

Part I
Item No:
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All Wards

WELWYN HATFIELD BOROUGH COUNCIL

CABINET – 8 JANUARY 2019

REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

Budget Proposals and Medium Term Forecasts 2019/20

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 2019/20
 - Capital Programme 2019/20 – 2023/24
 - Use of Reserves 2019/20
 - Treasury Management Strategy 2019/20
 - Fees and Charges for 2019/20
 - Medium Term forecasts 2019/20 – 2021/22
- 1.2. This report will go on for consideration by Resources Overview and Scrutiny Committee (ROSC) on 14 January 2019. Recommendations made by ROSC and any changes will be presented to Special Cabinet on 22 January 2019, in order for it to recommend the budget proposals to Council at its meeting on 4 February 2019.
- 1.3. The 2019/20 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 2021/22. 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. The Corporate Management Team and Cabinet have met to review and monitor emerging budget proposals throughout the budget preparation period. Two budget briefings were held with Members highlighting some of the key issues and pressures that the council is facing in the medium term. The Leader of the Council also wrote to the Secretary of State for Housing, Communities and Local Government setting out the funding pressures faced by our Council and urging for solutions to be found through the forthcoming Spending Review.
- 1.5. 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 2019/20
- Appendix B – General Fund Head of Service Summaries 2019/20
- Appendix C – General Fund Savings Summary 2019/20 – 2021/22
- Appendix D – General Fund Growth Summary 2019/20 – 2021/22
- Appendix E – General Fund Fees and Charges 2019/20
- Appendix F – Housing Revenue Account Summary 2019/20
- Appendix G – Housing Revenue Account Summary of Changes 2019/20
- Appendix H – Housing Revenue Account Fees and Charges 2019/20
- Appendix I – Capital Programme 2019/20 – 2023/24
- Appendix J – Capital Financing Summary 2019/20 – 2023/24
- Appendix K – Capital Reserves Summary 2019/20 – 2023/24
- Appendix L – Medium Term Financial Strategy 2019/20 – 2021/22
- Appendix M – Treasury Management Strategy 2019/20
- Appendix N – Investment Strategy 2019/20
- Appendix O – Capital Strategy 2019/20

2. Recommendations

2.1. 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 22 January 2019 for consideration, before final recommendations are made to Council:

2.2. General Fund

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

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

2.2.3. The approval of the 2019/20 fees and charges which have been incorporated into the budget proposals, as set out in appendix E.

2.2.4. The increase in the Council's Band D Tax of £5.16 (2.5%), taking the average Band D Tax to £211.77 for 2019/20.

2.3. Housing Revenue Account (HRA)

2.3.1. That dwelling rents are reduced by 1% in accordance with Government legislation, resulting in an average rent of £103.37 per week.

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

2.3.3. The approval of the Housing Revenue Account budget for 2019/20 as shown in appendix F.

2.3.4. The approval of the 2019/20 fees and charges which have been incorporated into the budget proposals, as set out in appendix H.

2.3.5. The Medium Term Financial Strategy (MTFS) to maintain HRA working balances to around 5% of rental income.

2.4. Capital Programme

2.4.1. The approval of the Capital Programme for 2019/20 to 2023/24 as set out in Appendix I.

2.4.2. The approval of the Capital Financing for the Capital Programme, for 2019/20 to 2023/24 as set out in Appendix J.

2.5. Medium Term Financial Strategy

2.5.1. The approval of the Medium Term Financial Strategy for 2019/20 – 2021/22 as set out in appendix L.

2.6. Other Strategies

2.6.1. The approval of the Treasury Management Strategy for 2019/20 as set out in appendix M.

2.6.2. The approval of the Investment Strategy for 2019/20 as set out in appendix N

2.6.3. The approval of the Capital Strategy for 2019/20 as set out in appendix O.

3. Explanation

3.1. General Fund Revenue Account

3.1.1. The Government announced a four-year settlement in 2016/17, which provided some certainty to local government on our grant levels up until 2019/20. 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 2019/20 totals £14.000m and is £0.630m (4.3%) lower than the 2018/19 original budget of £14.630m. The movement between years is summarised in the following table.

	£'000
2018/19 Original Budget	14,630
Less: 2018/19 one-off growth	(540)
Add: 2019/20 fixed term growth	235
Add: 2019/20 ongoing growth	487
Less: 2019/20 savings	(1,567)
Add: Inflation and other changes	1,018
Less: Recharge to HRA	(263)
2019/20 Original Budget	14,000

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 2019/20 (expecting late January). This will include its New Homes Bonus funding and other grant income.
- 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 2018, the Council received the provisional settlement for 2019/20 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 2018/19 £'000	Provisional Finance Settlement 2019/20 £'000	% Change
Revenue Support Grant	104	0	N/A
Business Rates Baseline	2,800	2,864	2.3%
Total: Settlement Funding Assessment	2,904	2,864	-1.4%

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. All Hertfordshire authorities submitted a joint application for the 2019/20 Business Rates Retention Pilot Scheme and it was confirmed as part of the Provisional Settlement in December 2018 that the Hertfordshire application was accepted. The pilot will last for one year only.

Autumn Statement

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

- Reduce business rate bills by one third for retail properties with rateable value below 51,000, for 2 years from April 2019.
- 100% business rate relief for all public lavatories.
- Continue with the £1,500 business rate discount for office space occupied by local newspapers in 2019/20

New Homes Bonus

- 3.1.10. The Council is projecting to receive £1.3m New Homes Bonus grant in 2019/20 and all of the income will be used to support base budget expenditure. The Government has indicated that they will carried out a further reform of the New Homes Bonus grant before the 2020/21 Local Government Finance Settlement.

Collection Fund

- 3.1.11. The Council's Council Tax requirement for 2019/20 is calculated as £8.871m (exclusive of parish precepts). The proposed taxbase for 2019/20 is 41,889.6.
- 3.1.12. 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.
- 3.1.13. In 2019/20 there is a forecast deficit position on the Collection Fund, primarily due to an increase in the business rates appeal following the Business Rates Revaluation 2017. It is important to note that a large proportion of the deficit was predicted in the 2017/18 year end process and that an earmarked reserve had already set aside for this to be drawn upon. This deficit on the collection fund is shared between the Major Preceptors, i.e. the County, the Police Authority and the Borough, in proportion to their precepts for the year.
- 3.1.14. The proportion of the small deficit that each of the Major Preceptors will receive from the Collection Fund when calculating the Council Tax for 2019/20 is as follows:

Welwyn Hatfield Borough Council	£4,030.79
Hertfordshire County Council	£14,620.46
Hertfordshire Police & Crime Commissioner	£1,460.78
Total Deficit	£20,112.03

- 3.1.15. 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 2019/20 referendum threshold for district Council's at the higher of £5 or 3%. The proposed increase of 2.5% for Welwyn Hatfield in 2019/20 is therefore within the threshold, and below the rate of inflation.
- 3.1.16. A provisional figure of £2.788m has been included in the budget for a deficit on the Business Rates element of the collection fund. This figure will be refined mid-January, on the completion of the Councils NNDR1 return.
- 3.1.17. The total provisional Collection Fund deficit totals £2.792m as shown in appendix A.

Budget Assumptions

- 3.1.18. The 2019/20 budget proposals include the following key assumptions:

Employee Costs	2% general pay inflation. Actual increases will depend on national pay negotiations* 18.3% of employer 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	2.5% increase for 2019/20, which is lower than inflation, which was 3.3% at November 2018.

Reserves

3.1.19. 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.

3.1.20. The Council's MTFS recommends a minimum working balance of £2.7 million. This budget proposal leaves a balance of £8.6m in working balances, well maintained above the requirements of the MTFS.

3.1.21. The following table shows a summary of the earmarked reserves held, and the explanation for holding these reserves, along with the forecast closing balances at the end of each financial year.

Earmarked Reserve	Main Purpose of Reserve	31 March 2018 £'000	31 March 2019 £'000	31 March 2020 £'000
<i>Strategic</i>	For use on one-off specific strategic projects directly delivering corporate objectives.	1,241	1,385	1,385
<i>Budget Priority and Transformation Reserve</i>	For use on one-off service based priorities or transformation projects.	400	563	290
<i>Resources</i>	To manage volatility in Business Rates income and changes to the Business Rates funding	2,720	2,720	0
<i>Pensions Reserve</i>	This reserve is necessary to help mitigate the impact of additional costs arising in the triennial review cycle	1,000	1,047	1,047
<i>Head of Service Reserves</i>	These reserves are set aside for emergency property works or uninsured losses, and other risks emerging through the year.	102	102	102
<i>Grants Reserves</i>	These reserves set aside grants received for specific purposes which will fund future expenditure.	335	331	303
<i>Income Reserves (Trading Accounts)</i>	These reserves are necessary to account for in year surplus/deficit positions. These are set up for those services which must break-even over time.	260	273	278
Total Earmarked Reserves		6,058	6,421	3,405

3.1.22. 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.

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, 2018/19 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 2019/20 is a surplus on the HRA of £0.193m, with working balances forecast at £2.663m at the end of 2019/20. The closing position on the working balances equates to 5.5% of rental turnover, and is within the range of 5%-15% considered to be best practice.
- 3.2.4. Key changes to the budget are set out in Appendix G.
- 3.2.5. 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

- 3.2.6. 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 final year of this rent reduction period.
- 3.2.7. 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".
- 3.2.8. 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.
- 3.2.9. 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.
- 3.2.10. 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

- 3.2.11. 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.
- 3.2.12. Based on feedback from other Local Authorities, there is evidence that the Council may 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.
- 3.2.13. An exercise has been undertaken to review the provision for bad debts budget in the HRA in light of these changes. 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

- 3.2.14. In the Chancellor of the Exchequers Autumn Budget 2018, it was announced that to enable the delivery of more homes, the Government would remove the HRA borrowing caps for Local Authorities in areas of high affordability pressure.
- 3.2.15. 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, and this has been factored into the 2019/20 budget setting process.

30 Year HRA Business Plan

- 3.2.16. Key assumptions used in the 2019/20 budget, and being incorporated into the business plan are:

Budget	Assumptions
Pay award	2% from 2019/20
Pensions and NI	Current rates included, no assumptions for increases or reductions
Rents	1% Reductions for 2019/20 CPI plus 1% from 2020/21
CPI	2.5%
RPI	3.5%
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	32 each year until 2021/22
Affordable Housing Programme	Continuation of the Council's existing programme and an additional 32 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 2019/20 to 2023/24, and is detailed in appendix I. The financing of the programme is shown in appendix J. A forecast of the Council's Capital Reserves and Grant Balances is included in appendix K.
- 3.3.2. The Capital Programme continues to deliver the council's ambition to regeneration our town centres, improvement in our housing stocks as well as the affordable housing programme. The council is in the process of setting up a housing company and a business case will be presented to Cabinet in the future.
- 3.3.3. The Council complies with the Prudential Code for controlling Local Government Capital Finance, and the Budget for 2019/20 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 prudence, affordability and sustainability; and,
- The Council is accountable for its decisions.

3.3.4. This capital strategy (Appendix O) is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability

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 reserves (non earmarked) estimated at £8.7m at the start of 2019/20 and a housing revenue account (HRA) balance of £2.5m. 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 £1.5m 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 MTFS has been written at a time of unprecedented uncertainty in local government funding. In particular, this is dependent upon the outcome of the Spending Review 2019, Fair Funding Review and 75% Business Rates Retention system, and a full reset of all the mechanisms within the business rates system. Forecasting the Council's likely level of income over the next three years has required a large degree of judgement and estimation.

3.4.7. 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.

- 3.4.8. 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.

3.5. Treasury Management Strategy

- 3.5.1. In accordance with the CIPFA Treasury Management in the Public Services: Code of Practice 2017 and MHCLG guidance on local authority investments, the council is required to have a Treasury Management Strategy, a copy of the 19/20 strategy is attached at Appendix M.
- 3.5.2. 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.
- 3.5.3. 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.
- 3.5.4. A copy of the Investment Strategy is also attached in Appendix N.

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 (Resources, Environment and Cultural Services) (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 indicators 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 2019/20 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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Date	21 December 2018