

REPORT TO: CABINET

DATE: 16 FEBRUARY 2023

TITLE: MEDIUM TERM FINANCIAL STRATEGY 2023/24 – 2025/26

PORTFOLIO HOLDER: COUNCILLOR JAMES LEPPARD, PORTFOLIO HOLDER FOR FINANCE

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

This is a Key Decision

It is on the Forward Plan as Decision Number I013862

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 General Fund element of Medium Term Financial Strategy for 2023/24 to 2025/26 (attached as appendix B to the report) is adopted.
- B** The Housing Revenue Account (HRA) element of the Medium Term Financial Strategy for 2023/24 to 2025/26 (as attached as Appendix C to the report) is adopted.
- C** The planned Council Tax freeze for 2023/24 for the Harlow Council element of the 2023/24 Council Tax demand is approved.
- D** That the anticipated New Homes Bonus for 2023/24 of £572,205 be used to increase the funds available within the Budget Stabilisation Reserve to a projected balance of £1.35million when combined with other proposals set out in this and the General Fund Budget report.
- E** That movements in reserves set out in the report are approved.

REASON FOR DECISION

- A** To provide an updated financial position for the Council allowing Cabinet to consider the implications and potential options available and provide strategic direction in the preparation and presentation of proposal for the balanced draft

budget for 2023/24 in support of the overall financial plans of the Council and the delivery of its priorities.

- B** To continue to deliver the commitment to manage Harlow's element of the annual Council Tax demand and to become a low tax authority.

BACKGROUND

1. The Medium Term Financial Strategy (MTFS) was approved in January 2022 as part of the overall suite of reports which ultimately resulted in the setting of both the Harlow element of the Council Tax and the Housing Revenue Account (HRA) rent levels for 2022/23 financial year. The strategy currently provides the parameters for the Council's revenue spending and capital investment plans for the next three years.
2. This revision of the MTFS incorporates the significant local, national and worldwide economic factors that are having a major impact on the financial planning activities for the Council in the short and medium term.
3. These factors include:
 - 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 sees a one year financial settlement announcement and a lack of any longer term indications to provide clarity for planning purposes;
 - c) Significant inflationary pressures expected in 2023/24 and 2024/25 coupled with interest rate rises impacting on future debt financing costs.
 - d) The Governments further intervention in rent setting policy for 2023/24 and possibly 2024/25.
4. The MTFS is informed by and aligned to 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:
 - a) Economic Growth;
 - b) Social Cohesion;
 - c) Safeguarding the Environment; and
 - d) An Efficient Council.

ISSUES/PROPOSALS

Proposed amendments to the previously approved MTFS (February 2022)

General Fund

5. Proposed changes in key assumptions underpinning the financial forecasts mainly relate to changes at a national level.
6. Proposed key amendments to the Strategy are set out below:
 - a) Reflection of the significant inflationary pressures being faced by the Council in the costs of service delivery and general running costs of services (Appendix A sets out the key budgetary parameters applied in the budget development for 2023/24)
 - b) In light of the significant impacts of the Covid-19 crisis it is recognised that there may be further budgetary impacts across the period of the MTFS dependent on local recovery and the local economic impacts.
 - c) The planning period covered by the MTFS remains restricted to three years.
 - d) 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 wherever possible.
7. Aligned to the amendments above the key areas of work that will be undertaken to inform the MTFS and its development moving forward 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. This work will be largely aligned to the work taking place across the North Essex authorities group during 2023/24.
 - 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) A number of independent reviews of HTS have been undertaken and will lead to significant changes in the governance, Service Agreement and Business Plan of HTS.
 - d) The development of the Regeneration aspirations to include the detailed plans to deliver the initial Towns Fund and Levelling Up Fund schemes coupled with the wider town centre regeneration and estates renewal initiatives.

- e) The delivery of new council homes through the comprehensive New Build Programme as set out in reports earlier in the 2022/23 year.
- 8. The resulting General Fund Medium Term Financial Strategy set out in Appendix B shows that, subject to the assumptions that have been made, a balanced General Fund Budget for 2023/24 can be delivered with no ongoing dependency on reserves. The proposals also enable further contributions to the Budget Stabilisation Reserve to be made to support any ongoing volatility that may arise due to factors beyond the council's control.
- 9. 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) the protection of services cannot be guaranteed in future years.
- 10. The Draft Council Tax Referendum Principles 2023/24 announced by the Secretary of State alongside the draft 2023/24 Local Government Finance Settlement announcement confirmed that the intention is to set a limit on council tax increases for 2023/24 at three per cent or £5 whichever is the greater. The proposal set out in this report and the General Fund Budget Report 2023/24 elsewhere on the agenda propose a council tax freeze (Zero per cent increase) and therefore the budget proposals will not require a referendum to be held. The Council remain committed to becoming a 'Low Tax' authority.

Housing Revenue Account (HRA)

- 11. The HRA is the Council's account which must capture the costs and the revenues required to fulfil its responsibilities as a provider of social rented housing.
- 12. The Council's Housing Revenue Account will be managed in line with the principles contained within the HRA Business Plan including:
 - a) The uncommitted HRA Working Balance must be maintained at or above a minimum level of £3.5 million.
 - b) In setting the following year's HRA budget there must not be any unidentified savings.
 - c) Rent levels will be set in line with Government guidelines and/or legislation, as appropriate and for 2023/24 this will be at the rent cap of 7 percent.
 - d) There must be sufficient investment in the housing stock to ensure that it is maintained in compliance with the housing regulatory requirements.
 - e) Fifty percent of the useable proceeds from Right-to-Buy sales will be used to fund the Non-Housing Capital Programme.

13. The HRA 30 Year Business Plan is set out elsewhere on the agenda and the Council's Housing Standards Board and Tenant and Leaseholder Panels will jointly monitor service delivery against the national housing standards regulated by the Social Housing Regulator and the reinvigorated Housing Regulator. It contains the short, medium and long term ambitions envisaged to achieve our aspirations for housing. Delivery plans for the landlord service will be aligned to these ambitions.
14. Financial projections for the HRA covering the period 2023/24 to 2025/26 are set out in Appendix C to this report.

Capital - Housing Revenue Account and General Fund

15. The Capital Programme plays a vital part in delivering the Corporate Strategy with the long-term investment provided through its delivery plays an essential role in realising the Council's ambitions for the district. The cost of the Capital Programme is normally spread over the lifetime of investments, so does not have such an immediate impact on the revenue budget position. However, there are revenue consequences to the Capital Programme.
16. In February 2022, the Council approved an overall Capital Programme of £161.6 million which included £88.1 million in respect of the HRA and £22.6m for the New Housebuilding Programme for the five-year period 2022/23 through to 2026/27. The detailed programme set out within the Capital Programme report has increased the allocation for the delivery of new houses to £34.8million.
17. The revised capital programme is the focus of a report elsewhere on the agenda but given the significant financial pressures faced by the Council outlined in this report the current priorities in the Capital Programme have been reviewed to ensure that the affordable levels of capital investment are being targeted at the highest priority areas across the Council's asset base, both Housing and Non Housing. The revised three year programme proposals set out in the Capital Programme report and summarised in Appendix D total an investment of over £137 million.
18. Linked to the MTFs and specifically the Council's capital plans are two further statutory strategies which will also be updated and are included in the Forward Plan for the February Cabinet meeting –
 - a) Capital Strategy – this is a mandatory requirement introduced by CIPFA's Prudential Code in 2017. It is a rolling three-year strategy that gives a high-level overview of how Capital Expenditure, Capital Financing and Treasury Management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. There will be some significant revisions to the Capital Strategy in 2023/24 to reflect the Chartered Institute of Finance and Accountancy's (CIPFA) updated Prudential Code released in late 2021; compliance will require some refinements to the current Prudential Indicators within the 2022/23 Strategy.

b) Treasury Management Strategy (TMS) – The successful identification, monitoring and control of financial risk is central to prudent financial management and the TMS is a key document, which helps to achieve that. The current – 2022/23 – TMS was prepared in accordance with CIPFA's Treasury Management Code (2017 Edition). However, CIPFA updated its Code in late 2021 (alongside the updated Prudential Code highlighted above), therefore – as with the Capital Strategy – some revisions will be required to the 2023/24 TMS to ensure compliance with the new Code.

19. Both strategies have been revised and are again featured elsewhere on the agenda. The summary of the Capital programme is presented at Appendix D to this report.

Conclusions

20. The preparation of the 2023/24 refresh of the MTFS is being conducted at what is the most difficult period in terms of financial uncertainty for many years. Prudent assumptions have been made in the forecasts presented in this report and supporting appendices such that the financial planning for the general fund, HRA and capital programme are affordable, realistic and deliverable.

21. 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.

22. The MTFS will continue to be reviewed at least annually alongside the annual refresh of the Corporate Strategy which is planned to take place during the autumn of 2023.

IMPLICATIONS

Strategic Growth and Regeneration

As contained within the report.

Author: Andrew Bramidge, Chief Executive

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 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 and Corporate Services

The General Fund Revenue Budget 2024/24 to be reported in February 2023 will detail the main human resource implications associated with the final proposed Council budget. Subsequent years will be addressed in a similar way at the time.

Author: Simon Hill, Director of Governance and Corporate Support

Appendices

Appendix A – Budget Parameters 2023-24

Appendix B - General Fund MTFS 2023/24 to 2025/26

Appendix C – Housing Revenue Account (HRA) MTFS 2023/24 to 2025/26

Appendix D – Capital MTFS 2023/24 – 2025/26

Background Papers

None.

Glossary of terms/abbreviations used

CIPFA – Chartered Institute of Public Finance and Accountancy.

HRA – Housing Revenue Account.

HTS – Harlow Trading Services Ltd.

MTFS – Medium Term Financial Strategy.

SFA – Settlement Funding Assessment.

TMS – Treasury Management Strategy.