

REPORT TO: CABINET

DATE: 27 JANUARY 2022

TITLE: MEDIUM TERM FINANCIAL STRATEGY 2022/23 – 2024/25

PORTFOLIO HOLDER: COUNCILLOR JAMES LEPPARD, PORTFOLIO HOLDER FOR FINANCE

LEAD OFFICER: SENIOR MANAGEMENT BOARD (01279) 446004
SIMON FREEMAN, DEPUTY TO THE CHIEF EXECUTIVE AND DIRECTOR OF FINANCE (01279) 446228

This is a Key Decision

It is on the Forward Plan as Decision Number I012620

The decision is not subject to Call-in Procedures for the following reason:

The decision stands as a recommendation to Full Council

This decision will affect no ward specifically.

RECOMMENDED that Cabinet recommends to Full Council that:

- A** The Medium Term Financial Strategy for 2022/23 to 2024/25 (attached as appendix B to the report) is adopted.
- B** The planned Council Tax (HDC element) 0 percent increase for 2022/23 as set out in the Medium Term Financial Plan be approved.
- C** That the proposals regarding the Council's Reserves as set out in paragraphs 5(c) and 22 - 35 of the report are agreed resulting in the release of £1,355,000 from reserves in 2022/23 to provide £993,000 funding for the proposed efficiency dividend set out in the General fund budget report elsewhere on the Cabinet agenda and to create a new Estates Renewal Fund of £363,000.
- D** That the New Homes Bonus for 2022/23 totalling £1.165 million, is applied to part fund the efficiency dividend (£830,000) and to also increase the Budget Resilience Reserve (£335,000) which in turn will be applied to support the proposals relating to 0 percent council tax increases (HDC element) in 2023/24 and 2024/25
- E** That subject to recommendations C and D being approved an efficiency dividend of £50 per eligible property be approved as a one off arrangement for the 2022/23 financial year.
- F** That in respect of the Harlow Council element, the MTFs includes plans for a 0 percent council tax increases in 2023/4 and 2024/5.

REASON FOR DECISION

- A** To enable Cabinet to consider the current factors influencing the three year Medium Term Financial Plan and agree the financial strategy for the period 2022/23 to 2024/25 in support of the overall financial plans of the Council over that period and the delivery of its priorities.
- B** To set out a commitment to manage the Harlow element of the annual Council Tax level such that a balance is maintained between:
- The themes and objectives set out in the Council's new Corporate Strategy
 - The funding to support the delivery of those themes and objectives.
 - The ambition to become a low tax authority and to reduce the tax burden on local residents in relation to the local share of Council Tax.
 - The need to set out a sustainable budget plan within this Medium Term Financial Strategy.
- C** Harlow has comparatively high Council Tax when compared with other authorities in the region and new towns in Southern England as shown in Table 1 below

Table 1

Authority -	2021/22 Band D Council Tax
	£
East Hertfordshire	258.33
Harlow	288.90
Epping Forest	224.14
Stevenage	220.57
Basildon	286.75
Chelmsford	243.88
Dacorum	228.40
Brentwood	211.79
Broxbourne	143.24

Note : the above is the total District Council element levied including the average parish and other local precepts where applicable.

BACKGROUND

1. The Medium Term Financial Strategy (MTFS) provides the parameters for the Council's revenue spending and capital investment plans for the next three years. The revision of the MTFS has incorporated the one year funding announcements made by the Government for 2022/23 and has made assumptions regarding subsequent years in the absence of any longer term guaranteed funding deal. The MTFS has also had to make assumptions in

relation to the medium term impacts of the national Covid-19 crisis, which continues to create budgetary issues as the pandemic continues.

2. There are a number of key issues which could impact on the plans set out in this report over the three year planning period including:
 - a) The medium term impacts of the Covid crisis which continue to impact the council, particularly in respect of reduced income;
 - b) The uncertainty regarding the Government's intentions regarding public sector funding, which has again seen just a one year financial settlement, and no longer term indications to provide clarity for planning purposes;
 - c) Potential inflationary pressures expected in 2022/23 and the possibilities of future interest rate rises impacting on future debt financing costs;
 - d) Any further Government interventions in rent setting policy in the future; and
 - e) Uncertainty regarding the ongoing welfare reform process and the roll out of Universal Credit full service by managed migration by 2023. It is still difficult to predict the financial costs, the community and social impacts and the future losses to the council as a result of the migration.
3. The MTFs is informed by, and consistent with the Council's Corporate Strategy which was approved at Council on 9 December 2021. The four key strategic themes set out in the Corporate Strategy are as follows:
 1. Economic Growth;
 2. Social Cohesion;
 3. Safeguarding the Environment; and
 4. An Efficient Council.

ISSUES/PROPOSALS

Proposed amendments to the previously approved MTFs (February 2019)

4. Proposed changes in key assumptions underpinning the financial forecasts are set out in Appendix A to this report, and mainly relate to changes at a national level, or the content of the draft Local Government Finance Settlement announced on 16 December 2021.
5. Proposed key amendments to the Strategy are set out below:

- a) In light of the significant impacts of the Covid-19 crisis it is recognised that there may be further calls on the Budget Resilience Reserve and potentially in future years dependent on recovery and the local economic impacts;
- b) The planning period covered by the MTFS remains restricted to three years; and
- c) Changes are made to the reserves as set out in Table 2 below following a detailed and prudent review of the reserves.

Table 2

Reserve	March 2018	March 2019	March 2020	March 2021	F'cast March 2022	P'sed April 2022	Funds Avail
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Discretionary Services Fund	1,549	1,463	1,678	2,304	2,945	2,445	500
HB Subsidy Reserve	536	693	693	693	693	500	193
Invest to Save Reserve	243	226	229	230	231	105	126
Planning Reserve	133	382	215	165	165	65	100
Residual Land Transfer Reserve	131	131	131	131	131	0	131
Severance Reserve	1,927	2,120	2,120	2,120	1,120	865	255
Standards Committee Reserve	50	50	50	50	50	0	50
Total Reserves Released							1,355
Use of New Homes Bonus							830
Total Funding Available for Efficiency Dividend							2,185

- d)) No further tax increases are proposed on the Harlow Council element of Council Tax for the years 2023/24 and 2024/25. The overall benefit to taxpayers is estimated as per Table 3 below:

Table 3

Proposed Efficiency Dividend 2022/23	£50.00
Removal of Original proposed increase 2022/23	£5.75
Zero Increase 2023/24	£5.86
Zero Increase 2024/25	£5.98
Total change from new assumptions/proposals	£67.59

- e) Alignment of the MTFs to the new corporate themes set out in the new Corporate Strategy especially around efficiency, regeneration, commercialisation and reducing reliance upon core government funding in future years.
6. Aligned to the amendments above the key areas of work that will be undertaken to inform the MTFs and its development to support the wider deliver of the Corporate Strategy Themes and objectives may include –
- a) Review of “best practice” across similar organisations and consideration of further shared service activity to improve efficiency.
 - b) Options appraisal of investment and debt financing to both yield higher returns where possible within the boundaries of the Treasury Management Strategy and to best support the Regeneration aspirations through innovative market driven financial structures where appropriate.
 - c) Support from and more active involvement through the Shareholder Sub Committee in the review of the current HTS Service Agreement and relationship with HTS to achieve operational and financial efficiencies and improved service standards including the appointment of professional Non-Executive Directors.
 - d) Development of the new HTS Business Plan and the expansion and development of new market opportunities consistent with the commercialisation ambitions.
 - e) The development of the Regeneration aspirations to include the detailed plans to deliver the initial Towns Plan funded schemes and the wider town centre regeneration and estates renewal initiatives. Early elements of this work are already contained within the 2022/23 -2024/25 Capital Programme and earmarked resources are already held to assist in the pump priming of such initiatives.
 - f) Bring forward the comprehensive New Build Programme in March 2022 to detail the proposed new housing schemes.
7. The resulting General Fund Medium Term Financial Plan (MTFP) set out in Appendix E shows that, subject to the assumptions that have been made, the

Council is able to deliver a balanced General Fund budget for 2022/23 with no ongoing dependency on reserves.

8. In the absence of any assurances that local growth in business rates will compensate for the overall reduction in the Council's Settlement Funding Assessment (SFA), whilst the protection of services cannot be guaranteed in future years the expected growth in commercialisation coupled with the planned expansion of the HTS Group activities is expected to help minimise this risk.

Council Tax Levels

9. The MTFS forms a key planning tool for budget setting purposes. Economic indicator forecasts set out in Table 4 below are based upon HM Treasury's Forecasts for the UK Economy and provided by its treasury management advisors Arlingclose.

Table 4 – Forecasted Levels of Inflation

Index	Apr 21	Sep 21	2022
CPI	1.5	3.1	3.1
RPI	2.9	4.9	4.3

The Localism Act introduces the need to hold local referendums in relation to Council Tax increases if those increases are above the limits set by the Government. The Secretary of State announced in the draft finance settlement that the limit on Council Tax increases for 2022/23 will be two per cent or £5 (whichever is the greater) before a requirement to hold a local referendum would be triggered. There will be no requirement to test the 2022/23 budget proposals against this requirement as the MTFS contains proposals that include a Council Tax (Harlow Council element) 0 percent increase in 2022/23, 2023/4 and 2024/5.

CURRENT ISSUES INFLUENCING THE MTFS

COPORATE STRATEGY

10. The Council's new Corporate Strategy adopted in December 2021 sets out an ambitious vision to 'make Harlow the best town in the country' with four key pillars:
 1. Economic Growth;
 2. Social Cohesion;
 3. Safeguarding the Environment; and
 4. An Efficient Council.

The change in direction set out in the Corporate Strategy presents significant influence on and alignment to the MTFS. In order to meet the ambitions set out in the Corporate Strategy, particularly around regeneration, estate renewal and Council efficiencies new and innovative financing methods are likely to be required.

The Comprehensive Spending Review

11. The Government's Comprehensive Spending Review (CSR) process has made significant reductions to the financial settlement for council's. At a local level the Council has seen reductions in its grant as shown below.

Table 3 – Grant Reduction Levels

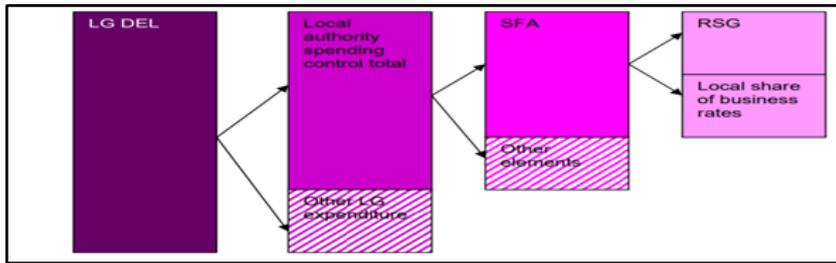
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Grant Reduction	14.6%	13.7%	14.2%	15.9%	10.1%	3.5%	(1.6)%

12. The draft settlement released on 16 December 2021 was broadly aligned to previous MTFS assumptions and confirmed that the impact of falling in to a negative Revenue Support Grant scenario (which the Council did) has been met within the settlement and has therefore once again removed this potential pressure for 2022/23. However, the risk of reduced income from the collection of business rates remains an issue and as such, a medium term priority is to ensure that sustainable budgets can be delivered in future years with efficiency gains and increased commercialisation intended to reduce the Council's dependency on retained Business Rates and Council Tax. The Governments one year deal draft settlement adds impetus to the Council's efficiency drive and commercialisation agenda in order to achieve savings and secure alternative revenue sources.
13. The proposals contained within the MTFS and the General Fund Revenue Budget 2022/23 report elsewhere on the Cabinet agenda will be sufficient, if agreed, to deliver a projected balanced budget for 2022/23 financial year.

Business Rate Retention (BRR)

14. The BRR Scheme has operated since 2013 and will increasingly feature as the core source of direct Government funding within SFA. The BRR Scheme was intended to see a simplification of Council funding arrangements and to incentivise Councils to encourage economic growth in their areas. The Council actively seeks to promote Harlow as a place to locate for new and expanding businesses. The new funding system still retains the RSG system within the SFA. The forward forecast of funding received through the RSG element of SFA has now reduced to a negative sum. As mentioned in paragraph 11 the Government has committed within the draft settlement to once again meet this cost through the central share of business rates.

Fig 1



15. BRR is not only more complex than had been envisaged and includes the transfer of risks to councils, but it also introduced the redistribution of significant proportions (50 per cent) of locally collected business rates directly back to the Government.
16. In the absence of primary legislation the Department for Leveling Up, Housing and Communities (DLUHC) are considering ways in which local government can be given greater control over their income and it is hoped that progress on these reforms will restart during 2022.

Business Rates Pooling

17. A business rates pool has operated within Essex during 2021/22. The major benefit of being in a pool is the reduced levy rate applied to the local business rates growth achieved in the year. It is anticipated that pooling and therefore the Essex pool will continue in to 2022/23 subject to any further information which may become available alongside the finance settlement. However the benefits of pooling may be impacted again in 2022/23 with ongoing impacts of Covid affecting the business rates payable and/or additional government reliefs being granted.

Welfare Reform

18. The Council continues to work hard to ensure minimal impact on local residents resulting from the introduction of the Local Council Tax Support Scheme (LCTSS) and the funding cut implemented by the Government is minimised as far as possible.
19. The Council has once again worked with the major precepting bodies to ensure that the Hardship Fund, established to support the most vulnerable within the local community, will continue in 2022/23. The Fund will be £155,000 for 2022/23. To provide as much stability as possible to those households impacted by the introduction of the LCTSS, the Council's scheme will again remain unchanged in 2022/23, as agreed by Full Council at its meeting on 9 December 2021.

The Economic Conditions

20. The current economic situation continues to be volatile and unpredictable at the time of planning the 2022/23 budget. The impacts of Covid-19 and the ongoing crisis that has materialised following the first national lockdown in March 2020 have had a variety of impacts on the Councils financial position including –
- a) Increased and unpredictable volatility in income streams, including business rates, council tax and housing rents during 2021/22. This is also an ongoing issue in 2022/23;
 - b) The Council's budgets, particularly its income budgets, will be susceptible to variation over the period of the MTFs; and
 - c) Further expenditure pressures are also likely.
21. Notwithstanding the above, sound financial management has ensured that the overall budget has remained, and is projected to remain under control. Updates will continue to be reported to Cabinet on a quarterly basis.

Reserves

22. A key aspect to the management of risk and service transformation or transition is to establish appropriate and effective reserves to help the Council work through funding and other changes in a planned and manageable way.
23. Several services supported by the Discretionary Services Fund (DSF) have reverted to core funding including the Playhouse, Pets Corner and the Community Safety Team. This programme of returning services to core funding will continue in future years subject to the ability to contain the costs within the general fund budget without the need for other service cuts. It is intended that by promoting local economic growth, focussing on new revenue generating opportunities through commercialisation and efficiency gains that further services will be returned to core funding.
24. In terms of responding to Covid-19 and its impacts locally the provisional local government settlement has introduced further support for 2022/23:
- a) An extension for a further year of funding for lower tier authorities “Lower Tier Services Grant” which will provide one off funding in 2022/23 of £139,873 for Harlow.
 - b) The Government’s new element to the draft finance settlement called the “Services Grant” Nationally this totals £0.8 billion and for Harlow its local share for 2022/23 only will be £214,960.
25. The above funding has been incorporated as one off grants in to the MTFs to help support the 2022/23 budget position.

26. The Council currently holds a Budget Resilience Reserve; with a current balance of £1.3 million to help support the general fund manage the volatility specifically created by the Covid crisis. It is expected that funding of approximately £1 million will be available from the reserve to again help with any budget volatility that may be experienced during 2022/23. The reserve will also provide resilience whilst the council better develops its understanding of the medium to long term impacts of Covid on the local economy and residents' behaviour moving forward.
27. An additional contribution of £335,000 will also be made to the Budget Resilience Reserve from the 2022/23 allocation of New Homes Bonus in order to help manage the delivery of the proposed 0 percent council tax increase (Harlow Council element) over the period of the MTFs.
28. Good financial management across all services has meant that the Council was able to take advantage of utilising its General Fund balance to help finance the Council's pension fund deficit payments in advance for 2020/21, 2021/22 and 2022/23. This has enabled significant savings to be achieved across the three financial years and for the General Fund balance to be restored over the same period to a level in excess of its minimum recommended level. Given the current economic environment the General Fund balance will be at or around £4 million, sufficient to manage any long term impacts of Covid-19 and/or the transitional phase of the proposed new finance system for local government.
29. As is good financial practice, a review of all reserves has been carried out during the current financial year both in terms of the requirements for which the reserves are held and the level at which they are maintained. As a result of this review the changes set out earlier in the report at Table 2 are proposed.
30. The review has made available £1,355,000 of one off resources for 2022/23 with no service impacts and no ongoing financial implications.
31. Of this £993,000 will be used as a contribution towards the proposed Efficiency Dividend
32. A new fund will also be established – Estate Renewal Fund utilising £362,000 of the released reserve funding to help target priority issues within the housing areas across Harlow.
33. Further details are set out in the General Fund Budget report.
34. As part of the revision of the MTFP and in light of changes introduced through the Localism Act 2011 this report proposes:
 - a) The receipt of New Homes Bonus payments from the Government will not be utilised to provide direct ongoing support to the general fund budget given the uncertainty of its future availability beyond the proposal to contribute £335,000 to the Budget Resilience Reserve.
 - b) The General Fund Reserve minimum balance being maintained at £2.5 million to enable the Council to manage future short term volatility in

resources. Notwithstanding, it is recommended that the actual balance is maintained above this minimum to enable the Council to operate flexibly and manage its risks without contravening the minimum level, especially during the period of major uncertainty over the next two to three years.

35. Cabinet should be aware of the considerable potential pressures on the uncommitted level of reserves as follows:
- a) The possible fluctuations in Council Tax and rent income as a result of the ongoing impacts of the Covid-19 crisis and employment in the local economy;
 - b) The ongoing risks associated with the new grant mechanisms and the volatility which could be experienced in core funding as a result. Although membership of the Essex business rates pool will reduce the levy rate paid there is a risk to all councils in that pool should there be further delay in the economic recovery or should further national or local restrictions be placed on businesses.
 - c) The need to be able to finance one-off expenditure from reserves should the need arise.

Capital

36. A three year projection of capital expenditure and capital financing is set out at Appendix C. The funding projections reflect a prudent assessment of asset sales which will help support the programme and help meet the repayment of internal borrowing which has been undertaken. Asset sales are forecast to continue during 2022/23 but they will be insufficient to support the Non-Housing Capital Programme. The Council's MTFS includes a revenue provision sufficient to fund external borrowing of £3 million per annum. The Non-Housing Capital Programme continues to be developed within the available funding envelope which includes capital receipts, borrowing and any external funding that may be available to support specific schemes.
37. The Housing Capital Programme had been developed in light of the increased funding and flexibilities offered as a result of the introduction of self-financing as well as the more recent lifting of the HRA borrowing cap. The Government's imposition of the annual one percent rent reduction across the four financial years 2016/17 to 2019/20 has had a major impact on the account and the council's position in relation to the repayment of debt which is now unlikely to be achievable and options are expected to be limited to replacement of the debt as it matures rather than its repayment..
38. The capital programme is particularly focussed on the delivery of the key ambitions set out within the new Corporate Strategy across each of the portfolio areas and includes:

- a) Harlow Innovation Park - continued investment to help stimulate better skilled and higher paid employment opportunities for Harlow residents and attract high-quality businesses;
- b) Towns Fund - delivering key schemes totalling over £20 million over the MTFs Period that will provide seed capital to enhance and regenerate the Town Centre;
- c) Harlow Investment Fund - £5 million contributions to the Harlow Investment Fund that will act to stimulate the wider town centre regeneration;
- d) Energy Efficiency Schemes - schemes within the Councils own housing stock and property portfolio to help reduce fuel poverty and help meet the Council's climate targets;
- e) Housing Standards - preserving the level of investment required to maintain decency standards across the Council's social housing stock;
- f) Social and Affordable Housing – A New Build Programme to provide much needed housing for Harlow families will be reported to Cabinet in March 2022 in order to meet the Corporate Strategy ambition of building new homes; and
- g) Tree Planting - Expanding the tree planting schemes across the town with £250,000 currently earmarked to support the programme which will contribute towards the delivery of the Council's Carbon Reduction Plan and will introduce the most appropriate species in to the town's environment.

Conclusions

- 39. The proposed MTFs provides a sound basis for financial planning and management, creating the context for the delivery of the Corporate Strategy, its ambitions in the short to medium term and the formulation of the Council's annual Housing, General Fund and Capital budgets.
- 40. The MTFs will continue to be reviewed at least annually alongside the annual refresh of the Corporate Strategy.

IMPLICATIONS

Strategic Growth and Regeneration

As contained within the report.

Author: Andrew Bramidge, Director of Strategic Growth and Regeneration.

Finance

The MTFs is a key component in the efficient and effective management of the Council's financial resources. Financial implications are contained within the report.

Author: Simon Freeman, Deputy to the Chief Executive and Director of Finance

Housing

None specific. Housing finance changes are covered fully in the report Housing Revenue Account Budget and Housing Revenue Account Business Plan elsewhere on the Cabinet Agenda.

Author: Andrew Murray, Director of Housing

Communities and Environment

None specific.

Author: Jane Greer, Director of Communities and Environment

Governance

The General Fund Revenue Budget 2022/23 report elsewhere on the Cabinet agenda details the main human resource implications associated with the proposed Council budget. Subsequent years will be addressed in a similar way at the time.

Author: Simon Hill, Director of Governance and Corporate Services

Appendices

Appendix A – Changes to the MTFS assumptions

Appendix B – Harlow Council's Medium Term Financial Strategy 2022/23 to 2024/25

Appendix C – Capital Programme Medium Term Financial Plan (MTFP) 2022/23 – 2024/25

Appendix D – Housing Revenue Account Medium Term Financial Plan (MTFP) 2022/23 – 2024/25

Appendix E – General Fund MTFP 2022/23 – 2024/25

Background Papers

None.

Glossary of terms/abbreviations used

BRR – Business Rates Retention

CSR – Comprehensive Spending Review carried out by the Government in relation to the local government funding arrangements

DLUCH – Department for Levelling Up, Communities and Housing

DSF – Discretionary Services Fund

HRA – Housing Revenue Account

LDF – Local Development Framework

LCTSS – Local Council Tax Support Scheme.

MTFP – Medium Term Financial Plan is the General Fund budget projections over the 5 year period of the MTFS)

MHCLG – Ministry for Housing, Communities and Local Government

MTFS – Medium Term Financial Strategy is the full financial plan across five years that considers the General Fund, HRA and Capital budgets

MRP – Minimum Revenue Provision

RSG – Revenue Support Grant

SFA – Settlement Funding Assessment