

Part I

Main author: Richard Baker

Executive Member: Cllr Stephen Boulton

All Wards

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 6 SEPTEMBER 2022
REPORT OF THE CHIEF EXECUTIVE

Review of the Medium-Term Financial Strategy

1 Executive Summary

- 1.1 The Council's Medium-Term Financial Strategy (MTFS) 2022/23 – 2025/26 was approved by Cabinet in January 2022 and it was subsequently approved by Full Council in February 2022. This report summarises the review of the MTFS as the opening stage of the 2023/24 Budget Setting process.
- 1.2 Since the MTFS was set, the council has closed its accounts for 2021/22, and resulted in a net decrease in General Fund balances of £220k equal to the budgeted decrease.
- 1.3 Despite the pressures of the pandemic, the Council started 2022/23 in a strong financial position with general revenue reserves of £6.7m, 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.
- 1.4 When the last MTFS was approved by Full Council, savings of £1.5m were required to close the budget gap in 2023/24 and at the time the Council needed to find another £0.4m of efficiency savings to close the indicative budget gap in 2024/25.
- 1.5 Although initial additional pressures from COVID-19 have decreased, the ongoing scale of the impact on the economy and public finances resulting from COVID-19 in the medium-to long-term is unknown. In particular, some council income streams have not recovered to pre-pandemic levels.
- 1.6 The Council's modernisation programme is being reviewed and reset, and a new transformation programme will be launched in the coming months. Work is continuing to ensure that we can deliver effective and efficient services that meet people's needs within a sustainable budget. Cashable savings from the programme will continue to be built into the budget setting process going forward.
- 1.7 The HRA also remains in a strong position with reserves at the start of 2022/23 amounting to £2.6m. In particular, we have not seen rent collection levels being materially impacted by COVID, however there are concerns that collection levels may be impacted by increased costs of living such as utilities.
- 1.8 The local government financial position remains unclear beyond the current year. In particular, the government had previously suggested a two year settlement would be consulted upon over the summer, but this now seems unlikely. It is thought that the funding formula may not be changed as significantly as previously assumed, however this is unclear given the current political position.
- 1.9 This report sets out the broad principles and objectives for setting the next Budget and also examining the key issues and pressures facing the Council in the medium term.

- 1.10 Due to the unprecedented times and challenges the council is facing (with increasing utilities costs, high levels of inflation and wage pressures), a scenario based approach has been taken to the financial forecasts to highlight some of the key risks in inflationary forecasts and uncertainties faced on funding and other matters.
- 1.11 It should be noted that while the Council has been proactive in identifying savings required for future years, and the council's transformation agenda will play a central part to ensure our financial sustainability going forward, there are significant budget gaps to close and the coming year will be extremely challenging.

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 2023/24 budget setting process as highlighted in section 3.3.6, in particular the 2023/24 budget setting process should focus on closing the indicative budget gap.

3 Explanation

3.1 Financial Position (approved by Full Council in February 2022)

- 3.1.1 The Medium-Term Financial Strategy (MTFS) approved by the Council in February 2022 shows that the Council delivered a nearly balanced budget for 2022/23 but that the Council had challenging savings targets to meet over the next three years.
- 3.1.2 Table 1 below summarises the indicative budget gap in the MTFS agreed by Full Council in February 2022:

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Cost of Services*	13,350	13,175	12,899	11,972
Other Income and Expenditure	-13,277	-11,661	-12,518	-11,593
Budget gap (single year)	73	1,441	381	379
Budget gap (cumulative)		1,514	1,895	2,274

* Cost of services assumes previous years savings target has been met

3.2 Changes in Budget Assumptions since February 2022

COVID-19

- 3.2.1 Since the MTFS was last approved COVID-19 has continued to have an impact on the council's finances, particularly affecting income. In 2020/21 and for the first three months of 2021/22 this was partly compensated for by the government's income guarantee, however this support ended in June 2021.
- 3.2.2 There have been no further government announcements on further pandemic support funding from the government, and there are no further government data collections to understand the impacts on local authorities. The final return was submitted in April 2022 for the 2021/22 financial year.
- 3.2.3 The quarter one monitoring for 2022/23 identified £1.1m of pressures for 2022/23, of which £390k is associated with reduced income which is partly attributable to recovery from the pandemic.

- 3.2.4 It is too early in the year to be able to determine how income streams are recovering, and whether they will return to pre-pandemic levels. The pandemic has impacted behaviours and the workplace, so there may be ongoing reductions to parking, for example in the form of reduced season tickets as many organisations are now looking to home working or hybrid working becoming the norm. Income at Campus West has not returned to pre-pandemic levels and it is uncertain whether the decrease in income will continue in the medium and longer term.
- 3.2.5 The council has closed its annual accounts for 2021/22, and there was an adverse variance on the General Fund net cost of services of £3.105m. Of this, £4.052m related to variances directly attributable to the impact of the COVID-19 pandemic and £0.947m related to other favourable variances. These were funded by income from the Sales, Fees and Charges losses compensation scheme, business support grants released from reserves, additional contributions to reserves for grants received and incomplete work, and additional drawdowns from the COVID earmarked reserve. After additional earmarked reserve drawdowns and other variances, there was a net contribution from the General Fund Reserve of £220k.

Cost of Living and inflationary increases

- 3.2.6 As has been widely reported nationally, the cost of living continues to increase and longer term projections are uncertain. Of particular concern to the Council are the price rises in utility costs and general inflation.
- 3.2.7 An increase in utility costs of £175k was factored into the budget, however as at the end of Quarter 1 we are forecasting an additional £700k increase in the cost of utilities for 2022/23.
- 3.2.8 The latest forecasts indicate that CPI inflation could be 8.7% at Quarter 3. Many of our contracts have inflationary provisions linked to rates between August and January and therefore increasing inflation has a significant impact on the Council's budget.
- 3.2.9 The economic uncertainties and pressures are causing rises in interest rates, which may have an impact on the cost of capital schemes in the future.

Spending Review (SR)

- 3.2.10 The Government will be consulting on a settlement over the summer. This has been announced as a two year proposal. However, given the current situation in government, there are concerns as to whether this will happen.
- 3.2.11 Given the state of the economy and the additional inflationary pressures faced by the Treasury, it is widely expected that this will have a severe impact on the level of local government funding in future years.

Fair Funding Review (FFR)

- 3.2.12 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. This has now been delayed until at least 2023/24.

Reforming Business Rates Retention (RBRR)

- 3.2.13 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.
- 3.2.14 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.

3.2.15 However, the government announced that the 75% business rates retention system would not be implemented in 2021/22 and has been delayed until at least 2023/24.

3.2.16 Welwyn Hatfield Borough Council is in a Business Rates Pool in 2022/23, however it is not known whether pooling arrangements will continue in the future and if so, there is no guarantee that the Council would be in the Hertfordshire pool in the future.

3.2.17 The last MTFS included assumptions that the reset would take place in 2023/24, and included £500k transitional protection in 2023/24.

3.2.18 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

3.2.19 The MTFS assumes the last year of legacy payments associated with prior years was in 2021/22, and that there is no further funding from 2023/24.

Council Tax Referendum Limits

3.2.20 The 2022/23 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 an annual 1.5% council tax increase for 2023/24 onwards.

Pay Award

3.2.21 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.

3.2.22 The latest offer by employers for 2022/23 was £1,925 per employee, which equates to an average increase of 6% for the council. The 2022/23 budget assumed a 2.5% pay award. Unions are seeking views from union members on this. The last MTFS assumed a 2.5% pay increase for future years.

Housing Company- Now Housing Limited

3.2.23 No changes have been made to the Housing Company forecasts at the current time, whilst the implications of the changes to the minimum revenue provision legislation are considered (reported to Cabinet Housing Panel in July 2022). A separate report will be presented on this once the implications have been worked through.

Current Forecasts

3.2.24 Based on the factors above the latest medium-term forecast has been updated and the revised position is shown below. It is important to note this does not include any ongoing impacts associated with the pandemic, such as lost income from parking.

3.2.25 Owing to the considerable uncertainties outlined in the report, a slightly different approach to the MTFS has been taken in this year. Taking into account the issues identified in the report, the updated MTFS illustrates three levels of budget gap - a standard approach, an upside risk and a downside risk.

3.2.26 The Standard approach considered the usual approach to inflation forecasts, such as using the Office for Budgetary Responsibility forecasts for CPI, RPI and RPIX.

3.2.27 For each aspect of uncertainties faced, such as utilities, inflation, wages, funding and other factors, an upside risk scenario has been undertaken which shows what would happen if increases were not as high as the standard forecast position. The downside risk scenario shows a potential position if inflation and increases are higher than the standard position.

3.2.28 These three levels are shown in the table below, which includes the budget gap identified in February 2022 for comparison.

	2023/24 £m	2024/25 £m	2025/26 £m
Budget gap - Upside risk	3.419	3.888	3.835
Budget gap - Standard Approach	4.479	5.769	6.492
Budget gap - Downside risk	4.991	6.510	7.222
Budget gap (February 2022)	1.514	1.895	2.274

3.2.29 The budget gap for 2023/24 identified using the standard approach is £4.479m, compared to £1.514m identified in February 2022. However, the gap could range between £3.419m and £4.991m. The budget gap for the three year position could be between £3.835m and £7.222m.

3.2.30 The biggest drivers behind the increased gap are:

- Utility costs have continued to rise
- Inflation is forecast significantly higher than previously. The council has nearly £15m of contracts which will be impacted directly by inflation.
- Employee costs – changes here are agreed at a national level, the 2022/23 proposed increase is on average 6%, against a budgeted increase of 2.5%.
- Borrowing – the increases in the borrowing rates mean the cost of borrowing is increasing
- Funding – government funding remains highly uncertain

3.2.31 The following table the impact of these factors on the budget gap, and how the position has changed since January 2022, and demonstrates the impacts are mainly due to the cost of living crisis outside of the councils control

	£m
Budget gap forecast for 2023/24 as at January 2022	1.514
Cost of living impacts - pay award (additional 3.5% for 2022/23 and additional 1% for 2023/24)	0.513
Cost of living impacts - utilities and fuel	1.014
Cost of living impacts - Inflation on contracts	1.355
Cost of living impacts - Inflation on supplies and services	0.190
Cost of living impacts - Inflation on borrowing	0.044
Management restructure	(0.100)

Recharges and other minor changes	(0.051)
Revised Budget Gap (Standard Approach) as at August 2022	4.479

3.2.32 It is important to note that there are still risks which could make these scenarios worse, including ongoing reductions in car parking and Campus West income, assumed income from the new crematorium being lower than forecast.

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 2023/24 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 good outturn on the 2021/22 financial position, so are in a strong starting position as we move into the budget setting process.

3.3.5 Notwithstanding the above, the Council has challenging targets to meet the savings required over the term of the MTFs, 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 2023/24 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, and savings should be considered as part of transformation programme to make the services more efficient and effective for our residents. Given the extraordinary pressures on the council this year, it is acknowledged there may need to be difficult decisions taken in relation to front line services.
- 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 the transformation programme as approved by the Transformation Board will be removed from services budgets and put forward

as savings proposals.

- Savings proposals must be submitted with a view to find ways to address the budget gap beyond 2023/24.

3.4 Housing Revenue Account (HRA)

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

- The Council will 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 current assumptions in the HRA forecast.

3.4.3 There may be requirements to increase certain budgets within the HRA, both in capital and revenue, to ensure stock is adequately maintained. This follows the work being done on the asset grading model, which is likely to lead to a rephasing of capital spend in the programme and may lead to greater spend in the next five years. There will be a need to ensure that adequate resource is available to deliver and oversee the programme of works. Any such increases will be considered as part of the budget setting process.

3.4.4 A summary of the forecasts for the HRA as approved by Full Council in February is shown in the Appendix 2. The HRA has a good track record in rent collection and despite the current challenging circumstances, the rent collection is not adversely impacted.

3.4.5 However, it should be noted that some of the other non-rent income was impacted in 2020/21 and 2021/22 due to COVID-19 although is now returning to normal.

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 2022/23 to 2026/27.

3.5.3 Although there are some schemes expected to be re-phased from 2022/23, 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 re-phased in line with project expenditure.

3.5.4 There are risks around the cost of capital projects increasing, with shortages of some materials in the construction industry, and general inflationary increases in construction and goods. An example is in the rising cost of steel. Capital schemes are being closely monitored, and we are working closely with contractors to minimise these risks.

- 3.5.5 During 2020, the Government consulted on borrowing activity, in particular, the introduction of restrictions for investment activity. They then introduced changes which restricted borrowing activity, although the council was unaffected as we have no capital projects which are wholly for investment returns. The Government also lowered borrowing rates following these changes, which the council is benefitting from.
- 3.5.6 The majority of the Council's borrowing requirement is generated through the Housing Revenue Account, which has seen an increase in the level of right to buy sales in 2021/22 compared to a reduced number in 2020/21. 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 During 2021, the council took its first loan of £20m against the general fund capital financing requirement. This loan was taken at a very low rate of 1.57% which has been locked in for 20 years. There have been no further loans against the general fund. The capital financing requirement at 31 March 2022 was £43.294m, and the remainder continues to be funded through internal borrowing.
- 3.5.9 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 2023/24 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 2023 together with overall proposals for the Council's budget.

4 Risk Management Implications

- 4.1 There continues to be a high level of uncertainty from a funding perspective. There are also the ongoing impacts from the pandemic which are still unknown. The national cost of living and inflationary increases will have significant effects on the Council's budget and the extent of these are unknown. 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 Implications

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

6 Legal Implications

6.1 The Council has a legal duty to set a lawfully balanced budget. This paper provides a forward forecast of the budget gap at a point in time, that the Council should meet to deliver a lawfully balanced budget.

6.2 The MTFs sets out the framework for setting future budgets and levels of Council Tax. Members are reminded that the Council must take into account the advice of the Section 151 Officer on the robustness of the future budget proposals and the adequacy of reserves. This advice will be presented to Council alongside the budget proposals in February 2023.

7 Financial Implications

7.1 The financial implications are set out in the body of the report.

8 Procurement Implications

8.1 There are no procurement implications arising from this report.

9 Climate Change Implications

9.1 There are no direct climate change implications to consider.

10 Health and Wellbeing Implications

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

11 Link to Corporate Priorities

11.1 The subject of this report directly linked to the delivery of all of the Council's objectives.

12 Human Resources Implications

12.1 The subject of this report directly linked to the delivery of all of the Council's objectives.

13 Communications and Engagement

13.1 Part of the 2023/24 budget communication and engagement plan includes engaging with all members early and the first budget seminar is scheduled to be delivered to all Members in September 2022. The Overview and Scrutiny Committee (OSC) will be asked to establish a budget Task and Finish Panel, which will meet monthly and report its recommendations through OSC, Cabinet and Council. Engagement with public and businesses will be put into place once more details about the budget proposals are available.

14 Equality and Diversity

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

Name of author Richard Baker
Title Executive Director (Finance and Transformation)
Date 4 August 2022

Appendix A – General Fund Medium Term Forecasts

	2022/23	2022/23	2023/24	2024/25	2025/26
		Q1 forecast			
Employees	14,229	14,557	15,014	16,922	16,398
Premises	3,840	4,610	5,206	5,485	5,687
Transport	96	116	107	109	111
Third Party Payments	14,572	14,668	16,218	17,191	17,707
Transfer Payments	23,929	23,929	23,929	23,929	23,929
Supplies and Services	4,643	6,192	4,932	5,148	5,287
Income	-42,432	-43,158	-43,160	-43,900	-44,166
Recharge to the HRA	-5,527	-5,447	-6,151	-6,520	-6,716
Cumulative Savings	0		0	-4,479	-5,769
Net cost of Services	13,350	15,467	16,095	13,885	12,468
Income from Council Tax	-11,535	-11,641	-11,823	-12,119	-12,422
Business Rates Income	-3,930	-3,930	-2,950	-3,127	-3,221
Plus/Less collection fund deficit/(surplus)	-940	-940	1,935	0	0
Estimate for transitional protections	0		-500	0	0
New Homes Bonus Grant	-712	-712	0	0	0
Lower Tier Funding	-131	-131	0	0	0
Services Grant	-201	-201	0	0	0
Less Interest & Investment Income	-30	-30	-30	-30	-30
Net Interest from Now Housing	-100	-100	-150	-200	-250
Plus capital financing - MRP, finance Leases and interest payable	1,584	1,584	2,179	2,210	2,241
Parish Precepts	1,787	1,894	1,832	1,877	1,924
Contribution (from) / to Earmarked Reserves	931	195	-2,109	-1,206	13
Contribution (from) / to Working Balances	0	-78	0	0	0
In Year Savings Requirement	73	1,377	4,479	1,290	724
Cumulative Savings Requirement			4,479	5,769	6,492

GF Reserve if gap not met	2022/23	2022/23	2023/24	2024/25	2025/26
		Q1 Forecast			
Opening Balance	6,682	6,682	4,860	381	-5,388
Planned Use	-73	-73	-4,479	-5,769	-6,492
Known pressures at Q1 2022/23		-1,381			
NJC pay award offer		-368			
Closing Balance	6,609	4,860	381	-5,388	-11,880

Appendix B – Housing Revenue Account Medium Term Forecasts

	2022/23 Budget £'000	2023/24 Forecast £'000	2024/25 Forecast £'000
Income			
Rental Income	(52,150)	(54,345)	(56,346)
Non Dwelling Rents	(391)	(399)	(407)
Charges for Services and Facilities	(2,543)	(2,617)	(2,689)
Other Income	(245)	(250)	(255)
Total Income	(55,329)	(57,512)	(59,697)
Expenditure			
Repairs and Maintenance	9,188	9,321	9,700
Management, Special Service and Rates/Taxes	15,372	15,522	15,863
Allowance for Doubtful Debt	490	518	544
Depreciation	16,352	16,547	16,801
Other Expenditure	29	30	31
Total Revenue Expenditure	41,096	41,939	42,938
Other Items of Income and Expense			
Interest Payable	7,559	8,308	8,754
Interest Received	(52)	(96)	(90)
Revenue Contribution to Capital	6,839	7,346	7,990
Net (surplus)/deficit	(154)	(114)	(104)