

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 8 SEPTEMBER 2020
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND
CULTURAL SERVICES)

REVIEW OF THE MEDIUM TERM FINANCIAL STRATEGY

1 Executive Summary

- 1.1 The Council's Medium Term Financial Strategy (MTFS) 2020/21 – 2022/23 was approved by Cabinet in January 2020 and it was subsequently approved by Full Council in February 2020. This report summarises the review of the MTFS as the opening stage of the 2021/22 Budget Setting process.
- 1.2 The Council is in a strong financial position with general revenue reserves standing at £8.6m at the start of 2020/21, which is a direct result of robust financial management and our excellent record in achieving efficiency savings. The last Peer Review report also commented positively on how the council has managed our finances and that the Council is in a strong financial position and has a proven track record of delivering savings.
- 1.3 When the last MTFS was approved by Full Council, savings of £1.6m were required to close the budget gap in 2021/22 and at the time the Council needed to find another £0.3m of efficiency savings to close the indicative budget gap in 2022/23.
- 1.4 COVID-19 is already having a significant adverse effect on the economy, it is also affecting the services that the council delivers as reported at various Committees previously. The financial support from the government, along with the earmarked COVID-19 reserve set aside from the end of the last financial year, means that the council is not expected to be in any immediate financial risk. However, the scale of the impact on the economy and public finances resulting from COVID-19 in the medium-to long-term is unknown.
- 1.5 The Council's modernisation programme is well underway to ensure that we can deliver effective and efficient services that meet people's needs and within a sustainable budget. Several modernisation reviews are due to be completed by the end of the current financial year and that cashable savings from the reviews will be built into the budget setting process going forward.
- 1.6 The HRA also remains in a strong position with reserves at the start of 2020/21 amounting to £2.6m. In particular, our current assessment is that rent collection levels will not be materially impacted by COVID.
- 1.7 The local government financial position remains unclear beyond the current year. In particular, the Spending Review covering 2021/22 – 2023/24 departmental expenditure limits will not be confirmed until the Autumn. Although the government announced in April that the fair funding review and the 75% business rates retention system would no longer be implemented in 2021/22, it is unclear

whether elements of the existing business rates retention system will change and the impact this would have on our income level.

- 1.8 This report sets out the broad principles and objectives for setting the next Budget and also examining the key issues and pressures facing the Council in the medium term. It should be noted that the Council has been proactive in identifying savings required for future years and that the council's modernisation agenda will play a central part to ensure our financial sustainability going forward.

2 Recommendation(s)

- 2.1 Cabinet is asked to note the contents of this report and to approve the principles to be adopted for the 2021/22 budget setting process as highlighted in section 3.3.6, in particular the 2021/22 budget setting process should focus on closing the indicative budget gap beyond next year.

3 Explanation

3.1 Financial Position (approved by Full Council in February 2020)

- 3.1.1 The Medium Term Financial Strategy (MTFS) approved by the Council in February 2020 shows that the Council delivered a balanced budget for 2020/21, but that the Council had challenging savings targets to meet over the next two years.
- 3.1.2 Table 1 below summarises the indicative budget gap in the MTFS agreed by Full Council in February 2020:

	2020/21 Budget	2021/22 Forecast	2022/23 Forecast
	£000	£000	£000
Cost of Services			
Employees	14,111	14,386	14,717
Premises	3,496	3,566	3,637
Supplies and Services	5,022	4,923	4,932
Transport	102	103	103
Third Party Payments	13,831	14,108	14,390
Transfer Payments	28,323	28,323	28,323
Income	(45,654)	(46,215)	(46,513)
Net Recharge to HRA	(5,366)	(5,474)	(5,582)
Net Cost of Services	13,865	13,720	14,007
Impact of previous savings			(1,587)
Revised Net Cost of Services	13,865	13,720	12,420
Other Income and Expenditure			
Income from Council Tax	(10,781)	(11,051)	(11,327)
Business Rates Retained	(4,908)	(4,070)	(4,150)
Collection Fund (Surplus)/Deficit	1,472	0	0
New Homes Bonus Grant	(1,028)	(357)	(156)
Interest Income	(30)	(157)	(242)
Capital Financing (Leases, contributions to capital, interest, minimum revenue provision)	1,509	1,899	2,104
Parish Precepts	1,627	1,668	1,709
Contributions from Earmarked Reserves	(1,329)	(65)	(15)
Contributions to Pensions Reserve	1,200	0	0
Planned use of working Balances	(1,597)	0	0
Total Other Income and Expenditure	(13,865)	(12,133)	(12,076)
Savings Target (Single Year)	0	1,587	343
Savings Target (Cumulative)	0	1,587	1,930

3.2 Changes in Budget Assumptions since February 2020

COVID-19

3.2.1 The key change since the MTFS was last approved is the impact of COVID-19 on the council's finances. The council continues to face expenditure pressures in services such as leisure and homelessness. We are also faced with substantial income shortfall, although part of this would be covered by the government's income guarantee. As reported to Cabinet previously, the estimated impact to General Fund amounts to £4.8m, of which £2m relates to collection fund impact that will affect future years' budgets. Taking into account the government support available to date of £1.5m and plus the £0.4m COVID-19 reserve set up at the end of 19/20, the net impact is around £0.9m. It should be noted that the government has already stated that the collection fund deficit (estimated to be £2m) can be phased over 3 years. The revised gap is shown in the table below. The government has announced that further support will be available via an income guarantee, which supports a substantial amount of projected fees and charges income losses in 20/21, will help to reduce the budget impact further. The benefit of the income guarantee is not included in the table below but will be monitored as part of budget monitoring going forward.

	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast
	£000	£000	£000
Budget Gap - Full Council Feb 2020	0	1,587	1,930
COVID 19 impact as reported in Q1 (21/22 & 22/23 shows the estimated £2m collection fund deficit to be spread over 3 years)	938	667	667
Revised Budget Gap Aug 2020	938	2,254	2,597

3.2.2 It is unlikely that the fees and charges income would return to normal next year as the economy suffered its largest slump on record between April and June this year and the recession is likely to last for some time. A comprehensive review of all fees and charges income will be carried out over the coming months.

Spending Review (SR)

3.2.3 The Government had previously stated its intention to hold a multi-year SR in 2020. In July 2020, it was confirmed that the next SR covering Government departments' resource budgets for the years 2021/22 to 2023/24 would be announced in Autumn 2020. Given the state of the economy and the additional COVID-19 cost pressures faced by the Treasury, it is widely expected that this will have a severe impact on the level of local government funding going forward.

Fair Funding Review (FFR)

3.2.4 The Government has previously indicated their desire to review the funding baseline for local authorities and the fair funding review was due to be implemented in 2021/22. In April 2020, the Secretary of State has announced that fair funding review will be delayed further due to COVID-19. It is likely that the 21/22 funding baseline will continue to be based on existing formula.

Reforming Business Rates Retention (RBRR)

- 3.2.5 The Government has been consulting in the past few years on the reform of the business rates retention system and how the 75% business rates retention system should look like. The reform looked at a number of the key factors, such as the frequency at which the system should be 'reset', the level at which safety net is set, and the apportionment of income between preceptors. During 2019, it was announced that the reform of the business rates retention system would be deferred to 2021/22. However, in April 2020, the government announced that the 75% business rates retention system will not be implemented in 2021/22
- 3.2.6 Welwyn Hatfield is currently in a Business Rates Pool; however the pool will end at the end of March 2021 and it is unclear whether there would be an opportunity to apply for business rates pooling scheme in 2021/22.
- 3.2.7 It should also be noted that the business rates baseline was also due to be reset in 2021/22, at the time of writing this report, the government has not indicated whether this will go ahead. Welwyn Hatfield has experienced a relatively high business rates growth in the past few years, prior to COVID-19. It was expected that the business rates baseline would increase in the event of a reset, meaning that it will be harder to achieve a higher business rates growth in the future, other things being equal. This will mean that the amount of business rates retained locally is likely to be reduced should the baseline be revised upwards.

New Homes Bonus Reform

- 3.2.8 At the time of the 2020/21 local government finance settlement, the Government indicated that they would consult on the future of the New Homes Bonus in Spring 2020. It was expected that this would include moving to a new, more targeted approach which is aligned with other measures around planning performance. At this stage, it is unclear when the consultation will take place and the MTFs assumes no new payments will be made and the amounts are only the legacy payment from previous years. This means there is a significant reduction to the grant assumed for 2021/22.

Council Tax Referendum Limits

- 3.2.9 The 2020/21 Council Tax Referendum Limits for district councils were set at the higher of £5 or 2%. It is unknown at this stage what the referendum limits would be for future years, but our MTFs currently assumes a 1.5% council tax increase for 2020/21.

Pay Award

- 3.2.10 The council forms part of the National Joint Council (NJC) pay agreement. The pay award for the current year has not been settled yet and will remain an uncertain position until an agreement is reached nationally.
- 3.2.11 The MTFs assumes a 2% pay increase for future years.

3.3 Options to Address the Budget Gap

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

- 3.3.2 In light of the continued uncertainties and risks set out in section 3.2, consideration will be given to a range of options for services to deliver savings for the 2021/22 budget setting process.
- 3.3.3 The use of reserves will be considered as part of the budget setting process; however this will need to balance the need for a minimum reserve level that the Council must retain to meet any unanticipated costs arising in any given year, and ensure an adequate level of reserves is maintained for delivery of corporate aims and objectives.
- 3.3.4 We achieved a positive outturn on the 2019/20 financial position, and all services budgets were reviewed last year as part of the budget reset exercise. This resulted in £0.8m of ongoing savings. The opportunities for further savings will come from the council's modernisation programme, which is well underway.
- 3.3.5 Notwithstanding the above, the Council has a challenging target of savings to meet, and proposals will be worked through with member portfolio holders and Cabinet over the autumn months.
- 3.3.6 In order to ensure progress can be made at the pace required to deliver the financial challenge, it is recommended that the 2021/22 budget setting process should adopt the following principles:
- Review the Policy on Reserves and Balances to ensure that it supports the delivery of the corporate priorities, COVID recovery and the council's modernisation agenda.
 - Budget growth (including one-offs growths) should be the last resort and they are primarily reserved for invest to save projects.
 - Frontline services will be protected wherever possible, but savings should be considered as part of modernisation reviews to make the services more efficient and effective for our residents
 - Services will need to find savings/income to fund budget pressures.
 - As in previous years, all the budget growth will be subject to approval by Cabinet.
 - Improve income generated through fees and charges following a review on the existing fees and charges policy. All (non-statutorily set) fees and charges will increase by a minimum of inflation except in exceptional circumstances (where there is a clear case for not doing so).
 - Expected savings from Modernisation Reviews as approved by the Modernisation Board will be removed from services budget and put forward as savings proposals
 - Savings proposals must be submitted with a view to find ways to address the budget gap beyond 2021/22.

3.4 Housing Revenue Account

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

- The Council will continue to maintain existing stock to at least decent homes standard.
- The Council will continue with its aim to maintain stock levels at around 9,000 dwellings.
- The Council will continue to develop new homes through its Affordable Housing Programme, to fully make use of the retained right to buy receipts available to it and replace those properties sold through Right to Buy.
- The Council will continue to take a balanced approach to its level of Housing debt, borrowing to support development and ensuring some flexibility is maintained for any future legislative or policy changes.

3.4.2 No material changes have been made to the assumptions in the HRA forecast. The Housing Company has been launched and that the first transaction is expecting to take place in the next few months. A summary of the forecasts for the HRA as approved by Full Council in February is shown in the following table. The HRA has a good track record in rent collection and despite the current challenging circumstances, the rent collection is not adversely impacted. However, it should be noted that some of the other non-rent income have been impacted due to COVID-19 and the estimated revenue impact amounts to £0.168m, this will further add to the 20/21 deficit position.

	2020/21 Budget £'000	2021/22 Forecast £'000	2022/23 Forecast £'000
Income			
Rental Income	(49,175)	(50,653)	(52,879)
Non Dwelling Rents	(551)	(562)	(573)
Charges for Services and Facilities	(2,622)	(2,674)	(2,727)
Other Income	(413)	(462)	(471)
Total Income	(52,801)	(54,351)	(56,650)
Expenditure			
Repairs and Maintenance	9,688	9,881	10,079
Management, Special Service and Rates/Taxes	13,870	14,142	14,424
Allowance for Doubtful Debt	490	506	529
Depreciation	15,440	15,749	16,064
Other Expenditure	28	29	30
Total Revenue Expenditure	39,516	40,308	41,126
Other Items of Income and Expense			
Interest Payable	6,373	6,745	7,100
Interest Received	(163)	(162)	(163)
Revenue Contribution to Capital	7,224	7,383	8,474
Net (surplus)/deficit	149	(77)	(113)

3.5 Capital Programme and Borrowing

- 3.5.1 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.
- 3.5.2 The Programme includes all of the capital schemes within both the General Fund and the Housing Revenue for 2020/21 to 2024/25.
- 3.5.3 Although there are some schemes expected to be re-phased from 2020/21, which are reported through the regular budget monitoring reports, it is not anticipated at this stage that this will impact on the Council's finances over the five year period, as the funding of the schemes will also be rephased in line with project expenditure.
- 3.5.4 There are risks around the cost of capital projects increasing, particularly in relation to ensuring worksites can maintain social distancing, needing to increase welfare facilities and cleaning and general inflationary increases in construction and goods. Capital schemes are being closely monitored, and we are working closely with contractors to minimise these risks.
- 3.5.5 During 2020, the Government has been consulting on borrowing activity, in particular, the introduction of restrictions for investment activity. Such changes would not impact the council as we have no capital projects which are wholly for investment returns. The Government intends to lower borrowing rates, subject to making changes which introduce restrictions around such investments and the council would directly benefit from these rate reductions for new borrowing.
- 3.5.6 The majority of the Council's borrowing requirement is generated through the Housing Revenue Account, which is continuing to see a moderated level of right to buy sales. In order to maximise the use of the receipts it can retain, the Council is committed to the continuation of the Affordable Housing Programme (AHP). This programme will create income generating assets, which will cover the cost of external borrowing.
- 3.5.7 The Council will continue to borrow externally for the HRA to support the continuation of the AHP, and to refinance part of its current debt, but will take advantage of the historically low interest rates and minimise interest costs through utilising a mix of short and long term borrowing in line with the Treasury Management Strategy.
- 3.5.8 Current forecasts show the Capital Programme as affordable, but do highlight that the General Fund capital balances will be significantly reduced by the end of the programme. This will need to be considered in the longer term context, and will form part of the 2021/22 budget setting process.

3.6 Next Steps

- 3.6.1 The Council's budget setting process integrates service and financial planning into a single, seamless process and aims to ensure that resource allocation both reflects corporate priorities and is affordable.
- 3.6.2 Over the autumn months, officers will be preparing assessments of their service that take into account the Council's policies, priorities and performance, national policy, service and budget risks, and value for money.

3.6.3 The resulting growth and savings options will include an assessment of their service and financial impact, achievability, sustainability and equalities impact. These options will be reported to Cabinet in January together with overall proposals for the Council's budget.

4 Risk Management Implications

4.1 There continue to be a high level of uncertainties from a funding perspective. The Council has been prudent in its assumptions, basing forecasts on previous information and the most up to date information available. These uncertainties do however lead to a high level of risk that the savings requirement could be impacted by national announcements.

5 Security & Terrorism Implication(s)

5.1 There are no security or terrorism implications arising from this report.

6 Procurement Implication(s)

6.1 There are no procurement implications arising from this report.

7 Climate Change Implication(s)

7.1 There are no direct climate change implications to consider.

8 Health and Wellbeing Implication(s)

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

9 Link to Corporate Priorities

9.1 The subject of this report directly linked to the delivery of all of the Councils objectives.

10 Communications and Engagement

10.1 Part of the 2021/22 budget communication and engagement plan includes engaging with opposition members early and the first budget seminar is scheduled to be delivered to all Members on 26 August. Engagement with public and businesses will be put into place once more details about the budget proposals are available.

11 Equality and Diversity

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

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