

**Welwyn Hatfield Borough Council**  
**Medium Term Financial Strategy**

**2019/20 - 2021/22**



**WELWYN  
HATFIELD**

---

**CONTENTS**

	Page
1 Key messages from the Portfolio Holder and Corporate Director	2
2 Introduction	4
3 Objectives	5
4 Vision	5
5 Local context	5
6 Business Plan	5
7 Consultation Strategy, approval and communication process	7
8 Financial planning framework	8
9 Economic outlook	9
10 General Fund revenue budget	10
11 Risk management	15
12 Council tax	16
13 Value for money and efficiency	17
14 Income generation	18
15 Use of reserves	19
16 Capital	20
17 Housing Revenue Account budget	22
18 Treasury management	24
19 Working with partners	24
20 Equality Impact Assessments	25
21 Conclusion	25
Annex A - Medium term financial forecast 2019/20-2021/22	26
Annex B – Policy on Reserves and Balances	27

## 1 KEY MESSAGES FROM FINANCE PORTFOLIO HOLDER AND CORPORATE DIRECTOR

- 1.1 The medium-term financial view for the Council has been prepared in unprecedented times of economic uncertainty and declining levels of public sector funding. Grant funding for local government in the traditional sense of Revenue Support Grant (RSG) will disappear completely from 2019/20 and local authorities will become more reliant on the more volatile income source of business rates.
- 1.2 Following an application in 2016, the government confirmed the Council would be granted a multi-year settlement, with a view to providing more certainty to the levels of funding over the term of the Parliament.
- 1.3 Business Rates have become a more volatile source of funding, with changes to the appeals process, and proposals for a more regular revaluation cycle. The government is also piloting the 75% business rates retention scheme, of which Hertfordshire's pilot application has been accepted for 2019/20. It is unclear how the final business rates retention scheme will look in practice from 2020/21 onwards and it may bring further funding reductions, or additional burdens, to the Council when the scheme is adopted nationally.
- 1.4 The government is due to consult on changing the New Homes Bonus scheme for 2020/21 to incentivise more growth. The level of resources available to the Council over the medium-term will continue to be volatile.
- 1.5 The Council has needed to deliver more than £12m of savings since the start of public austerity in 2010 and so many "quick win" saving opportunities have been exhausted. The Council will face some major decisions when considering its budget in the medium-term. The priority has always been to safeguard frontline services where possible, but inevitably there have been and will continue to be some difficult decisions that result in changes to services for our residents, customers and businesses.
- 1.6 The Medium Term Financial Strategy (MTFS) sets out the Council's commitment to provide the best value for money possible for the community. It provides a framework for the Council to plan and manage its revenue resources up to 2021/22. The Council also operates a five-year capital programme (2019/20 – 2023/24) which details our long-term investment plan.
- 1.7 The Council starts the next three years in a reasonably strong financial position with over £14m in General Fund revenue reserves forecast for the start of 2019/20. Capital reserve balances for General Fund activity were £13m at the start of 2018/19 but are reducing, and borrowing is being used to support some capital schemes. The ongoing sustainability of the capital investment programme will need to be continuously reviewed and prioritisation given to projects which are "invest to save" in nature and have a business plan which demonstrates a reasonable payback of resources.
- 1.8 The HRA will have a good level of reserves going into 2019/20, amounting to around £2.5m; however significant changes such as the impact of welfare reform and the changes to the national rent setting policy will continue to have a material impact on the HRA balance going forward. In addition, the Council's Affordable Housing Programme, which aims to provide new affordable homes and maintain the Council's stock levels, will require external borrowing to support it.

- 1.9 As we move forward we are determined to continue with our successes and the MTFS provides the resources needed to achieve the ambitions set out in the Council's Business Plan.
- 1.10 There remain a number of uncertainties and risks to the Council's finances in the medium-term, in particular, it is unknown how the Spending Review 2019, Fair Funding Review will impact on our finances for 2020/21 and beyond. At the same time, the new 75% business rates retention scheme will be introduced, inevitably Local government is being compelled to become financially self-sustainable and over the term of this MTFS it is expected that local tax, fees and charges for services and other locally driven income sources will become yet more important. We will continue to experience significant pressures on our services arising from demographic changes and an increasing population, the uncertainties surrounding the economy and continued high expectations of service delivery. We will keep our MTFS under review and make changes accordingly to reflect the rapidly changing environment in which we work.

**Duncan Bell**

**Ka Ng**

**Executive Member for Resources**

**Corporate Director (Resources,  
Environment and Cultural Services)**

## 2 INTRODUCTION

- 2.1 Medium-term financial planning is an important component of the Council's strategic planning framework. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year. Forward planning offers the opportunity to link service and financial planning, as decisions taken on an annual basis are constrained in what they can achieve.
- 2.2 The Medium Term Financial Strategy (MTFS) provides the foundation against which the Council will strive to deliver the best value for money possible in the provision of efficient and cost effective services across the Borough. Through the effective development and delivery of the Council's financial and other resource strategies it seeks to build upon past achievements as well as provide clear direction to the attainment of the Council's longer-term goals.
- 2.3 The medium-term financial planning process is an established part of the budget setting process. It provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Council over the period. It identifies any shortfalls and sets out how this will be managed. This document is reviewed at least annually; regular review and update is essential to ensure the MTFS takes full account of any changes in the Council's aspirations, strategic and service delivery priorities, changes in government legislation, financial regulation and funding streams.
- 2.4 The MTFS sets out how the Council will manage its revenue finances up to 2021/22 and also covers a five-year capital programme. The MTFS supports the delivery of the Council's objectives and priorities as set out in the Council's Business Plan.
- 2.5 Underpinning the Business Plan are the individual service plans and a number of other key strategies and plans as set out below. In each case, these set out the detail of how the Council will achieve its objectives and the relevant milestones that will measure progress.
- Asset Management Strategy
  - Capital Strategy
  - Climate Change Strategy
  - Information Technology Strategy
  - Investment Strategy
  - Procurement Strategy
  - Risk Management Strategy
  - Treasury Management Strategy
- 2.6 The development of the 2019/20 budget has taken place within the context of a longer term strategic and resource planning process. In particular it takes account of the latest Spending Review and the uncertain economic climate.
- 2.7 The Council's future financial outlook was likely to be more challenging over the next few years, because of reductions in overall public spending and the continued high expectation of public service delivery from the public. Given that the relatively "easy wins" for finding efficiency have already been taken, meeting new cost pressures would require an increasingly rigorous and innovative approach to new ways of working, identifying efficiencies, enhanced productivity and re-prioritisation of spending within services.

### 3 OBJECTIVES

3.1 The objectives of the Medium Term Financial Strategy are:

- To provide a financial plan of the resources available to deliver the Council's priorities and objectives
- To ensure priorities identified as part of the Corporate Planning process inform the MTFS including importance, timing and financial implications
- To provide projections of spending, including spending pressures and income, and set expectations on council tax increases over the next three years
- To provide projections for our investment in assets (our capital spend) and its impact on general day-to-day revenue spending
- To test sensitivity of and apply risk analysis to projections
- To provide a framework for consultation with the public and partners about our service priorities and resources allocated to them

### 4 VISION FOR WELWYN HATFIELD

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

"To work together to keep Welwyn Hatfield a great place to live, work and study in a vibrant and growing economy."

### 5 LOCAL CONTEXT

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

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

5.3 Welwyn Hatfield is estimated to have a resident population of just over 122,300. The Borough is regarded as one of the areas with the highest population growth within England and Wales.

### 6 WELWYN HATFIELD BUSINESS PLAN

6.1 The delivery of the Business Plan is supported by a number of strategic documents which shape the Council's work in the Borough. These documents are listed below:

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

In addition, the Plan is supported through partnerships with:

- Welwyn Hatfield Alliance Community Partnership
- Hertfordshire Forward Community Partnership

6.2 The Business Plan sets out our Corporate Priorities and Objectives as below:

<b>Our Community</b>	<b>Our Environment</b>	<b>Our Housing</b>	<b>Our Economy</b>	<b>Our Council</b>
Promote inclusive and safe communities	Keep streets clean	Plan housing needs	Promote investment and regeneration	Achieve value for money
Improve public health and well being	Reduce waste and improve recycling	Provide affordable homes	Revitalise neighbourhood and town centres	Put customers first
Support local sport and leisure	Enhance green spaces	Be a high quality landlord	Support sustainable economic growth	Promote quality and fairness
Promote local art and culture	Manage car parks	Improve quality of housing in the Borough	Be business friendly	Be employer of choice

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

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

- We will be fair in our policies and decision making, listen to views and learn from feedback
- We will evaluate, implement new ways of providing services when greater efficiencies can be achieved without compromising quality
- We will be honest, clear and consistent about what we do
- We will respond to internal and external influences on our services by adapting them to meet changing needs
- We will have respect for residents, businesses, partners and employees
- We will be approachable, accountable and open in the way we communicate and conduct our business

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

- 6.6 Our greatest asset is our employees and we must have committed, skilled and empowered employees in order to provide the best possible service standards to the residents of the Borough.
- 6.7 The MTFS sets out the resources required to deliver the priorities stated within the Business Plan and how those resources will be obtained.

## **7 CONSULTATION STRATEGY, APPROVAL AND COMMUNICATION PROCESS**

- 7.1 The Council has a Duty to Consult<sup>1</sup> and as such will carry out regular consultation with local people, customers, stakeholders and partner organisations to establish the priorities of the community. This will inform how the Council should fulfil its Best Value Duty<sup>2</sup> and make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 7.2 The Council will consult in a variety of ways including postal questionnaires (e.g. My Council survey), public meetings, attendance at community events, service feedback forms and online consultation via the Council's website. As well as listening to local views, service teams recognise the importance of providing timely and meaningful feedback to local communities on what can be, or has been, done to address any issues raised. In some instances, issues raised are turned into measurable targets which help the Council demonstrate a positive outcome for local people.
- 7.3 The MTFS is submitted to Cabinet in January of each year for approval. It is subject to challenge and scrutiny through the Resources Overview and Scrutiny Committee before final approval by Full Council alongside the budget and tax setting decisions in February.
- 7.4 Once approved, the MTFS will be communicated to all stakeholders and staff. This will include using the internet, intranet and newsletters to staff and customers.
- 7.5 It is reviewed at least annually against the outturn and forecasts and updated as necessary.

### **Consultation with Business Ratepayers**

- 7.6 The Council will consult annually on its budget proposals with business ratepayers in accordance with statutory requirements
- 7.7 The Council will also consult with local community and voluntary organisations at appropriate times where there is likely to be interest in a proposed service change and in particular where the Council is considering the decommissioning of a service or funding.

---

<sup>1</sup> Section 3(2) of the Local Government Act 1999

<sup>2</sup> Section 3 of the Local Government Act 1999 (as amended by s137 of the Local Government and Public Involvement in Health Act 2007)

## 8 FINANCIAL PLANNING FRAMEWORK

- 8.1 The Council operates a medium to long-term revenue and capital investment programme. The revenue plan covers a three-year period, whilst the capital programme takes a five-year view. The programme is revised annually to roll-forward so as to incorporate a new year, as well as to review and revise for the outturn of financial years.
- 8.2 The future impact of all known issues have been considered as part of the 2019/20 budget setting process, including those which may not impinge on our budgets until after the first year (2019/20). Outlined in the table below are the key stages involved in producing the budget.

<b>June</b>	Strategic priorities for the following year agreed by Members and Officers. Cabinet approves the framework for the budget setting process for the following year.
<b>July/August</b>	Officers are asked to submit bid forms to request schemes be incorporated into the capital and put forward efficiency and growth proposals for the revenue programme.
<b>September/October</b>	The MTFS budget is updated to reflect the new schemes submitted and/or amendments made to existing schemes. All of the schemes are initially challenged by the Corporate Director (Resources, Environmental and Cultural Services) to ensure that the bids submitted have complied with the approved budget guidance.
<b>October/November</b>	All capital and revenue bids are then challenged and scrutinised by the Corporate Management Team, before submission to a Members' forum (Strategic Leadership Group) for comments and recommendations. Budget consultation with the public is also analysed and fed into the budget decision process.
<b>December</b>	Provisional Local Government Finance Settlement announced by the government (this indicates the levels of capital and revenue grant given to the Council).
<b>January</b>	The draft capital and revenue programme is presented to Cabinet and Resources and Overview Scrutiny Committee for consideration.
<b>February</b>	Full Council approves next financial year's council tax, capital and revenue budget, and the remaining years' budget is noted and acknowledged as part of the Council's MTFS for further investment needs.
<b>April</b>	The new financial year commences and the budget approved is then assessed under the monitoring process.

## 9 ECONOMIC OUTLOOK

- 9.1 An updated forecast for growth in GDP is shown in the table below. There is a slight increase from previous forecasts of around 1.6%.

Year	Economic Growth
2019/20	1.6%
2020/21	1.6%
2021/22	1.7%

- 9.2 The Consumer Price Inflation (CPI) and Retail Price Index (RPI) forecasts published in November 2018 are shown below:

Year	CPI	RPI
2018/19	2.5%	3.4%
2019/20	2.1%	3.2%
2020/21	2.0%	3.1%
2021/22	2.0%	3.3%

- 9.3 Many of the Council's contracts are linked to either RPI or RPIX as an inflationary increase. Low inflation means the pressure on contract budgets is lower but as can be seen from the table below inflation is expected to rise to over three per cent. As such, an assumption of annual inflation to reflect the above forecasts is built into the medium term estimates.
- 9.4 The Bank of England 'bank rate' was raised in August 2018 to 0.75%, which is a 0.25% increase from November 2017. The forecasts assume a low 'bank rate' will continue until 2019 which is consistent with the forecasts from our treasury advisors. The steady reduction in cash balances will result in a decline in investment income over the period.

## 10 GENERAL FUND REVENUE BUDGET

### Financial Context

- 10.1 The development of the 2019/20-2021/22 Medium Term Financial Strategy has taken place in an era which continues to be one of the most challenging periods for local government.
- 10.2 The economic outlook has improved slightly as set out in 9.1 but austerity measures, although concluding, continue to influence unprecedented reductions in Local Authority funding.

### Risks and Opportunities

- 10.3 This section highlights the risks and opportunities facing the Council in the medium-term.
- Brexit
  - Demographic
  - External income
  - Inflation
  - Service demand
  - Business rates retention and multi-year settlement
  - Other developments

### Brexit

- 10.4 At the time of writing this report, the government anticipates a negotiated withdrawal deal will be agreed with the EU, however a 'No Deal' outcome cannot be ruled out. The potential impacts to the council's finances include:
- A possible downturn in the housing market and the Council's acquisition and development of new social housing, which could all impact on the New Homes Bonus
  - Changes to interest rates would impact the Council's investment income and borrowing costs
  - The Council has commercial holdings and any fall in rental levels or demand for premises could have an adverse impact on income budgets

### Demographic

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

- Changes in the number of households affect the tax base for Council Tax purposes and therefore the total amount which will be raised from this source
- The characteristics of both population and households can help identify specific implications for the type and nature of many services provided by the Council
- The above factors affect the level of demand for, and use of, services provided by the Council

The Office for National Statistics (ONS) estimated in previous Census that the population in Welwyn Hatfield was around 110,600 in 2011. This had increased substantially by 10.6% to 122,300 (based on mid-2017).

The Local Plan, subject to the outcome of the inspection, suggests a significant level of growth in the Borough over the life of the plan, to accommodate a growing population.

The tax base is calculated using the latest property data and an assumption for growth and a rate of non-collection. For 2019/20 our estimates suggest an increase in tax base of around 1.3% compared to 2018/19, bringing the total number of properties for tax setting purposes to 41,889.6. This increase reflects the number of properties delivered during 2018 and also an improved collection rate. In future years, a growth in the tax base of 1.3% is assumed.

### External Income

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

- The service areas affected by falling income during the economic downturn were principally planning, building control, and income from the sale of recyclables
- The low 'bank rate' means that investment income is no longer a key income stream for the Council. The actual interest earned will be affected by the level of cash balances. The Council is in a borrowing position and any decisions around investments and holding cash balances will take into consideration the cost to carry of external debt, as set out in the Council's Capital, Investment and Treasury Strategies.

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

### Inflation

10.8 The financial impact of a 1% movement in pay inflation represents around a £0.14m change in the General Fund employee budget.

10.9 The National Joint Council for Local Government agree the pay increase for local government. For 19/20, a majority of employees will receive at least 2% pay increase, it should be noted that a higher percentage increase will apply at the lower pay scales to take into account the uplifts for the National Living Wage. A 2% pay increase is assumed

for each following year of the MTFS and will be subject to the national local government pay negotiations.

- 10.10 Budgets for contract payments are uplifted by appropriate indices as stated in the conditions of the contracts. The financial impact of a 1% movement in contractual inflation is around £0.13m. An allowance is also made for changes to business rates incurred by the Council and also insurance costs. No inflationary increase has been applied to the general services budget, except specific items such as contracts and utilities.

#### Service demand

- 10.11 The demand for council services remains high compared to historic levels. There is also an imposed demand by central government on local authorities to play a major part in revitalising the local economy whilst it is expected that reductions to funding continues.
- 10.12 The increase in the demand on our services coupled with the loss of external income will restrict our ability to make radical improvements to our discretionary services.

#### Business rates retention and the multi-year settlement

- 10.13 Since April 2013, business rates are no longer pooled and redistributed in full nationally. Local authorities retain a proportion of business rates and a share in any growth in the baseline position instead.
- 10.14 2019/20 will be the fourth and final year of the four-year settlement published by the government in 2016. The Government has confirmed in the 2019/20 Provisional Settlement that it will remove all negative Revenue Support Grant (RSG) for 2019/20.
- 10.15 Another key announcement in the 2019/20 Provisional Settlement is the acceptance of the Hertfordshire Business Rates Retention Pilot application, enabling 75% of business rates growth to be retained locally. The level of funding due to be received is dependent on the amount of business rates actually collected and so there is a risk this will not be achieved, as well as an opportunity that funding will be greater if the collection of business rates is better than expected.
- 10.16 The Local Government Finance system is due to be faced with a major overhaul, the impact of the fair funding review, along with uncertainties on the Spending Review 2019, at the same time the new 75% business rates retention system is due to be introduced, all of these factors have made financial planning extremely difficult beyond 2019/20.
- 10.17 The following table demonstrates the standard calculation for the retention and distribution of business rates income. In addition the amount retained in the table (£3.473m), the Council expects to receive £875k of section 31 grants, which the Government pays to reimburse local authority losses due to national measures implemented, and an additional £280k from the Business Rates Pilot, taking the total business rates income (and associated grants) to £4.628m.

### Total forecasted amount of business rates retained by Welwyn Hatfield Borough Council

		Original Budget 2018/19 £000	Estimate 2019/20 '£000
A	Business Rates Collectable	60,640	61,616
B	Government share @ 50%	-30,320	-30,808
C	HCC share @ 10%	-6,064	-6,162
D	Tariff payable to government	-19,574	-19,818
E1	Welwyn Hatfield share before Levy (A+B+C+D)	4,682	4,828
E2	Adj. for Small Business Rate Relief and Shops and Empty Property reliefs'	320	739
E3	Welwyn Hatfield adjusted share	5,002	5,567
F	Baseline funding level	2,800	2,856
G	Welwyn Hatfield adj. share less baseline funding level (E3-F)	2,202	2,711
H	Levy payable @ 50% (G * 0.5) (*)	-1101	-1,356
J	Retained business rate income (E1+H)	3,581	3,473

(\*) the levy payable in 2019/20 will be redistributed within the Pilot area

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

#### New Homes Bonus Scheme

10.19 The New Homes Bonus Scheme was introduced in 2011/12 as a way to encourage local authorities to facilitate housing growth. In essence, for every additional property built or brought back into use, the government match funds the additional council tax, with an additional amount for affordable homes, for the following six years. The grant is not ring-fenced and has been split 80% to lower tier Authorities and 20% to the upper tier. Welwyn Hatfield is set to receive a New Homes Bonus grant of £1.319m in 2019/20.

10.20 The government plans to consult on changes to this funding for 2020/21. In anticipation of further reductions in this funding, a proportion of the annual amount received from 2020/21 will be transferred into the strategic reserve for fixed term strategic projects and/or capital investment priorities. This will ensure that in the short-term funds are available for innovative projects and capital schemes, and will reduce the financial reliance on uncertain funds for the general running expenditure of the Council. This will help the Council to become financially self-sustainable over the course of the MTFS.

## Other Developments

### Pension

- 10.21 The most recently published actuarial draft valuation (2016) for the Hertfordshire Pension Fund show that the Council's share of the Fund continues to be in deficit. The overall deficit position of the Fund had improved slightly compared to valuation 2013, however the Fund was only 78% funded.
- 10.22 The actuary has agreed to the smoothing of funding the structural deficit over a 20-year timeline. The recent valuation for the Council requires employer contributions of 18.3% of pensionable pay plus an annual lump sum payment of £1.1m in years 2017/18 to 2019/20 (total for General Fund and HRA).
- 10.23 Automatic Enrolment has been established by the government as a requirement for employers to provide a pension scheme for employees. The Local Government Pension Scheme (LGPS) is a qualifying scheme for the purposes of Automatic Enrolment within the terms set out by The Pensions Regulator. The MTFS assumes employees will be part of the pension scheme.

### Universal Credits

- 10.24 Universal Credit is in the process of replacing the current benefit system and brings together Housing Benefit for working-age people with other welfare benefits and tax credits. The scheme is managed by the Department for Work and Pensions, but continues to be supported by Welwyn Hatfield Borough Council, with claims and change of circumstances being submitted by claimants using an online portal. Universal Credit eligibility rules correspond to the benefit that a claimant would previously have been entitled to and which Universal Credit is replacing.
- 10.25 At this stage, indications are that the Council will continue to have a role in delivering Housing Benefit to pensioners for the foreseeable future. The transition to Universal Credit will have profound implications for many council employees, councils systems and contractual arrangements with private suppliers.
- 10.26 For the purpose of the General Fund forecasts, it is assumed that the costs resulting from the reform will be fully met by the government under the new burdens doctrine. For the HRA, based upon evidence from other local authorities, it is assumed that there will be an increase in the level of debt arising from changes to Universal Credit, and as such the bad debts provision is scrutinised closely.

### Land Charges (transfer of responsibility to Land Registry)

- 10.27 Section 34 of the 2015 Infrastructure Act enables the transfer of responsibility for all local land charges searches from local authorities to Land Registry, creating a single and central electronic register. Secondary legislation has been passed to enable this to now take place. The transfer will happen in stages and this Council will be notified of the date of transfer by the Land Registry. This date is not currently known. A number of other councils have been identified as being in the first tranche and the transfer for the first tranche is proceeding currently. Local Authorities will continue to be responsible for collecting and updating information and also for making CON29 searches. The government has suggested that the Land Registry will meet all costs for the transfer but this has not been confirmed.

## 2019/20 General Fund Budget

- 10.28 As part of the budget setting process, Members have examined information provided by Directorates relating to the level of existing resources in each service areas, including the number of staff employed and comparisons have been drawn with historical expenditure data to identify savings areas. All budget options have been considered in the context of current service performance and priorities and all the growth bids went through a challenge process.
- 10.29 The net General Fund budget consists of expenditure incurred to deliver the wide range of services provided by the Council and income directly generated for those specific services. This can be in the form of fees and charges, rental income, government grants etc. For 2019/20 the estimated net General Fund cost of services is budgeted at £14m.
- 10.30 The net General Fund budget is funded by non-specific government grants, local taxation and use of earmarked and general reserve balances. Over recent years government funding has been reducing, council tax increases have been kept below the rate of inflation and so income generated via fees and charges and retained business rates has become more critical areas of funding for the Council.

## 11 RISK MANAGEMENT

- 11.1 Risk Management is a key feature of the Council's financial planning process
- 11.2 The Council is very aware of the need for effective risk management and considers that the assessment and minimisation of all types of risk to be vital. It has a Risk Management Strategy in place, and the financial risks to the Council are assessed in the context of the overall approach to risk management.
- 11.3 To mitigate risk the Council regularly monitors its budgets and the Clearview system is used by Welwyn Hatfield to identify, monitor and reports on risks. The quarterly performance clinics provide a platform for the Members to scrutinise the financial and non-financial performance (e.g. local and national indicators)
- 11.4 Details of some of the key financial the risks facing the Council are highlighted in section 10 and the table below summarises the financial implications if assumptions made in the MTFS change in the future (the details of which are included in section 10 also). This gives some indications of the kind of risks which need to be allowed for in considering the level of reserves in future years.

Scenario	Estimated Cumulative financial impact		
	2019/20 £'m	2020/21 £'m	2021/22 £'m
Inflation - Pay award 1% higher than assumed	0.14	0.14	0.14
Inflation on contracts - 1% higher than assumed	0.13	0.13	0.13
Ongoing growth (10% higher than forecasted)	0.07	0.07	0.06
Savings (10% of savings not delivered)	0.16	0.23	0.25
Corporate Income - 5% lower than assumed	0.28	0.28	0.28
Income from fees and charges (5% lower)	0.74	0.74	0.74
Budget requirement - 1% overspent	0.19	0.19	0.19
<b>Total</b>	<b>1.72</b>	<b>1.79</b>	<b>1.80</b>

## 12 COUNCIL TAX

- 12.1 The Council is committed to do all it can to reduce the financial burdens placed upon its residents during a period of difficult economic circumstances. The Council froze its average Band D council tax for seven consecutive years, followed by a tax increase of £5 per annum in 2017/18 and 2018/19.
- 12.2 For 2019/20, again the Council will be allowed increases of less than 3% or up to, and including, £5, whichever is higher, without triggering the need for a referendum. If Welwyn Hatfield chose to increase the average Band D council tax by 2.5%, this increase alone would result in an extra £657k income by 2021/22. This would support the Council in delivering its saving requirements and to becoming more self-reliant during the term of the MTFS.
- 12.3 The Local Plan is likely to suggest a continuing upward trend in the population growth and this should be reflected in the Council's tax base. To summarise, the projection of tax base is estimated to be increased by 1.3% per annum after 2019/20.
- 12.4 A copy of the medium-term financial forecast on the General Fund is attached in Annex A.

<b>Effect of a 2.5% increase, followed by 1.5% increase</b>			
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Council Tax Band D increase (WHBC portion only) (%)	2.50	1.50	1.50
Increase (£)	5.16	3.18	3.22
Average Band D tax (£)	211.77	214.95	218.17
Adjusted tax base taking into account council tax support scheme	41,889.60	42,434.16	42,985.81
Additional amount raised from 2019/20 increase (£k)	216	219	222
Additional amount raised from 2020/21 increase (£k)		135	137
Additional amount raised from 2021/22 increase (£k)			139
<b>Total additional precept as a result of increases (£k)</b>	<b>216</b>	<b>354</b>	<b>498</b>
<b>Council Tax Precept (£k)</b>	<b>8,871</b>	<b>9,121</b>	<b>9,378</b>

## 13 VALUE FOR MONEY AND EFFICIENCY

- 13.1 Value for Money (VFM) is an assessment of whether or not we obtain the maximum benefit from the goods and services we both acquire and provide, within the resources available

to achieve it. This assessment includes considerations about suitability, quality, whole life costs and the relationship between economy, efficiency and effectiveness.

- 13.2 Value for money remains an integral part of the external audit opinion. Although the Use of Resources regime has been abolished a considerable amount of work had been input by both officers and the external audit team. The general feedback was that the Council had consolidated previous improvements and demonstrates good value for money across our services.
- 13.3 The Council's Value for Money Strategy provides a framework on how the Council will optimise the use of its resources.

### Efficiencies

- 13.4 A key part of the Council's ethos is its focus on achieving efficiencies. This is a main driver during the budget and planning process; ensuring resources are directed in the appropriate areas and is embedded across the whole council. Service efficiencies are monitored and reviewed highlighting where savings can be made.
- 13.5 The Council is committed to delivering efficiencies to drive costs down and improve services.
- 13.6 It is evident from the spending review that finding efficiencies to deliver a balanced budget will be a significant challenge as well as looking for opportunities to invest in improving services. Our approach to source efficiencies beyond 2019/20 will be via:
- Rebasing services budget, wherever practicable to do so
  - Exploring new areas of income generation activities
  - Asset use optimisation and seeking commercial opportunities
  - Effective use of assets – challenging the asset base and the use of assets and looking to manage and plan maintenance in the most effective way
  - Working in partnership with both private, charitable and public bodies to improve quality and scope of service and reduce costs, including models for sharing
  - Improving efficiency where possible but the scale of the financial constraint will almost certainly require reductions in services
  - Smarter procurement processes and ways of working
- 13.7 While the budget setting process is focused on the preparation of the budget for the following financial year, it is clear from government funding forecasts that the Council is facing a growing budget gap over the medium term period. In order to ensure the Council looks to the future and takes the necessary action to maintain financial sustainability, the annual budget process also focuses on the delivery of longer term projects to deliver efficiencies and increased income in future years.
- 13.8 Longer term projects are likely to require some upfront investment and so an annual allowance for corporate projects will be maintained in the base budget and a strategic

reserve maintained with contributions of the New Homes Bonus to ensure resources are available as and when required.

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

## 14 INCOME GENERATION

### Forecasting Income

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

### Policy on Fees and Charges

- 14.2 The Council is looking to maximise the potential from fees and charges. A significant proportion of our income is from fees and charges and a balance has to be struck between meeting our statutory responsibilities and our subsidies on providing discretionary services. The Council takes the view that raising charges to recover costs is more preferable to removing the service completely. Charges are set after taking into account local circumstances (including economic conditions) and the user's ability to pay. The Council's fees and charges will normally increase at least in line with inflation or, where appropriate, statutory defined fees and charges increases. Increased or reduced income due to volume changes or charge proposals above or below inflation are addressed through the budget setting process.
- 14.3 The full list of fees and charges is shown in Appendices E and H of this report for General Fund and HRA respectively.
- 14.4 It is recognised that in developing a strategy for specific charges it is important to consider a number of factors on an options appraisal basis i.e. considering affordability, comparability and the implications of changing charges on forecasted income levels.
- 14.5 Concessionary charges should be as appropriate to the circumstances of the customer while encouraging increased participation for less advantaged groups. This should not lead to unjustifiable preferential treatment.
- 14.6 The Council's longer term policy has three fundamental principles:
- Services should raise income wherever there is a power or duty to do so
  - The income raised should cover the full costs of providing the service including all overheads
  - Any departures from this policy must be justified in a transparent manner with reference to the Council's priorities and policies
- 14.7 When the Council does not raise income in areas where it has the power to do so, it foregoes the opportunity to raise money to improve services and leaves less money available for spending on high priority services. Members must be supplied with information to allow them to make decisions in a structured and explicit manner. A decision to forego income or to subsidise a service is a policy decision about resources as significant as any decision made in the budget setting process.

### Developing the New Trading and Charging Powers

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

### Income and Debt Management

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

## 15 USE OF RESERVES

- 15.1 The Council will retain its approved minimum general fund reserve of at least 5% of turnover (excluding taxation and non-specific grants). This equates to £2.7m. This is based on previous guidance from the Audit Commission, along with the Councils own risk assessments, including risk of contractor failure, higher levels of inflation, and variance on anticipated income.
- 15.2 Risks to the Council's financial position could derive potentially from budget overspend, loss of income, contractual/legislative failure or challenge and emergency events. Historically, the Council has a very good record of outturn financial position being within budget. However, local government finance reform is continuing to transfer greater risk and opportunity to Local Authorities with regard to the retention of business rates. This key source of income is uncertain (unlike the previous regime when grant funding was certain for the year) and so holding additional provision in reserves is prudent.
- 15.3 In setting budgets and projections for individual years, it is important that the use of reserves is not increasing and creating an unsustainable future problem. To achieve this it is important to note the requirement to meet the budget gap savings identified in Annex A.
- 15.4 A summary of the General Fund reserves is shown in the table below and is based on a budget projection that includes aspects such as inflation, pension fund contributions and a number of priority and statutory growth pressures offset by savings identified. The overall aim is ensure that reserves do not fall below 5% of turnover (£2.7m) and the current projections keep well within this target. A copy of the policy for reserves and balances can be found in Annex B.

<b>General Fund Revenue Reserves Summary</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>Balance b/f</b>				
General Fund Reserves	8,796	8,695	8,600	8,600
Earmarked Reserves	3,338	3,701	3,404	3,513
Collection Fund Earmarked Reserve	2,720	2,720	0	0
<b>Total</b>	<b>14,854</b>	<b>15,116</b>	<b>12,004</b>	<b>12,113</b>
<b>Projected Movement</b>				
General Fund Reserves	(101)	(95)	0	0
Earmarked Reserves	363	(297)	109	503
Collection Fund Earmarked Reserve	0	(2,720)	0	0
<b>Total</b>	<b>262</b>	<b>(3,112)</b>	<b>109</b>	<b>503</b>
<b>Balance c/f</b>				
General Fund Reserves	8,695	8,600	8,600	8,600
Earmarked Reserves	3,701	3,404	3,513	4,016
Collection Fund Earmarked Reserve	2,720	0	0	0
<b>Total</b>	<b>15,116</b>	<b>12,004</b>	<b>12,113</b>	<b>12,616</b>

## 16 CAPITAL

### Capital spend and funding

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

- It sets out how capital contributes to the achievement of the Council's corporate objectives
- It establishes the criteria for the allocation of capital resources
- It provides a framework for the administration of capital projects and monitoring of outcomes

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

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

16.4 The extent of the capital programme will be influenced by the ongoing affordability of the level of internal and external borrowing needed to fund the programme. A Minimum

Revenue Provision (MRP) is charged to the General Fund to repay the borrowing over the life of the asset. New capital schemes for the programme will, therefore, be prioritised if there is a financial business case which can demonstrate a revenue return on the investment to the General Fund and/or the Housing Revenue Account.

- 16.5 The Council is able to use receipts from sales of General Fund assets and limited income from council house sales to fund any type of capital expenditure. In addition, there are ring-fenced funds for capital spend and repayment of borrowing on housing from the Major Repairs Allowance (MRA).
- 16.6 The current programme for 2019/20 to 2023/24 has been set out in detail and is deemed to be affordable.

### Revenue implications of capital programme

- 16.7 The key driver for the Council's approach to capital expenditure is revenue affordability.
- 16.8 Most capital projects have financial implications on the annual revenue budget. The revenue implications can take a variety of forms and they include:
- Capital financing costs
  - Loss of investment income
  - Annual non-capital financing costs, e.g.
    - Salaries
    - Rent
    - Rates
    - Energy costs
    - Ongoing maintenance costs
    - Income generated from the scheme or project
- 16.9 The revenue implication of the capital programme has been built into the General Fund forecasts in the MTFS.

## 17 HOUSING REVENUE ACCOUNT (HRA) BUDGET

- 17.1 The HRA is a ring-fenced account relating to the Council's landlord function. The self-financing system introduced in 2012 for the HRA removed the uncertainty caused by the old annual subsidy announcements and has allowed for better, longer term financial planning. Although the government introduced a four-year programme of 1% reductions for social housing in April 2016, this will end in 2019/20. From 2020/21, it is assumed that the previous CPI+1% formula will be restored.
- 17.2 The core constituents of the HRA are rent income, both capital and revenue maintenance of the housing stock, management costs and debt repayments. As the HRA has been carrying a fairly high balance, the Council has been making revenue contributions to capital expenditure as well. Most recently this has been used for the provision of new properties, supplementing retained 'Right to Buy' receipts. As a ring-fenced account, any residual balance at the end of each financial year is accumulated and carried forward for use in future years.
- 17.3 A large proportion of the expenditure on the HRA relates to services provided through long-term partnering contracts, linked to maintaining the Decent Homes Standard and sound asset management. These contracts are aimed at improving value for money and generating ongoing efficiency savings. This is particularly true of the 15-year maintenance contract, with Mears, which commenced in October 2007. The Council have also let a

long-term gas maintenance contract that is expected to deliver an improved and more efficient service. While these two contracts form the bulk of maintenance spending, further procurement work has continued on some of the smaller electrical and specialist maintenance areas with the expectation of greater value for money and efficiency gains.

- 17.4 The process for setting financial targets for HRA services is the same as for General Fund services in terms of links to the Business Plan, Corporate Objectives and service planning and setting the approved budget.
- 17.5 In previous years the Council has taken the position of a managed reduction of the balances held in the HRA, with the intention of leaving a reasonable reserve in the accounts of £5m. In 2018/19, this was amended to 5% of income to minimise borrowing costs and maintain reserves directly linked to the size of the Service and this methodology will carry through to 2019/20. The revenue contribution to capital outlay in 2018/19 will be adjusted at year end to reduce the HRA balance to around 5% of rental turnover.
- 17.6 The HRA will roughly remain at a breakeven position over the rest of the projected period due to the inclusion of further borrowing to support capital spending.
- 17.7 'Right to Buy' sales continue to reduce stock numbers, but this is being mitigated by the Affordable Housing Programme. In the long-term, continued reduction in stock numbers would damage the economies of scale within the HRA and this is considered as part of the HRA business planning process.
- 17.8 Welfare reform continues to be a large threat to the sustainability of the HRA. Many of the changes are either yet to be finalised, fully implemented or have had the time to take full effect. Although financial performance has remained strong and rent collection levels have been high, this is countered by further reductions to the benefit cap, wider roll-out of Universal Credit payments direct to customers and the cumulative impact of previous reforms.
- 17.9 A significant review of aged debt has been conducted in 2018/19 along with the balances held for the provision for bad debt. In future years the charge to the HRA has reduced as a result of this review and accommodating appropriate assumptions.
- 17.10 The HRA projection is set with regard to the Council's overall Housing Business Plan. The following table shows the HRA position to 2021/22 and includes remaining rent reductions until 2020/21.

	2018/19 Forecast Outturn at Period 6	2019/20 Proposed Budget	2020/21 Forecast Budget	2021/22 Forecast Budget
	£'000	£'000	£'000	£'000
Rental Income	48,589	49,082	49,917	51,695
Void Losses	(343)	(439)	(399)	(414)
Service Charges	2,628	2,556	2,612	2,667
Non-Dwelling Income	513	541	552	564
Grants & Other Income	259	260	262	264
<b>Total Income</b>	<b>51,647</b>	<b>52,000</b>	<b>52,944</b>	<b>54,776</b>
General Management	(7,602)	(8,123)	(8,301)	(8,476)
Special Management	(3,640)	(3,703)	(3,785)	(3,864)
Other Management	(1,694)	(1,763)	(1,802)	(1,840)
Rent Rebates	0	0	0	0
Bad Debt Provision	(725)	(500)	(507)	(525)
Responsive & Cyclical Repairs	(9,068)	(9,474)	(9,761)	(10,047)
<b>Total Revenue Expenditure</b>	<b>(22,730)</b>	<b>(23,563)</b>	<b>(24,156)</b>	<b>(24,752)</b>
Interest Paid	(6,443)	(6,492)	(7,024)	(7,309)
Finance Administration	0	0	0	0
Interest Received	138	94	95	94
Depreciation	(14,273)	(14,777)	(15,102)	(15,419)
<b>Net Operating Income</b>	<b>8,339</b>	<b>7,262</b>	<b>6,757</b>	<b>7,390</b>
Revenue Contribution to Capital	(12,448)	(7,068)	(7,039)	(7,112)
<b>Net surplus/(deficit)</b>	<b>(4,109)</b>	<b>194</b>	<b>(282)</b>	<b>278</b>
Opening HRA Balance	6,580	2,471	2,665	2,380
<b>Closing HRA Balance</b>	<b>2,471</b>	<b>2,665</b>	<b>2,380</b>	<b>2,658</b>

17.11 The Major Repairs Allowance (MRA) will continue to be a primary source of capital funding for the housing stock. The current asset management plan has been funded within this Allowance. The statutory changes to depreciation, have resulted in a higher contribution to the Major Repairs Reserve and a balance over and above that needed for the capital programme. As such, the remaining balance will be used towards loan repayments.

17.12 Overall, the HRA and its supporting capital programme are projected to be in a sustainable position over the next five years, but this is only possible by re-financing the current debt on the HRA for the continuation of the Affordable Housing Programme. There are also still significant risks in the medium-term, particularly to income streams, from the changes to the welfare system and the potential of large payments to the government to support the extension of the 'Right to Buy' programme.

## 18 TREASURY MANAGEMENT LINKS WITH FINANCIAL STRATEGY

18.1 The Council has produced new Capital and Investment Strategies stating the specific policies and arrangements for non-treasury investments. It sets out the Council's risk appetite and it recognises that the risk appetite for these activities may differ from that for treasury management.

- 18.2 The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Council. Effective financial planning, option appraisal and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.
- 18.3 The Council will continue to invest in accordance with the Treasury Management Strategy and will plan any consideration of borrowing closely by reference to the financial strategy, Capital Strategy and Investment Strategy.
- 18.4 Investment income and borrowing cost is a significant part of the budgets of the council and movements in interest rates can result in significant changes. This is considered in more detail in the Treasury Management Strategy which is submitted for Cabinet Approval.

## 19 WORKING WITH PARTNERS

- 19.1 The Council works with partners and other key stakeholders to deliver services within Welwyn Hatfield.
- 19.2 Some of the significant financial arrangements are with:

### Serco

The Council has a £5.9m per annum contract for provision of street scene activities, grounds maintenance and refuse collection. The contract expires on 31 March 2020.

### Mears

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

### Sopra Steria

The Council has a 12 year contract for the delivery of Council Tax, Housing Benefits, ICT and Customer Services to the value of £3.4m per annum. This contract expires on 31 December 2022.

### 19.3 Local Strategic Partnership

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

### 19.4 Shared Services

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

## 20 EQUALITY IMPACT ASSESSMENTS (EIA)

- 20.1 The Council is committed to ensuring equality and diversity issues are given proper consideration. Equality Impact Assessments are an important part of our decision-making and enable us to assess the impact of our decisions on residents, stakeholders and customers. Where the impact is 'high', mitigation plans can be developed to reduce the

impact of decisions. These are completed in accordance with national guidance and best practice.

20.2 In developing individual budget proposals officers are requested to undertake an Equality Impact Assessment.

## 21 CONCLUSION

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

- The unprecedented level of uncertainties in local government funding beyond 2019/20
- The Council's robust financial management as shown by the healthy General Fund balances, robust financial controls and excellent track record in achieving efficiency savings
- That challenging decisions will still need to be made to safeguard frontline services and maintain a balanced budget

21.2 The next three years will see the Council use some cash balances for internal borrowing for the General Fund capital programme. Key schemes included in the capital programme have been designed to improve the position of the General Fund over the medium term, which currently has an anticipated of £1.8m gap to be closed by 2021/22. As anticipated, the HRA will be undertaking further borrowing to support the Affordable Housing Programme.

List of Appendices

Annex A sets out medium term projections for the General Fund

Annex B shows the Policy on reserves and balances

**Annex A - Medium term financial strategy 2019/20 - 2020/21****MTFS Forecast Savings Requirement Based on 2019/20 Budget**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Net cost of services</b>	14,630	14,000	13,819
Remove one off budgets	(540)	(234)	(167)
<b>Base budget</b>	<b>14,090</b>	<b>13,766</b>	<b>13,652</b>
Pay Inflation	533	256	261
Contractual Inflation	224	372	420
One off growth items	234	167	23
Ongoing growth	486	22	26
Savings	(1,567)	(764)	(192)
<b>Net Cost of Services</b>	<b>14,000</b>	<b>13,819</b>	<b>14,190</b>
Interest payable and MRP and RCCO	1,138	1,337	1,337
<b>Budget before transfers to/from reserves</b>	<b>15,138</b>	<b>15,155</b>	<b>15,527</b>
Transfer (from)/ to Earmarked Reserve in relation to Collection Fund surplus/deficit	(2,720)	0	0
Other transfers (from)/ to Earmarked Reserves	(297)	109	346
<b>Corporate income (Retained Business Rates + RSG + New Homes Bonus)</b>	<b>(3,155)</b>	<b>(4,601)</b>	<b>(4,643)</b>
<b>Council Tax Income</b>	<b>(8,871)</b>	<b>(9,121)</b>	<b>(9,378)</b>
<b>Cumulative Budget Gap [(Surplus) / Deficit]</b>	<b>95</b>	<b>1,542</b>	<b>1,851</b>

## Annex B – Policy on Reserves and Balances

### Purpose

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

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

### Application

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

### The Existing Legislative/Regulatory Framework

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

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

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

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

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

Guidance on specific levels of reserves and balances is not given in statute, by CIPFA or the Auditors. There is no statutory minimum level of reserves. It is up to local

authorities themselves to set their own level of reserves and balances on the advice of the Chief Finance Officer.

### The Role of the Section 151 Officer

Within the existing statutory and regulatory framework, it is the responsibility of the Section 151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use. For the Council, the Section 151 Officer is the Corporate Director (Resources, Environment and Cultural Services).

The Council then, acting on the advice of the Section 151 Officer must make its own judgements on the level of reserves and balances taking into account all the relevant local circumstances. These include the operational and financial risks, and the arrangements in place to manage them, including adequate and effective systems of internal control. The duties of the Chief Finance Officer in relation to the level of reserves are covered by the legislative framework described in 3 above. Under the Local Government Act 2003, the Chief Finance Officer must report to the Council on the adequacy of reserves (section 27) and reserve transactions must be taken account of within the required budget monitoring arrangements (section 28).

### Types of Reserves

Reserves can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities

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

- Pensions Reserve (required under IAS19). This is a specific accounting mechanism used to recognise the Council's share of pension fund liabilities in its balance sheet. As this is a reserve which arises from an accounting standard it is not available to finance Council expenditure.
- Revaluation Reserve – this records unrealised gains in the value of fixed assets
- Capital Adjustment Account – this is a specific accounting mechanism used to reconcile different rates at which assets are depreciated under proper accounting practice and financed through the capital controls system

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

- The reason for/purpose of the reserve
- How and when the reserve can be used
- Procedures for the reserve's management and control
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy

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

### Policy and Principles to Assess the Adequacy of Reserves

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

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

- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures
- The treatment of planned efficiency savings/productivity gains
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
- The availability of other funds to deal with major contingencies and the adequacy of provisions
- The economic situation, unforeseen events etc.
- The risks identified by the authority as part of its risk management arrangements

The Council holds two types of reserves:

- General non-earmarked reserves (the Council’s General Fund Balances)
- Earmarked reserves held for specific purposes

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

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

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

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

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

### Reporting Framework

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

The Reporting Policy for Welwyn Hatfield Council is:

- The Medium Term Financial Strategy report to the Council includes a statement showing the proposed use of, or contribution to, general and earmarked reserves for the year ahead. Reference should be made as to the extent to which such reserves are to be used to finance recurrent expenditure.
- The budget report itself includes a statement from the Chief Finance Officer on the adequacy of reserves in respect of the forthcoming financial year and the council's medium term financial strategy.
- The Councils' annual statement of accounts includes a schedule of all reserves in the balance sheet, showing opening balance, net movement in year and year-end balance. Notes to individual reserves are given in the accounts and significant reserve movements are explained in the Chief Finance Officer's foreword to the accounts and the covering report to Council which accompanies the presentation of the accounts.
- The regular in-year Budget Monitoring reports to Cabinet include details of any transactions affecting the Council's reserves.

### Good Governance

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