

Part I

Item No:

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Executive Member: Cllr Duncan Jones

All Wards

WELWYN HATFIELD BOROUGH COUNCIL

CABINET – 10 OCTOBER 2023

REPORT OF THE EXECUTIVE DIRECTOR (FINANCE AND TRANSFORMATION)

Review of the Medium-Term Financial Strategy

1 Executive Summary

- 1.1 The Council's Medium-Term Financial Strategy (MTFS) 2023/24 – 2026/27 was approved by Cabinet in January 2023 and it was subsequently approved by Full Council in February 2023. This report summarises the review of the MTFS at the opening stage of the 2024/25 Budget Setting process.
- 1.2 Since the MTFS was set, the council has closed its accounts for 2022/23, and resulted in a net increase in General Fund balances of £104k.
- 1.3 Despite the ongoing pressures of the pandemic on our discretionary services and the cost-of-living crisis, the Council started 2023/24 in a strong financial position with general revenue reserves of £6.8m, 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 £2.1m were required to close the budget gap in 2024/25 and at the time the Council needed to find another £2.2m of efficiency savings to close the indicative budget gap in 2025/26, a total of £4.3m over the next two years. This equates to around 30.2% of the forecast net cost of services for the council.
- 1.5 Work is continuing on the transformation programme to ensure that we can deliver effective and efficient services that meet people's needs. Cashable savings from the programme will continue to 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 2023/24 amounting to £2.7m. There are ongoing concerns that collection levels may be impacted by increased costs of living such as utilities, although so far collections have remained strong.
- 1.7 The local government financial position remains unclear beyond the current year, and it is likely that we will see a one-year settlement, which does not support the council in longer term planning.
- 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.
- 1.9 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.

- 1.10 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.
- 1.11 It is highly likely that difficult decisions will need to be made in this round of budget setting. As part of the community survey, questions have been asked which will help the council understand the communities perspective on the principles that should be adopted for the budget, and to help prioritise savings decisions to meet the budget gap.

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 2024/25 budget setting process as highlighted in section 3.3.6, in particular the 2024/25 budget setting process should focus on closing the indicative budget gap.

3 Explanation

3.1 Financial Position (approved by Full Council in February 2023)

- 3.1.1 The Medium-Term Financial Strategy (MTFS) approved by the Council in February 2023 shows that the Council delivered a balanced budget, with a planned use of reserves for 2023/24 but that the Council had significantly 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 2023:

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Cost of Services*	14,369	15,444	14,320	12,874
Other Income and Expenditure	(13,755)	(13,319)	(11,911)	(11,479)
Budget gap (single year)	614	2,125	2,210	1,395
Budget gap (cumulative)		2,125	4,335	5,730

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

3.2 Changes in Budget Assumptions since February 2023

COVID-19 and cost of living pressures

- 3.2.1 The pandemic had an impact on resident behaviour, and some income streams have not recovered to pre-pandemic levels. This mainly affects parking and leisure.
- 3.2.2 The cost-of-living impacts on residents may also be impacting on the recovery of these income streams. A provision was included in the baseline budget of £400k for these ongoing impacts, but based on the year-to-date forecasts, Campus West alone would require a further £180k on top of this provision to continue to cover losses on an annual basis.

Utilities

- 3.2.3 An increase was included in the 2023/24 budget, following the substantial increases being seen in the cost of utilities and fuel. This was highlighted as a key risk factor in the budget setting process, as the market has been extremely volatile.
- 3.2.4 We have since seen a favourable reduction in the utility prices, and for the current year we are forecasting a £290k saving against the budgeted expenditure. This reduction has been included in the revised medium-term forecasts.

Spending Review (SR)

- 3.2.5 The Government was due to consult on a settlement over the summer during 2022, and this had been announced as a two-year proposal. However, this did not proceed due to the unusual economic conditions.
- 3.2.6 No indication has been given on this year's settlement, and it is considered likely that a one-year settlement will be provided again, providing no medium-term certainty for the council to set its budgets upon.

Fair Funding Review (FFR)

- 3.2.7 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 was delayed, and although we have heard that work has started on this, no indicative timeframes have been given by the government and it is considered unlikely it would take place for 2024/25.

Reforming Business Rates Retention (RBRR)

- 3.2.8 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.
- 3.2.9 The reform looked at several 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.
- 3.2.10 However, the government then announced that the 75% business rates retention system would not be implemented in 2021/22 and was then delayed until at least 2023/24.
- 3.2.11 There is still no clear indication of when this will take place. For 2023/24, the government confirmed a business rates reset would not take place for 2023/24 or 2024/25, which does indicate that a change to the overall system is unlikely during this period also.
- 3.2.12 Welwyn Hatfield Borough Council is not in a Business Rates Pool in 2023/24, and based on recent modelling has not been selected for pooling in 2024/25.
- 3.2.13 Based on the government announcements, the MTF5 includes assumptions that the reset will take place in 2025/26 and includes an assumption for a one year transitional protection grant of £600k in that year.
- 3.2.14 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.

Business Rates Multiplier Changes

3.2.15 A paper has been produced by the Government on potential changes to the way the business rates multiplier is set, and if agreed, provide more flexibility for ministers around setting multipliers including increasing multipliers by different inflationary rates, and for different regions, business types and other factors.

3.2.16 These changes would likely further complicate an already complex system, and it is unclear how this would impact on the business rates retention system and amount retained by the Council.

3.2.17 This is only an indicative paper on the direction of where government policy may be heading, although it does suggest possible changes for the 2024/25 year. This will be monitored closely and more work will be undertaken on potential impacts as more detail becomes available.

New Homes Bonus Reform and Other Government Grants

3.2.18 The MTFS assumes the last year of legacy payments associated with prior years was in 2023/24, and that there is no further funding from 2024/25.

3.2.19 An additional funding guarantee grant was provided to councils in 2023/24. Whilst no commitment has been made to continue paying this, the assumption has been made that this funding will remain in the local government allocation, and that the council will receive a similar funding level for 2024/25.

Council Tax Referendum Limits

3.2.20 The 2023/24 Council Tax Referendum Limits for district councils were set at the higher of £5 or 3%. It is unknown at this stage what the referendum limits would be for future years, but our MTFS currently assumes an annual 3% council tax increase for 2024/25, £5 in 2025/26 and 1.5% in 2026/27.

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 below chief officer grade, which equates to an average increase of around 6% for the council. The 2022/23 budget assumed a 3.5% pay award. The latest forecasts have been increased to assume the pay award will now be £1,925 for 2023/24.

3.2.23 National changes to living wage, and any further changes to local government pay scales agreed nationally (such as the removal of lower bands) may also impact on the council.

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.

3.2.25 These forecasts illustrate 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 2023 for comparison.

	2024/25 £m	2025/26 £m	2026/27 £m
Budget gap - Upside risk	1.837	3.888	4.930
Budget gap - Standard Approach	2.509	4.545	5.925
Budget gap - Downside risk	3.796	6.289	7.590
Budget gap (February 2023)	2.125	4.335	5.730

3.2.29 The budget gap for 2024/25 identified using the standard approach is £2.509m, compared to £2.125m identified in February 2023. However, the gap could range between £1.837m and £3.796m depending on inflationary changes and government funding decisions. The budget gap for the three-year position could be between £4.930m and £7.590m.

3.2.30 It is important to note that there are still risks which could make these scenarios worse, including ongoing reductions to Campus West income and 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 2024/25 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 2022/23 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 2024/25 budget setting process

start by adopting the following principles:

- Review the Policy on Reserves and Balances to ensure that it supports the delivery of the corporate priorities and the council's transformation agenda.
- Budget growth (including one-off growth) should be the last resort and they are primarily reserved for invest to save projects.
- Statutory and public facing 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 this area.
- 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 2024/25.

3.3.7 The Council has recently run a a community survey and the results of this are currently being analysed. This survey included questions aimed at seeking communities views on the high level options available to the council to balance the budget.

3.3.8 The results in relation to the financial aspects of the survey, will be presented to the budget task and finish group, and to Cabinet. This will assist in any changes that may be required to the budget principles, and which savings options may be prioritised.

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 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.

3.5 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 2023/24 to 2027/28.
- 3.5.3 Although there are some schemes expected to be re-phased from 2023/24, 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, however there has been a reduction of the number of applications progressed this year, believed to be due to cost of living pressures on residents and higher borrowing rates. 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. Increasing borrowing rates have meant additional pressures are forecast on the General Fund. This will need to be considered in the longer-term context and will form part of the 2024/25 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 consider 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 2024 together with overall proposals for the Council's budget, alongside the annual business plan for 2024/25.

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 behavioural change arising from the pandemic, and it now considered these are likely to be ongoing, affecting mostly parking and leisure. The national cost of living and inflationary increases have had significant effects on the Council's budget and the market remains volatile. 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, and as such sensitivity analysis has been completed to give indicative ranges the gap may be between, if there are sudden swings in inflationary and interest rates.

5 Security & Terrorism Implications

- 5.1 There are no direct 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 2024.

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 direct 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 There are no direct human resources implications arising from this report.

13 Communications and Engagement

13.1 Part of the 2024/25 budget communication and engagement plan includes engaging with all members early and a budget seminar will be delivered, open to all Members to attend. The Overview and Scrutiny Committee (OSC) has agreed to establish a budget Task and Finish Panel, which will meet frequently and report its recommendations through OSC, Cabinet and Council. Engagement with community has commenced as part of the community survey, and details are being collected in order to be able to consult on specific budget proposals if required. Consultation with 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.

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Date 27 September 2023

Appendix A – General Fund Medium Term Forecasts

	2023/24	2023/24	2024/25	2025/26	2026/27
	budget £m	Q1 forecast £m	forecast £m	forecast £m	forecast £m
Employees	15.783	15.519	16.595	17.159	17.669
Premises	5.426	5.481	5.338	5.521	5.682
Transport	0.047	0.043	0.049	0.050	0.051
Third Party Payments	13.540	12.296	13.687	14.030	14.254
Transfer Payments	27.607	27.607	27.607	27.607	27.607
Supplies and Services	4.610	4.865	4.574	4.677	4.758
Income	(46.001)	(43.799)	(45.173)	(45.497)	(45.762)
Recharge to the HRA	(6.243)	(6.298)	(6.607)	(6.772)	(6.881)
Cumulative Savings	0	0	0	(2.509)	(4.545)
Net cost of Services	14.769	15.714	16.069	14.265	12.833
Income from Council Tax	(12.152)	(12.152)	(12.638)	(13.049)	(13.375)
Business Rates Income	(3.950)	(3.950)	(4.069)	(3.000)	(3.090)
Plus/Less collection fund deficit/(surplus)	2.579	2.579	0	0	0
Estimate for transitional protections	0	0	0	(0.600)	0
New Homes Bonus Grant	(0.288)	(0.288)	0	0	0
Revenue Support Grant	(0.141)	(0.141)	(0.150)	0	0
Funding and Services Grants	(0.729)	(0.729)	(0.616)	0	0
Less Interest & Investment Income	(0.200)	(0.240)	(0.200)	(0.130)	(0.130)
Plus capital financing - MRP, finance Leases and interest payable	2.134	2.134	2.636	2.769	2.807
Parish Precepts	2.031	2.031	2.112	2.181	2.238
Contribution (from) / to Earmarked Reserves	(3.436)	(3.436)	(0.635)	(0.400)	0
Contribution (from) / to Working Balances	0	0	0	0	0
In Year Savings Requirement	0.614	1.522	2.509	2.036	1.380
Cumulative Savings Requirement			2.509	4.545	5.925

GF Reserve if gap not met	2023/24	2023/24	2024/25	2025/26	2026/27
	budget £m	Q1 forecast £m	forecast £m	forecast £m	forecast £m
Opening Balance	6.785	6.785	5.625	2.756	(1.789)
Planned Use	(0.614)	(0.614)	(2.509)	(4.545)	(5.925)
Known pressures at Q1 2022/23		(0.906)			
Closing Balance	6.171	5.265	2.756	(1.789)	(7.714)

Appendix B – Housing Revenue Account Medium Term Forecasts

	2023/24 Budget £'000	2024/25 Forecast £'000	2025/26 Forecast £'000
Income			
Rental Income	(55,920)	(59,583)	(52,537)
Non Dwelling Rents	(435)	(451)	(465)
Charges for Services and Facilities	(3,412)	(3,633)	(3,769)
Other Income	(269)	(285)	(294)
Total Income	(60,036)	(63,953)	(67,065)
Expenditure			
Repairs and Maintenance	11,844	12,383	12,922
Management, Special Service and Rates/Taxes	18,029	18,287	18,892
Allowance for Doubtful Debt	490	565	602
Depreciation	16,602	17,470	17,911
Other Expenditure	18	31	32
Total Revenue Expenditure	46,983	48,736	50,539
Other Items of Income and Expense			
Interest Payable	8,120	10,927	12,760
Interest Received	(78)	(147)	(141)
Revenue Contribution to Capital	4,769	4,241	3,391
Net (surplus)/deficit	(242)	(196)	(155)

	2023/24 Budget £'000	2024/25 Forecast £'000	2025/26 Forecast £'000
HRA Reserves			
Opening HRA Balance	2,759	3,001	3,197
Net (deficit)/surplus	242	196	155
Closing HRA Balance	3,001	3,197	3,353