate of return, or yield. The Council's objective when investing is therefore to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.85 Given the increased risk and falling returns from short-term unsecured bank investments, it is the intention to continue to look for opportunities to diversify into

more secure and/or higher yielding asset classes in 17/18 and to identify core cash that can be invested for longer periods to improve yield.

3.86 The Council sets criteria to control the likelihood and impact of exposure to counterparty default, by defining those it considers to be of 'high credit quality' and setting monetary and time limits for investments. The Counterparty list was presented to Cabinet on 10 January 2017.

3.87 For all investments, a wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks.

Borrowing Strategy

3.88 At 1 April 2017 the Council will hold £251.9m of long term HRA loans, having repaid £52.9m of the original self-financing debt. The debt portfolio was structured to mirror projected cash surpluses arising from the HRA business plan at that point in time. The impact of changes in government policy affecting these projections is therefore monitored regularly and borrowing requirements reviewed on an ongoing basis.

3.89 It is anticipated that while investment balances remain high, any need to finance unfunded capital expenditure in the forthcoming year will be met by these internal resources, rather than entering into additional long term borrowing.

3.90 By doing this, the Council is able to reduce its net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long term borrowing rates are forecast to rise modestly. Our treasury advisors, Arlingclose, will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short term.

3.91 Alternatively, the Council may arrange forward starting loans where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

3.92 Borrowing for short periods of time to cover unexpected cash flow shortages may also be undertaken.

3.93 Approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board and any successor body
- any institution approved for investments (see above)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hertfordshire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues

3.94 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

3.95 The Council has previously raised all of its long-term borrowing from the PWLB but will consider other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Housing Revenue Account (HRA)

3.96 The 2017/18 HRA budget reflects the decision to return the management of the Housing stock directly to the Council. All Housing Services will be directly managed within a simplified structure and there will now be no requirement for a management fee.

3.97 Rents have been set in accordance with the proposed legislative programme to reduce council rents by 1% each year for four years. This has led to an average weekly rent for 2017/18 of £105.33 (on a 52 week year).

3.98 The underlying HRA position for 2017/18 is an operational deficit of £4.7m. This will be met from balances and leaves a reserve position of £5.4m going forward. This has included savings of £523k that equate to the actual 1% decrease in rents, but does not compensate for the previously anticipated rent increase of inflation plus 1%. There have been no changes to the loan and debt financing schedule to achieve next year's budget. However, there is an increase in loan repayments of £1.8m which puts pressure on reserves and along with further rent reductions increases the difficulty in supporting service requirements without a restructure of the loan repayments over the medium term.

3.99 The Major Repairs Reserve (MRR) is the primary source of capital maintenance funding for the housing stock. The reserve will increase over the next financial year. The depreciation charge that will be transferred into the MRR is £13.4m which is an increase of £2.19m on the transfer in 2016/17. This increase is mostly due to an increase in the overall value of the housing stock following a revaluation as well as the implementation of component accounting and the end of transitional arrangements. Expenditure in 2017/18 is planned to be £11.3m, which will leave the MRR at £3.3m at year end.

3.100 The Affordable Housing Programme is budgeted to spend £13.9m in 2017/18. This programme is designed to replace each property sold with a new home so that the affordable housing stock is maintained.

3.101 The main assumptions in setting the budget were: -

- Pay awards have been calculated at 1% per annum plus contractual increments.
- Pension contributions at a current rate of 18.3% plus a proportion of the Council's annual lump sum payment for past service deficit.
- National Insurance is now calculated at a flat rate of 13.8% whether employees are in the pension scheme or not.
- All income and expenditure items have been reviewed on a line by line basis.

- No automatic inflationary increases have been made on expenditure.

3.102 The main changes between the budgets for 2016/17 and 2017/18 are as follows:-

- Statutory changes have increased pressure on the HRA. The 1% reduction in rent has reduced income by £520k. There is a new compulsory apprenticeship fee of 0.5% of the total salary bill, resulting in a cost of around £21k.
- Savings have been made to cover these pressures from a reduction in the bad debt provision, increases in fees and charges and the introduction of a vacancy factor in the HRA to match that already in place in the general fund.

Implications

4 Financial Implication(s)

4.1 The financial implications are set out within this report.

4.2 The Council has a duty to set a balanced budget based on best estimates at the time of agreeing the budget. Consideration must also be given to the degree of uncertainty in the budget estimates and the environmental factors which could have a significant financial impact. We received the provisional settlement announcement on 15 December 2016, but are also aware that further proposed consultation and changes to the business rates retention scheme could have a material impact on our expectations. Other legislative changes around welfare reform may have a significant impact on expenditure budgets, e.g. homelessness and council tax support scheme, but are as yet not fully defined for us to provide an accurate forecast of the potential impact. As such, it is appropriate that the Council maintain a reasonable amount in reserves to cushion and smooth the impact over the medium so it is not necessary to take radical action in any particular year, such as a large rise in council tax.

5 Link to Corporate Priorities

5.1 The subject of this report is primarily linked to the Council's Corporate Priority "Engage with our communities and provide value for money" but the budget sets the resources available to deliver all the Council's priorities for the forthcoming year. It should be noted that individual growth and savings items are also linked to the corporate priorities.

6 Legal Implication(s)

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

6.2 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to make a formal report to the Council on the robustness of the budget and adequacy of reserves. (See appendix I)

7 Climate Change Implication(s)

7.1 There are no direct climate change implications following the recommendations of this report. However, implications will have been considered individually by the relevant officer for specific budget efficiency and growth proposals. Any negative impact should be detailed in the description of the specific proposals.

8 Risk Management Implications

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

9 The Council has a minimum general fund reserve policy, as laid out in the medium term financial strategy. The general fund balance will be maintained at a balance no lower than £1.6million over the period of the MTFS.

10 Equality and Diversity

10.1 In developing individual budget proposals officers have undertaken an equality impact assessment. In particular the equality impact assessment with regards to the introduction of a charge for the collection of garden waste was considered at the Council meeting on 9 January 2017. The Council will follow its equality and diversity policy when implementing any of the changes listed within the budget.

Name of authors Tim Neill
Title Head of Resources
Date 23 January 2017

Background papers to be listed (if applicable)

Report and Budget papers for Cabinet 10 January 2017

http://democracy.welhat.gov.uk/ieListDocuments.aspx?CId=151&MId=310&Ver=4

Report and Budget papers for ROSC 19 January 2017

http://democracy.welhat.gov.uk/ieListDocuments.aspx?CId=154&MId=366&Ver=4

Report and Budget papers for Special Cabinet 24 January 2017

http://democracy.welhat.gov.uk/ieListDocuments.aspx?CId=151&MId=411&Ver=4

List of appendices

- Appendix A - General Fund Revenue Budget summary

- Appendix B – Capital budget summary for 17/18 to 21/22
- Appendix C – 2017/18 Housing Revenue Account summary
- Appendix D – Medium Term Financial Positions
- Appendix E – Fees and Charges
- Appendix F – Prudential Indicators
- Appendix G - Annual Minimum Revenue Provision Policy Statement
- Appendix H – Special Expenses
- Appendix I – Chief Finance Officer statement on robustness of budgets and adequacy of reserves