Part I
Item No: 7(b)
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All Wards

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 9 JANUARY 2018
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

Budget Proposals and Medium Term Forecasts 2018/19

1 Executive Summary

1.1 The purpose of this report is to present to Cabinet the budget proposals for recommendation to Council in relation to:

- Revenue Budgets 2018/19
- Capital Programme 2018/19 – 2022/23
- Use of Reserves 2018/19
- Treasury Management Strategy 2018/19
- Fees and Charges for 2018/19
- Medium Term forecasts 2018/19 – 2020/21

1.2 This report will go on for consideration to Resources Overview and Scrutiny Committee (ROSC) on 18 January 2018. Recommendations made by ROSC and any changes will be presented to Special Cabinet on 23 January, in order for it to recommend the budget proposals to Council at its meeting on 5 February 2018.

1.3 The 2018/19 budget proposals and the updated Medium Term Financial Forecasts have been produced to ensure that the Council maintains a sustainable financial position over the planning period to 2020/21. The following Council strategies and policies have informed the budget-setting process:

- The Council's Vision and Priorities, as stated in the Business Plan
- The Medium Term Financial Strategy (MTFS)
- The Housing Revenue Account 30 year Business Plan
- Service Strategies and Plans

1.4 In accordance with the Medium Term Financial Strategy, the Executive Board, and the Cabinet has met to review and monitor emerging budget proposals throughout the budget preparation period.

1.5 There has been a series of budget briefings and planning meetings throughout the budget cycle involving Portfolio Holders and members of the Council's leadership team.

1.6 Members will previously have received separate reports for budget setting, on each of the Council funds, forecasts and strategies. This year, the budget reports have been brought together into one pack, in order to reinforce the links between the different funds, and to demonstrate financial strategies are considered in the best interests of the Council as a whole.

1.7 This covering report provides members with the details of key assumptions and updates, and is supported by the following appendices:

- Appendix A – General Fund Summary 2018/19
- Appendix B – General Fund Head of Service Summaries 2018/19
- Appendix C – General Fund Savings Summary 2018/19 – 2020/21
- Appendix D – General Fund Growth Summary 2018/19 – 2020/21
- Appendix E – General Fund Fees and Charges 2018/19
- Appendix F – Housing Revenue Account Summary 2018/19
- Appendix G – Housing Revenue Account Summary of Changes 2018/19
- Appendix H – Housing Revenue Account Fees and Charges 2018/19
- Appendix I – Capital Programme 2017/18 – 2022/23
- Appendix J – Capital Financing Summary 2018/19 – 2022/23
- Appendix K – Capital Reserves Summary 2018/19 – 2022/23
- Appendix L – Medium Term Financial Strategy 2018/19 – 2020/21
- Appendix M – Treasury Management Strategy 2018/19

2 Recommendations

That Cabinet approve the following budget proposals and note that any comments from Resources Overview and Scrutiny Committee will be returned to Special Cabinet on 23 January 2018 for consideration, before final recommendations are made to Council:

2.1 General Fund

2.1.1 The proposed General Fund Budget as summarised in Appendix A, and detailed in appendix B.

2.1.2 The inclusion of the savings and growth proposals into the budget as detailed in appendices C and D.

2.1.3 The approval of the 2018/19 fees and charges which have been incorporated into the budget proposals, as set out in appendix E.

2.1.4 The increase in the Council's Band D Tax of £5.00 (2.48%), taking the average Band D Tax to £206.61 for 2018/19.

2.1.5 That Cabinet delegate authority to the Executive Director (Resources, Environment and Cultural Services), in consultation with the Executive Member for Resources, to approve the Council's annual NNDR1 return.

2.2 Housing Revenue Account (HRA)

2.2.1 That dwelling rents are reduced by 1% in accordance with Government legislation, resulting in an average rent of £104.42 per week (based on a 52 week year).

2.2.3 The continuation of the policy charge formula rent minus 1% when vacant properties are re-let.

2.2.4 The approval of the Housing Revenue Account budget for 2018/19 as shown in appendix F.

2.2.5 The approval of the 2018/19 fees and charges which have been incorporated into the budget proposals, as set out in appendix H.

2.2.6 The change to the Medium Term Financial Strategy (MTFS) to maintain HRA working balances of between 5% and 10% percent of income.

2.2.7 That Cabinet delegate authority to the Executive Director (Resources, Environment and Cultural Services), in consultation with the Executive Members for Resources to make an application to lift its HRA borrowing cap, if, following detail analysis, they deem it to be in the interests of the Council to do so.

2.3 Capital Programme

2.3.1 The approval of the Capital Programme for 2018/19 to 2022/23 as set out in Appendix I.

2.3.2 The approval of the Capital Financing for the Capital Programme, for 2018/19 to 2022/23 as set out in Appendix J.

2.4 Medium Term Financial Strategy

2.4.1 The approval of the Medium Term Financial Strategy for 2018/19 – 2020/21 as set out in appendix L.

2.5 Treasury Management Strategy

2.5.1 The approval of the Treasury Management Policy for 2018/19 as set out in appendix M.

3 Explanation

3.1 General Fund Revenue Account

3.1.1 The Government's austerity measures to bridge the national deficit continue to impact significantly on local authorities. The Council is facing a decline in the grant income from central government, and 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.

3.1.2 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.

3.1.3 The proposed net cost of services budget for 2018/19 totals £14.530m and is £0.234m (1.6%) lower than the 2017/18 original budget of £14.764m. The movement between years is summarised in the following table.

	£'000
2017/18 Original Budget	**14,764**
Less: 2017/18 one-off growth	(479)
Add: 2018/19 one-off growth	440
Add: 2018/19 ongoing growth	604
Less: 2018/19 savings	(1,781)
Add: Pay inflation	392
Add: Contract inflation	619
Add: Recharge to HRA	(30)
2018/19 Original Budget	**14,530**

3.1.4 A breakdown of savings and growth are included in appendices C and D, and are also detailed in the reconciliation of controllable expenditure in the Head of Service summaries in appendix B.

3.1.5 Whilst budget proposals are firm for the net cost of services, the Council awaits confirmation on a number of areas that may impact on the overall position:

- Although the Council was awarded a multi-year Government settlement, it awaits the final settlement confirmation for 2018/19 (expecting late January/early February). This will include its New Homes Bonus funding and other grant income.

- The Business Rates income has been estimated for 2018/19, and the budget includes a small amount of growth and pooling gains. The strategic approach for dealing with pooling gains is set out in paragraph 3.1.10.

- Parish Precept proposals, although these changes will have a net nil impact on the summary shown in appendix A.

Multi Year Settlement – Business Rates and Revenue Support Grant

3.1.6 In December 2017, the Council received the provisional settlement for 2018/19 budget proposals have been based on the figures provided by the Government. Government austerity measures mean the council continues to face funding reductions:

	Final Finance Settlement 2017/18 £'000	**Provisional Finance Settlement 2018/19 £'000**	% Change
Revenue Support Grant	558	104	-81%
Business Rates Baseline	2,716	2,800	+3%
Total: Settlement Funding Assessment	3,274	2,904	-11%

3.1.7 Although the Government has set a baseline level of income for Business Rates, the amount of funding received will depend on the actual amount billed for Business Rates which will be influenced by other factors including the collection rate, business growth across the District and the provision for successful appeals.

3.1.8 The income budget for Business Rates has been estimated on data at the end of November, with a small level of growth assumed, inflationary increases for the business rates multiplier, and pooling gains. The actual amount of business rates that will be included in the final budget proposals, will be based upon the NNDR1 return, which is completed mid-January.

3.1.9 The Council submitted an application for the 100% Business Rates Retention Pilot Scheme and a back-up application to enter a pooling arrangement with Broxbourne, Hertsmere, Hertfordshire County Council, North Hertfordshire and Three Rivers, should the Pilot scheme application be unsuccessful. It was confirmed as part of the Provisional Settlement in December 2017 that the Hertfordshire business rates pilot scheme was not accepted but the Pooling arrangement was successful.

3.1.10 It should be noted that there is no guarantee that business rates pooling arrangement will continue in future years, and there is also a risk that Welwyn Hatfield may not be selected to join the business rates pool going forward, therefore any additional income from the pooling regime should not all be used to support the Council's base budget. An element of the additional gain from business rates pooling has been set aside for one off projects in 2018/19, along with a contribution of £47k to the Pensions Earmarked Reserve.

3.1.11 As part of the announcements for the provisional settlement, the Government confirmed its intention to allow Councils to increase planning fees by 20% and that this will be implemented as soon as practicable.

Autumn Statement

3.1.11 As part of the autumn statement, the Chancellor announced the following items, which could impact on the Council's budget:

- From April 2018, CPI will be used to uprate the multiplier for business rates, for which the Council will be fully compensated for.

- From April 2018, Local authorities will be given the power to increase the council tax empty homes premium from 50% to 100%. A change to the Council's policy would impact on around 67 properties in the Borough. Full consideration and recommendations will be made on this once the legislation has been published.

- A number of changes were announced for universal credit, mainly around improving waiting times, and interest free loans, and other changes to improve concerns raised by claimants. The government said that they will also make it easier for claimants to have the housing element of their award paid directly to their landlord, which may reduce some of the risks highlighted on HRA rent arrears.

New Homes Bonus

3.1.12 On the 15 December 2016 the government announced the results of the consultation on reforms to the New Homes Bonus Grant, and reduced the length of payments to 4 years from 2018/19, only awarding for a growth in homes above 0.4% per annum.

3.1.13 The Government was considering payments to be withheld from local authorities that are not "planning effectively, by making positive decisions on planning applications and delivering housing growth". Whilst the proposed changes did not materialise for the calculation for New Homes Bonus Grant in 2018/19, it will remain as a risk for the Council until its Local Plan is formally adopted.

3.1.14 The Council aims to reduce reliance on New Homes Bonus income to support base budget expenditure, with the transfer of 25% in 18/19, 25% in 2019/20 and then 50% in each year thereafter, to the Strategic Earmarked 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.

Collection Fund

3.1.15 The Council's Council Tax requirement for 2018/19 is calculated as £8.546m (exclusive of parish precepts). The proposed taxbase for 2018/19 is 41,363.2.

3.1.16 The income due from Council Tax goes into the Collection Fund. Throughout the year the actual number of properties (as well as allowances for exemptions, discounts or appeals) inevitably varies from the figure estimated at the start of the year. This leads to a change in the amount of Council Tax due, and therefore a surplus or deficit on the Collection Fund.

3.1.17 In 2017/18 there is a forecast surplus position on the Collection Fund, primarily due to an increase in the number of new properties built, coupled with in a change to the collection rate used in the calculation. This surplus is shared between the Major Preceptors, i.e. the County, the Police Authority and the Borough, in proportion to their precepts for the year.

3.1.18 The proportion of the surplus that each of the Major Preceptors will receive from the Collection Fund when calculating the Council Tax for 2018/19 is as follows:

Welwyn Hatfield Borough Council	£280,394.70
Hertfordshire County Council	£1,427,064.03
Hertfordshire Police & Crime Commissioner	£175,447.87
Total Surplus	£1,882,906.59

3.1.19 The Localism Act 2011 abolished Council Tax capping in England and instead allows local residents to reverse 'excessive' Council Tax increases by means of referendum. The Government has set the 2018/19 referendum threshold for district Council's at the higher of £5 or 3%. The proposed increase of £5 for Welwyn Hatfield in 2018/19 is therefore within the threshold, and below the rate of inflation.

3.1.20 A provisional figure of £98,503 has been included in the budget for a surplus on the Business Rates element of the collection fund. This figure will be refined mid-January, on the completion of the Councils NNDR1 return.

3.1.21 The total provisional Collection Fund surplus totals £378,897 as shown in appendix A.

Budget Assumptions

3.1.20 The 2018/19 budget proposals include the following key assumptions:

Employee Costs	2% general pay inflation. Actual increases will depend on national pay negotiations* 18.3% of employee pay as contribution to the pension fund 3% Vacancy factor
Contractual Inflation	Inflation has been included in line with agreed contractual indices, mostly RPI or RPIX
Utilities	Inflation has been included in line with agreed contractual indices
Fees and Charges	Maximised where possible in line with the Fees and Charges Strategy. Proposed fees and charges are set out in appendix E
Council Tax	£5 for 2018/19. This equates to 2.48%, lower than inflation, which was 4.0% at October 2017.
Investment income	0.6%

* The NJC for Local Government provided proposals for pay increases for 2018/19 in early December. As with previous years, their proposals include higher increases on the lower spinal points for the Council, which is estimated to cost around £50k. This has been included centrally, pending the formal outcome of the consultation with Trade Unions.

Reserves

3.1.21 It is important that the Council maintains a reasonable level of reserves to cushion against unanticipated budget pressures. The Council holds two types of reserve:

- Working balances, which are required as a contingency against unforeseen events, and to ensure that the Council has sufficient funds available to meet its cash flow requirements. The Local Government Act 2003 requires the Section 151 Officer to report on the adequacy of financial reserves when setting the General Fund budget requirement for the year.

- Earmarked reserves, which are funds approved by Members to finance specific items of future expenditure. The Council's Financial Regulations dictate that Earmarked Reserves can be created only with Member approval, and that all subsequent transfers to and from those reserves also require Member approval.

3.1.22 The Council's MTFS recommends a minimum working balance of £1.6 million. This budget proposal leaves a balance of £8.1m in working balances, well maintained above the requirements of the MTFS.

3.1.23 The following table shows the justification for balances currently held by the Council within Earmarked Reserves, along with the forecast closing balances at the end of each financial year.

Earmarked Reserve	Main Purpose of Reserve	31 March 2017 £'000	31 March 2018 £'000	31 March 2019 £'000
Strategic	For use on one-off specific General Fund projects across the General Fund Services.	1,045	1,077	1,424
Resources	To manage volatility in Business Rates income and changes to the Business Rates funding	1,627	1,429	1,316
Planning	Previous year surplus put aside for Development control projects.	23	23	23
Performance Reward Grant	Held for community inclusion projects as and when required	57	57	57
Governance	The electoral registration grant to be used for individual registration.	82	50	45
Public Health and protection	Public Health Grant received from HCC held for relevant projects.	63	63	63
Hackney Carriages	The reserve is necessary to account for in year surplus/deficit positions. The service must break-even over time.	(38)	(51)	(38)
Pensions Reserve	This reserve is necessary to help mitigate the impact of additional costs arising in the triennial review cycle	0	100	147
Other minor Earmarked Reserves (less than £7k each)	Any unconditional grant received in advance of need will need to be held in an earmarked reserve.	10	10	10
Total Earmarked Reserves		**2,869**	**2,758**	**3,047**

3.1.24 The Council's Section 151 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 unforeseen events. Priority area that Members may wish to consider for future contributions to Earmarked Reserves, subject to outturn, include:

- Pensions – As with previous years, the triennial pensions review (next due early 2019) may bring an opportunity to the Council to make a one off payment, to reduce the pensions deficit and mitigate any increases to the on-going burden of funding the deficit. There is a contribution planned to the reserve in 2017/18, and the proposed 2018/19 budget includes a contribution to this reserve.

3.2 Housing Revenue Account Budgets

3.2.1 The budget and 30 year forecasts have been prepared on the basis of the following high level principles, as detailed in the Council's 30 Year HRA business plan:

- The Council will continue to maintain existing stock to at least decent homes standard.
- The Council will aim to maintain stock levels at around 9,000 dwellings.
- The Council will continue with the Affordable Housing Programme, to fully make use of the retained right to buy receipts available to it.
- The Council will continue to take a balanced approach to reducing its level of Housing debt, whilst ensuring some flexibility is maintained for any future legislative or policy changes.

3.2.2 The HRA expenditure and income have been realigned, to bring the Council's monitoring reports in line with the Council's annual statutory reporting (the Statement of Accounts). In order to enable year on year comparison, 2017/18 has also been restated in appendix F. In addition, items only included for accounting purposes have been removed, as these do not impact on decision making or the balances of the HRA.

3.2.3 The budget proposal for 2018/19, leads to a deficit on the HRA of £3.350m, with working balances forecast at £2.665m at the end of 2018/19. The closing position on the working balances equates to 5.2% of turnover, and is within the range of 5%-15% considered to be best practice.

3.2.4 The Council's current MTFS (approved February 2017) recommends a HRA working balance of £5m, with no link to income or expenditure. In order to minimise exposure to borrowing costs, whilst maintaining adequate reserves proportionate to the size of the HRA, it is recommended that the MTFS be updated to maintain HRA working balances between 5% and 10%.

3.2.5 Key changes to the budget are set out in Appendix G.

3.2.6 The Council's current plans for the HRA, and forecast borrowing, are affordable in the medium to longer which will be shown in the forthcoming 30 year Business Plan.

Rent Setting

3.2.7 As detailed in previous budget reports, the Government announced in 2015, a statutory requirement for Local Authorities to reduce rents by 1% for the financial years 2016/17 to 2019/20. The proposed budget represents the third year of this rent reduction period.

3.2.8 On the 4th October, the Government confirmed its intention to end the rent reduction policy after the fourth year, by stating that "increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020".

3.2.9 This announcement gives the Council more stability in its longer term planning for the Housing Revenue Account. The 30 year business plan includes CPI plus 1% from 2020.

3.2.10 The introduction of the rent reduction policy, saw not only a reduction in the income for the HRA, but also meant an end to rent convergence. This means that neighbouring tenants, with identical properties, could be paying different rent levels. The legislation does not allow the Council to make changes to current tenancies in order to continue with convergence.

3.2.11 The Council may however, change rent levels on when a property becomes vacant, and re-let these at the target rent level. In order for the Council to maximise the income from its assets, and to continue to work towards a fair approach for tenants, it is recommended that the Council continue with the policy to move to formula rent minus 1% when vacant properties are re-let.

Universal Credit

3.2.12 On 6 December 2017, Universal Credit was rolled out in the Borough for new single claimants, working age claimants with less than three children, and current claimants in these categories will be migrated where there is a change of circumstances.

3.2.13 Based on feedback from other Local Authorities, and the Department of Communities and Local Government (DCLG), there is evidence that the Council will see an increase in current rent arrears levels. It is expected that this initial increase will be followed by a plateau in arrears levels, creating a new baseline for the rent arrears performance.

3.2.14 An exercise has been undertaken to review the provision for bad debts budget in the HRA in light of these changes, and an increase proposed. This will be monitored closely over the coming year, with any variance to assumptions being built into the 2019/20 budget and 30 year business plan.

National Context

3.2.15 In the Chancellor of the Exchequers Autumn Budget 2017, it was announced that to enable the delivery of more homes, the Government would lift the HRA borrowing caps for Local Authorities in areas of high affordability pressure.

3.2.16 Local Authorities will be invited to bid for increases to their caps from 2019/20. The Government intends to monitor how authorities respond to this opportunity and consider if any further action is required.

3.2.17 Based on the Council's Capital Programme and 30 year HRA business plan, the Council will not reach its current borrowing cap, with around £60m of headroom in 2020/21.

3.2.18 Given the continuing trend in the number of Right to Buy sales, there may be pressures in future years to fund additional investment in new stock, in order to fully utilise the retained right to buy receipts. As the Council will be undertaking new borrowing, although unlikely, this may place restrictions on its ability to do so.

3.2.19 Additional analysis will be undertaken when the full details of the announcement are published to understand if the Council should apply to lift its borrowing cap.

3.2.20 It is not unusual for Government application processes to have short timeframes, and as such it is recommended that delegated authority be given to the Executive Director (Resources, Environment and Cultural Services), in consultation with the Executive Members for Resources to make an application to lift its borrowing cap. Any decision to apply, and the outcome of an application process will be reported to the next available Cabinet following the outcome of an application.

3.2.21 As part of the 2017 budget setting report, it was highlighted that there were a range of government initiatives that may have potentially impacted on the financial position of the HRA in the future. These included the sale of high value void properties to fund the extension of the right to buy scheme to housing associations tenants, and increasing rents towards market rates for those households with income over a set value. These policies have currently been shelved by the Government and there are no further updates. No assumptions have been made for these policies in the budget or 30 year HRA Business Plan.

30 Year HRA Business Plan

3.2.22 The Council's proposed 30 year HRA Business Plan Proposals will be coming to Cabinet in early 2018. This is being informed by the proposed 2018/19 budget, the capital budget proposals for 2018/19 – 2022/23, and the high level aims set out in paragraph 3.2.1.

3.2.23 Key assumptions used in the 2018/19 budget, and being incorporated into the business plan are:

Budget	**Assumptions**
Pay award	2% from 2018/19
Pensions and NI	Current rates included, no assumptions for increases or reductions
Rents	1% Reductions until 2019/20 CPI plus 1% from 2020/21
CPI	2.3%
RPI	3.0%
Working Balance	Minimum 5% of turnover
Major Repairs Reserve	Fully utilised each year to reduce borrowing requirement and avoid additional borrowing costs
Right to Buy	70 each year until 2021/22 30 each year from 2022/23
Affordable Housing Programme	Continuation of the Council's existing programme and an additional 30 per year from 2026/27

3.3 Capital Programme

3.3.1 The Capital Programme has been structured to enable delivery of the Council's Business Plan and the HRA Business Plan over the medium to long term. The Programme includes all of the capital schemes within both the General Fund and the Housing Revenue for 2018/19 to 2022/23, and is detailed in appendix I. The financing of the programme is shown in appendix J.

3.3.2 These appendices show total expenditure on the General Fund Capital Programme of £23.090m for 2018/19 to 2022/23, of which £22.290m is supported by direct financing, and the remainder of £0.8m is supported through a net increase to the General Fund borrowing requirement.

3.3.3 The Housing Revenue Account Capital Programme shows total expenditure of £144.322m for 2018/19 to 2022/23 and borrowing repayments of £100m, of which £146.923m is supported by direct financing, and the remainder of £97.399m is supported through a net increase to the Housing Revenue Account borrowing requirement.

3.3.4 The Council complies with the Prudential Code for controlling Local Government Capital Finance, and the Budget for 2018/19 has been prepared in the context of these plans and controls (more details of the Prudential Code are included within the Treasury Management Strategy in Appendix M). The key objectives of the Code are to ensure that:

- Capital Investment Plans are affordable, prudent, and sustainable;
- All external borrowings and other long term liabilities are within prudent and sustainable levels;
- Treasury Management decisions are taken in accordance with good practice and in a manner that supports prudency, affordability and sustainability; and,
- The Council is accountable for its decisions.

3.3.5 Key areas of investment included in the General Fund Programme, totalling the £23.090m for 2018/19 to 2022/23 are:

- £5.001m on property investment. This is the second year, with £5m also allocated in 2017/18. This aim of this scheme is invest in property which will generate additional revenue to support the General Fund.

- £5.027m for the Hatfield multi storey car park. This scheme has been partly funded through the LEP, with the Council funding only 20% of the scheme. This scheme will provide additional car parking into the town centre, allowing the Council to rationalise its car parks and supporting the Council's regeneration aims for Hatfield

- £4.889m on regeneration schemes including further investment into Hatfield Town Centre and Flats, Link Drive, Hatfield Market Place, investment into Welwyn Town Centre North, and other smaller schemes.

- £2.355m for Disabled Facilities Grants and home assistance loans. These Council receives Government funding towards these £2.205m of grants, which currently covers the cost of the scheme. The aid essential adaptation work to make a home accessible for a child or adult with a disability. The Council funds its own rolling programme of £150k for housing assistance grants and loans.

- £1.731m investment into our buildings. This includes a £1.395m investment programme for our garage stock, along with other required investment into our land and building to ensure compliance with health and safety requirements, legislative changes and general improvements.

- £1.027m investment into Lemsford Road Car Park to facilitate additional parking whilst works on regeneration and other car parks are completed.

- £1.105m on systems, equipment and technology to ensure the Council makes the best use of new technologies, that it is protected against cyber-attacks and that it upgrades and improves systems where possible to ensure working practices are as efficient as possible. This includes the Council's £0.575 rolling programme for replacing IT, the infrastructure upgrade of £0.175m, along with other corporate and more service specific system improvements.

- £1.100m investment into enhancing parking throughout the Borough. This is a rolling programme item, aimed at increasing the number of parking bays and availability of off road parking throughout the borough.

- £0.855 on other investment priorities, such as litter and dog bin replacement, the construction of memorial plinths, the refuse improvement programme, and CCTV upgrades.

3.3.6 Key areas of investment included in the Housing Revenue Account Programme, totalling the £144.322m are:

- £58.851m of investment into people's homes and communal areas. This includes the replacement of major components, such as kitchens, bathrooms, windows and roofs. It also includes those items which the Council must deliver to ensure the safety of its tenants, such as the boiler replacement programme.

- £78.863m on delivering new affordable homes. This is funded 30% through the use of retained right to buy receipts, with the remainder coming from capital reserves or borrowing. This enables to the Council to maintain its stock levels with the continuing high levels of right to buys, and supports the Council in meeting the housing needs of its community.

- £6.648m of grants to registered providers of housing, towards the delivery of new homes. This is fully funded through the use of retained right to buy receipts, and supports the Council in meeting the diverse housing needs its community.

3.3.7 A forecast of the Council's Capital Reserves and Grant Balances is included in appendix K. Key assumptions around the Council's capital reserves and resources are:

- Capital Grants and Contributions

  Wherever possible, the Council will seek to identify external funding sources to meet its investment aspirations. If grants are awarded, these will be the first source of financing the relevant schemes.

- Retained Right to Buy / 1 for 1 Receipts

  The Council continues to see a high number of Right to Buy Sales each year. An element of these receipts can be retained when the Council commits to spend the receipt within three years on increasing Social and Affordable Housing numbers. The receipts can be used to fund up to 30% of the Council's Affordable Housing Programme, and this will be utilised first, prior to any other financing.

- Capital Receipts Reserves

  Capital receipts have been forecast based on the likely asset disposals, and fair value of the disposals. This reserve will be utilised to finance the Council's general programme, after any use of grants and Retained Right to Buy Receipts. Borrowing will be undertaken, where affordable, for longer term assets, and this reserve will be utilised as much as possible to ensure that the borrowing requirement, and associated costs, are kept as low as possible, whilst maintaining an adequate level of reserves for the Council's rolling programme.

- Major Repairs Reserves

  This reserve is funded by the depreciation charge to the Housing Revenue Account. This reserve will firstly be used for the Council's investment in existing stock, with any balance being utilised for the repayment of debt, to reduce the burden of refinancing costs.

- Revenue Contribution to Capital

  General Fund – there are no Revenue Contributions to Capital in the budget for 2018/19. This may be an area for consideration in future policy setting, for example using volatile funding streams (New Homes Bonus, Business Rates Growth), or for the use of Earmarked Reserves to support the Capital Programme and reduce the associated costs of the borrowing requirement on the General Fund Revenue Budget.

  Housing Revenue Account – Each year, the balance on the Housing Revenue Account above that required for the minimum working balance, will be contributed to capital programme to reduce the borrowing requirement and thereby reduce the associated costs of borrowing.

- Borrowing

  The Council will only look to increase its capital financing requirement, and undertake associated borrowing, where affordable and for long term assets. The proposed Capital Programme identifies a need for the Council to increase its borrowing requirement by £97.399m between 2018/19 and 2022/23. The majority of this borrowing is for the HRA, which is affordable within the upcoming 30 Year HRA Business Plan.

  This borrowing requirement will be kept under close review to ensure that further external borrowing is undertaken when required, to minimise the associated revenue costs. All new borrowing will be undertaken in line with the Council's Borrowing Strategy, set out in section 11 of its Treasury Management Strategy (Appendix M).

Cash Balances and Borrowing Requirement

3.3.8 As shown in 3.3.13, the council is forecasting an overall net negative cash balance, which means it will need to undertake further external borrowing.

3.3.9 The majority of the borrowing requirement is generated through the Housing Revenue Account, which is continuing to see a high level of right to buy sales. In order to maximise the use of the receipts it can retain, the Council is committed to the continuation of the Affordable Housing Programme (AHP). This programme will create income generating assets, which will cover the cost of external borrowing.

3.3.10 In addition to this, the Governments rent reduction policy has impacted on the Council's ability to repay loans as quickly as it intended. This means that loans in the medium term of the 30 Year HRA Business Plan, will in part, need to be refinanced.

3.3.11 For these reasons, the Council will seek to borrow externally for the HRA to support the continuation of the AHP, and to refinance part of its current debt.

3.3.12 Taking the Council's finances as a whole, the General Fund borrowing requirement makes up a much smaller proportion of its overall borrowing requirement. Given the HRA will be borrowing to finance the AHP and refinancing needs, the General Fund requirement can continue to be managed through internal borrowing. This will mean an interest payment on any negative cash position to the HRA, which will be calculated in line with its interest policy, set out in section 17 of its Treasury Management Strategy (appendix M).

3.3.13 A summary of the Council's cash position, before and after any new proposed borrowing is shown in the following table. The Capital Financing Requirement (CFR) has been adjusted to exclude finance leases:

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
General Fund					
Reserves	23,277	23,398	23,489	24,167	24,748
Less CFR	(33,943)	(33,093)	(32,242)	(31,392)	(30,542)
Net Cash	**(10,664)**	**(9,695)**	**(8,753)**	**(7,225)**	**(5,794)**
HRA					
Reserves	26,107	29,666	32,238	38,335	37,569
Existing Loans	219,499	200,699	180,699	159,299	136,599
Less CFR	(241,332)	(244,156)	(250,877)	(248,304)	(242,506)
Net Cash	**4,274**	**(13,790)**	**(37,940)**	**(60,670)**	**(68,338)**
Council					
Net Cash	**(6,392)**	**(23,485)**	**(46,693)**	**(57,895)**	**(74,133)**
Cumulative New Borrowing	21,833	21,624	26,721	18,827	16,903
Net Cash	**15,441**	**19,972**	**23,484**	**31,109**	**31,775**

3.4 Medium Term Financial Strategy

3.4.1 The Medium Term Financial Strategy (MTFS), detailed in appendix L, sets out the Council's strategy for maintaining financial sustainability and a commitment to provide the best possible value for money for the community. It provides a framework for the Council to plan and manage its resources over the current Comprehensive Spending Review period in order to meet the Council's overall corporate objectives.

3.4.2 The Council is currently in a good overall financial position with general fund revenue estimated reserves at £10m at the start of 2018/19 and a housing revenue account (HRA) balance of £6m. 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.

3.4.3 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.

3.4.4 In line with Government expectations, the Council aims to be more self-sufficient, with less reliance on Government Grants and more reliance on local income streams and taxation.

3.4.5 Forecasts suggest the Council is required to find a further £1.378m of savings on the general fund by 2020/21 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 may not be possible to find efficiencies of this magnitude and guarantee no impact upon frontline services.

3.4.6 The budget for 2018/19 includes the identification of £1.58m of efficiency proposals. Further efficiency proposals have been identified potentially delivering around £1.245m of savings for 2019/20 and 2020/21. This currently leaves an estimated budget gap of £1.378m by 2020/21 to be found from other longer term projects. Initiatives could include the outcome of work on the Customer Services strategy, 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.

3.4.7 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.

3.4.8 The capital programme includes some 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.

3.4.9 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.

3.4.10 The Government has also announced further proposed changes to the New Homes Bonus scheme and there is work continuing on the fundamental review of the Local Government funding regime.

3.4.11 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 some of the reduction in rental income 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.

3.4.12 There remains 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.

3.4.13 The Council will be reviewing its Corporate Business Plan in the coming months, and the MTFS will be reviewed following the adoption of the new plan. The Council will also be required to adopt a new Capital Strategy prior to its Capital budget process for 2019/20. The MTFS, a Capital Strategy and a review of the reserves policy and strategy will be presented to Cabinet in the summer of 2018 following adoption of the new Corporate Business Plan.

3.5 Treasury Management Strategy

3.5.1 In accordance with the CIPFA Treasury Management in the Public Services: Code of Practice 2011 and CLG guidance on local authority investments, this report presents the proposed Treasury Management Strategy for 2018/19.

3.5.2 The proposed Treasury Management Strategy for 2018/19 is attached at Appendix M. No significant changes are proposed to last year's strategy.

3.5.3 Limits on longer term investments are proposed to be reduced, in line with the Council's forecast of reducing cash balances due to an ambitious capital programme use of both internal and external borrowing.

3.5.4 The Strategy takes into account the all of the Council's capital and revenue forecasts, and reserve balances as set out in this report. It seeks to protect the balances held by the Council whilst generating a return, minimise borrowing costs where possible, and determines the borrowing and lending strategies.

Regulatory changes

3.5.5 Both CIPFA and the DCLG are currently reviewing their guidance on treasury management practices, with consultations in various stages at the time of writing. CIPFA anticipate issuing a revised Prudential Code and Code of Practice for Treasury Management in January 2017, with no date currently set for the revised DCLG guidance.

3.5.6 It is therefore likely that an amended Treasury Management Strategy will need to be submitted to Cabinet at some point prior to the start of the new financial year, or as soon as possible thereafter, to ensure compliance with any new requirements.

4 Financial Implications

4.1 Financial implications are contained in the recommendations and explanations to this report.

5 Link to Corporate Priorities

5.1 The Council's budget proposals directly support all of the Council's Corporate Priorities.

6 Legal Implication(s)

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

6.2 The principal statutory provision governing the fixing of rent for council property is contained in section 24 of the Housing Act 1985. This has now been supplemented by provisions in the Welfare Reform and Work Act 2016 that details enforced rent reductions by local authorities and was passed in March 2016.

6.3 Sub-section (1) provides that authorities may "…make such reasonable charges…. as they may determine". This section should be considered with regard to section 76 of the Local Government and Housing Act 1989. This act put a duty on local housing authorities to prevent a debit balance arising in their HRA and also imposed ring-fence restrictions on the use of the account. It is now no longer possible for a local housing authority to subsidise rents from its general fund, or use HRA resources for non-specified activities.

6.4 The MTFS sets out the framework for setting future budgets and levels of Council Tax. Members are reminded that Council must take into account the advice of the Corporate Director (Finance and Operations) (Chief Finance Officer) on the robustness of future budget proposals and the adequacy of the proposals for reserves. The Council has a legal duty to set a lawfully balanced budget.

6.5 The MTFS sets out how the Council will fulfil its Best Value Duty 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. In doing so the MTFS also acknowledges the Duty to Consult representatives of a wide range of local persons.

6.6 The treasury Management Strategy and prudential indictors have been produced in line with the Local Government Act 2003, and with regards to Section 151 of the Local Government Act 1972 which states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

7 Security & Terrorism Implication(s)

7.1 There are no implications for security and terrorism arising from this report.

8 Procurement Implication(s)

8.1 There are no direct procurement implications arising from this report.

9 Climate Change Implication(s)

9.1 None

10 Risk Management Implications

10.1 The budget is an important part of the Council’s risk management process. There are always considerable risks to the council’s short and medium term budget strategies including inflation, changes in the national economy, expenditure exceeding budgets, operational pressures on existing budgets, reductions in grant and legislative changes that require new spend. The budget setting process includes the recognition of these risks in determining the 2018/19 budget and relevant risk provisions are set out in the body of the report.

10.2 A working balance is maintained for both revenue accounts to cushion against known and unknown financial risks. Risk management in the financial context is set out in the Medium Term Financial Strategy set out in appendix L.

11 Equality and Diversity

11.1 In developing individual budget proposals officers have, in line with the Equality Act 2010, completed assessments on any proposals which are likely to affect some groups with protected characteristics more than others.

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