Part I
Main author: Ka Ng/Richard Baker
Executive Member: Cllr Duncan Bell
All Wards

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 4 SEPTEMBER 2018
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

REVIEW OF THE MEDIUM TERM FINANCIAL STRATEGY

1 Executive Summary

1.1 The Council's Medium Term Financial Strategy (MTFS) 2018/19 – 2020/21 was approved by Cabinet in January 2018 and it was subsequently approved by Full Council in February 2018. This report summarises the review of the MTFS as the opening stage of the 2019/20 Budget Setting process.

1.2 The Council is in a strong financial position with general revenue reserves standing at £8.8m at the start of 2018/19, which is a direct result of robust financial management and our excellent record in achieving efficiency savings. In spite of the continuous funding cuts since 2010, the Council has delivered an ambitious savings programme equivalent to £12m, which had minimal impact on frontline services. Along with the rest of local government, this Council will find it increasingly difficult to find further savings and efficiencies to balance the books without placing some reliance on reserves.

1.3 The HRA also remains in a strong position with reserves at the start of 2018/19 amounting to £6.6m; however a number of significant changes such as the impact of welfare reform, the changes to the national rent setting policy and the Council's affordable housing programme could have a material impact on the HRA balance going forward.

1.4 When the last MTFS was approved by Full Council, savings of £0.7m is required to close the budget gap in 2019/20 and the council will need to find another £1.3m of efficiency savings to close the indicative budget gap in 2020/21.

1.5 The sustainability of local authority finance has been under great scrutiny in recent years, especially after the exposure of the financial crisis at Northamptonshire County Council. External Audit continues to examine the council's financial sustainability as part of the annual Statement of Accounts audit, which includes an assessment on the Council's reserves position and our ability to address the budget gap in the medium term. Whilst the council has always received a clean bill of health from External Audit and that our auditors have not raised any concerns through their work on the Value for Money conclusion, it is extremely likely that the whole of the local government finance sector will continue to be questioned around our financial sustainability. In particular, the recent consultation published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the development of a financial resilience index further highlight the importance of this subject in the sector.

1.6 The Council has been proactive in identifying savings required for future years, and the details of this will need to be worked on over the Autumn months with Member Portfolio holders and discussed with Cabinet.

1.7 This report sets out the broad principles and objectives for setting the next Budget and also examining the key issues and pressures facing the Council in the medium term.

1.8 The local government financial position remains unclear beyond 2019/20 as this will depend on the next Spending Review, the outcome of the current fair funding review and also introduction of the new 75% business rates retention system, the impact on the council's finances will continue to be monitored as more details is released by the government over the next year.

2 Recommendation(s)

2.1 Cabinet is asked to note the contents of this report and to approve the principles to be adopted for the 2019/20 budget setting process as highlighted in section 4, in particular the 2019/20 budget setting process should focus to balance the indicative budget gap up to 2020/21.

3 Explanation

3.1 Financial Position (approved by Full Council in February 2018)

3.1.1 The Medium Term Financial Strategy (MTFS) approved by the Council in February 2018 shows that the Council will remain financially sound. The three-year plan (2018/19 – 2020/21) incorporates significant revenue investment into the services over the medium term, which is largely supported by efficiency savings.

3.1.2 Table 1 below summarises the budget position agreed by the Full Council in February 2018.

	2019/20	2020/21
	£000	**£000**
Net cost of services	14,530	14,436
Remove one off budgets	(410)	(50)
Base budget	**14,120**	**14,386**
Pay Inflation	258	263
Contractual Inflation	361	384
Income Inflation	(342)	(351)
One off growth items	50	0
Ongoing growth	138	66
Savings	(885)	(360)
Interest payable and MRP	374	0
Budget before transfers to/from reserves	**14,073**	**14,388**
Transfer (from)/ to Strategic Initiative Reserve	363	208

Corporate income (Retained Business Rates + RSG + New Homes Bonus + other grants)	**(5,001)**	**(4,268)**
Council Tax Income	**(8,747)**	**(8,950)**
Cumulative Budget Gap	**688**	**2,066**

3.2 **Changes in Budget Assumptions since February 2018**

i) Publication of Local Government Finance Settlement 19/20 technical consultation

3.2.1 ***Negative Revenue Support Grant*** – this is the name given to a downward adjustment of a local authority's business rates top-up or tariff. This occurs as a consequence of changes to the distribution methodology adopted at the 2016-17 settlement, which formed the basis of the multi-year settlement. There has been strong opposition from the local government sector to Negative RSG since 2016/17 and as a result the government has allocated additional resources to negate the occurrence of Negative RSG in both 2017-18 and 2018-19. The consultation indicates that the government plans to apply similar arrangements for 2019/20. Welwyn Hatfield is one of the 168 local authorities affected by the Negative RSG in 2019/20 and was due to be paying the government £403k. If the proposal in the consultation materialises, the council is able to utilise this funding to offset the impact of the delay due to the legal challenge on the Crematorium project.

3.2.2 ***Business rates retention pilots*** – officers are currently working with other authorities in Hertfordshire to apply for Business rates pilot in Hertfordshire for 2019/20, this is to be discussed further in a report to September Cabinet. Should the application be successful, this would bring positive impact on the council's finances for 2019/20.

3.2.3 ***New Homes Bonus Grant*** - The New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. There has been a number of changes to the grant in recent years, which include:

- reduction of the number of years New Homes Bonus payments are made from 6 to 5 years in 2017-18 and to 4 years from 2018-19; and
- introduction of a national baseline for housing growth of 0.4% of council tax base (weighted by band) from 2017-18, below which the Bonus will not be paid.

3.2.4 The New Homes Bonus grant paid to the council for 18/19 amounts to £1.5m and this is a significant part of the funding to support our services. The consultation has hinted that a higher national baseline will be set for 19/20 and that there could be wider changes to New Homes Bonus from 2020/21.

3.2.5 Officers will be revising the projection on the new homes bonus grant as part of the budget setting process.

3.2.6 Council Tax Referendum Principles – The consultation states the following proposed council tax referendum principles for 2019/20:

- shire district councils in two-tier areas will be allowed increases of up to 3%, or up to and including £5, whichever is higher
- a core principle of up to 3% would apply to shire county councils
- a continuation of the Adult Social Care precept, with an additional 2% flexibility available for shire county councils, subject to total increases for the Adult Social Care precept not exceeding 6% between 2017-18 and 2019-20
- Police and crime commissioners (PCCs) will be allowed increases of up to £12 in 2019-20

3.2.7 The medium term financial plan assumes council tax would be increased by 1.5% per annum for 2019/20 and 2020/21, however the final decision on 2019/20 council tax will be made by council in February 2019.

ii) Impact of Homelessness Reduction Act

3.2.8 The Homelessness Reduction Act was implemented in April 2018, which has placed a number of additional duties on local authorities. The impact to the council are detailed in a separate Cabinet report for September, it should be noted that whilst additional funding has been provided from the government to help mitigate some of the pressure faced by the council, the budget pressure relating to the cost of temporary accommodation will need to be reviewed as part of the budget setting process going forward.

iii) Estates income

3.2.9 The first quarter of the 2018/19 budget monitoring report indicates that income from the General Fund property portfolio would exceed target for the current year and this is likely to continue into 2019/20, the income will be reviewed by officers as part of the budget setting process and this will also take into account the projected income from retail units in regeneration schemes.

iv) Pay and Grading Review

3.2.10 The council forms part of the National Joint Council (NJC) pay agreement. The agreement due to be implemented from April 2019 contains fundamental changes to some of the current pay scales. Officers are currently looking at the proposal and working at the best way to implement this in our current pay and grading structure. The financial implication of this will be assessed as part of the budget setting process.

4 Options to address the budget gap

4.1 The Council's financial strategy remains to support an affordable level of council tax by reducing costs, maximising income, sharing good practice, simplifying delivery processes and shrinking the Council's administration cost.

4.2 In light of the risks exposed to the Council highlighted in section 3, consideration will be given to the range of options for services to deliver savings for the 2019/20 budget setting process.

4.3 At the end of 2017/18, due to one-off additional income and prudent financial management across all service areas, the Council has added £0.5m into the general fund reserve, the budget gap shown in paragraph 3.1.2 only assume no drawdown from general fund reserves to fund the ongoing budget pressures. The use of balances will be considered as part of the budget setting process; however this will also have regards to the minimum reserve level of £1.5m that the Council must retain to meet any unanticipated costs arising in any given year.

4.4 The Corporate Management Team and Heads of Service have already begun work to identify proposals to eliminate the budget gap in future years and specifically identify options to meet a net saving target of £2.1m which aims to address the budget gap to 2020/21. This is a challenging target and proposals will be worked through with Member Portfolio Holders and Cabinet over the Autumn months.

4.5 In order to ensure progress can be made at the pace required to deliver the financial challenge, it is recommended that the 2019/20 budget setting process should adopt the following principles:

- Budget growth (including one-offs growths) should be the last resort and they are primarily reserved for invest to save projects. Services will need to find savings/income to fund budget pressures. As in previous years, all the budget growth will be subject to approval by Cabinet.

- Improve income generated through fees and charges following a review on the existing fees and charges policy.

- Savings proposals must be submitted with a view to find ways to address the budget gap beyond 2019/20.

- Review the Policy on Reserves and Balances to ensure that it supports the delivery of the corporate priorities.

5 Housing Revenue Account

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

- The Council will continue to maintain existing stock to at least decent homes standard.

- The Council will 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.

5.2 The budget for 2018/19, leads to a deficit on the HRA of £3.350m, with working balances at £3.230 at the end of 2018/19. The closing position on the working balances equates to 6.3% of turnover, and is within the range of 5%-10% of turnover as approved in the MTFS.

5.3 A summary of the forecasts for the HRA from the Budget Setting report for 2018/19 is shown below, updated for opening balance adjustments.

	2018/19	2019/20	2020/21
	£'000	£'000	£'000
Rental Income	48,672	47,896	49,191
Void Losses	(370)	(366)	(377)
Service Charges	2,544	2,621	2,699
Non-Dwelling Income	513	528	544
Grants & Other Income	259	262	265
Total Income	**51,618**	**50,941**	**52,321**
General Management	(7,841)	(7,821)	(8,071)
Special Management	(3,610)	(3,718)	(3,829)
Other Management	(1,645)	(1,695)	(1,745)
Rent Rebates	0	0	0
Bad Debt Provision	(725)	(716)	(737)
Responsive & Cyclical Repairs	(9,116)	(9,187)	(9,447)
Total Revenue Expenditure	**(22,934)**	**(23,137)**	**(23,830)**
Interest Paid	(6,443)	(6,698)	(7,156)
Finance Administration	0	0	0
Interest Received	138	280	363
Depreciation	(14,273)	(14,740)	(15,251)
Net Operating Income	**8,107**	**6,646**	**6,448**
Revenue Contribution to Capital	(11,454)	(6,650)	(6,457)
Net surplus/(deficit)	**(3,350)**	**(4)**	**(9)**
Opening HRA Balance	6,003	2,656	2,652
Closing HRA Balance	**3,230**	**3,217**	**3,208**

Rent Setting

5.4 As detailed in the 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 2019/20 will be the last year of this four year policy.

5.5 On the 4th October 2017, the Government confirmed its intention to end the rent reduction policy after the fourth year, by stating that "increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020".

5.6 This announcement gives the Council more stability in its longer term planning for the Housing Revenue Account. The longer term forecasts includes CPI plus 1% from 2020.

5.7 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.

5.8 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 assumed in forecasts that the Council continue with the policy to move to formula rent minus 1% when vacant properties are re-let.

Universal Credit

5.9 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.

5.10 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.

5.11 An exercise was undertaken to review the provision for bad debts budget for 2018/19. This will continue to be monitored closely during the year, with any variance to assumptions being built into the 2019/20 budget.

5.12 The recent Housing Transformation Programme, realigned resources, enabling the Housing Team to focus additional resource on debt collection, particularly in relation to former tenant arrears. This is expected to have a positive impact on the provision, and should help to negate some of the impact of universal credit.

Right to Buy

5.13 As highlighted in recent monitoring reports, the Council has seen a decline in the number of right to buy sales. The most recent forecasts have changed, from estimated sales of 70 per annum, to 50 per annum.

5.14 This change has a positive effect on the Councils ability to maintain stock levels at around 9,000, but has a negative impact on the receipts available to fund new build schemes. However, as the HRA has sufficient headroom, any shortfall in retained right to buy receipts, is affordable and can be offset by additional borrowing.

National Context

5.15 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.

5.16 Local Authorities in high pressure areas were invited to bid for increases to their caps from 2019/20. The Council was one of the authorities invited to bid. However, as the Council aims to repay the debt as quickly as possible, it now has significant borrowing headroom, and funding availability does not restrict the Council from building. As such, an extension to the borrowing cap was not applied for.

5.17 As part of the 2018 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 longer term planning.

6 Capital Programme

6.1 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.

6.2 Although there are some schemes expected to be re-phased from 2018/19, it is not anticipated at this stage that this will impact on the Councils finances over the five year period, as the funding of the schemes will also be rephrased in line with project expenditure.

Cash Balances and Borrowing Requirement

6.3 The majority of the Councils 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.

6.4 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, as highlighted in previous budget reports.

6.5 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.

6.6 A key change which will need to be factored into the budgets for 2019/20 onwards, will be the previously referred to (Section x) reduction in Right to Buy Receipts. Although the majority of this reduction will impact on the HRA, there is an element of these receipts which supports the delivery General Fund capital programme. In the latest monitoring report for 2018/19, it was highlighted that in year receipts for the General Fund, are likely to reduce by approximately £300k.

6.7 Initial forecasts suggest the current Capital Programme is still affordable, but that the General Fund capital balances will be significantly reduced by the end of the programme. This will need to be considered in the longer term context, and will form part of the 2019/20 budget and financial strategy

7 Next Steps

7.1 The Council's budget setting process integrates service and financial planning into a single, seamless process and aims to ensure that resource allocation both reflects corporate priorities and is affordable. Over the autumn months, officers will be preparing assessments of their service that take into account the Council's policies, priorities and performance, national policy, service and budget risks, and value for money. The resulting growth and savings options will include an assessment of their service and financial impact, achievability, sustainability and equalities impact. These options will be reported to Cabinet in January together with overall proposals for the Council's budget.

Implications

8 Legal Implication(s)

8.1 This Medium Term Financial Strategy 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 (Resources, Environment and Cultural Services) as the Council's S151 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.

9 Financial Implication(s)

9.1 This is set out in the content of the report.

10 Risk Management Implications

10.1 The MTFS is intended to reduce the risk of exposing the Council to make decisions, which are not sustainable in the longer term, or of missing opportunities which might only be identified through a longer term planning horizon.

10.2 The risks associated with the MTFS will be re-assessed as part of the 2018/19 budget setting process.

11 Security & Terrorism Implication(s)

11.1 There are no security or terrorism implications

12 Procurement Implication(s)

12.1 There are no procurement implications arising from this report.

13 Climate Change Implication(s)

13.1 There are no direct climate change implications to consider.

14 Health and Wellbeing Implication(s)

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

15 Link to Corporate Priorities

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

- “Our Council – Achieving Value for Money”

16 Communications Plan

16.1 Officers will be working with the Communications team as part of the ongoing budget setting process.

17 Equality and Diversity

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

Name of author Ka Ng and Richard Baker
Title Corporate Director (Resources, Environment and Cultural Services) / Head of Resources
Date 17 August 2018