



**Harlow Council**

***Medium Term Financial  
Strategy***

**2014/15 to 2018/19**

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## **MEDIUM TERM FINANCIAL STRATEGY**

### **1. KEY MESSAGES**

- 1.1 This document sets out the Council's approach to its medium term financial planning. It builds on and rolls forward the current Medium Term Financial Strategy (MTFS) agreed for the planning period 2013/14 to 2017/18 in February 2013.
- 1.2 The Council's current MTFS is underpinned by the following priorities:-
  - More and better housing.
  - Regeneration and a thriving economy
  - Wellbeing and Social Inclusion
  - A clean and green environment
  - Successful children and young people
- 1.3 In setting the following year's General Fund budget there must not be any "unidentified savings".
- 1.4 The General Fund finances must continue to be managed so that for the planning period commencing 1 April 2014:-
  - General Fund revenue reserves are maintained at or above a revised recommended minimum level of £2.5m in real terms with an aim to operate above this level to provide flexibility in managing the Councils budget throughout the year and over the MTFS planning period.
  - General Fund uncommitted revenue reserves are not used to support the budget except for funding one-off and exceptional items of expenditure.
  - Any increase in Council Tax shall be no greater than the Retail Prices Index excluding Mortgage Interest Payments (RPIX) or the maximum permissible under the Localism Act 2011 and announced annually by Government to prevent the need for local referendum, subject to amendment where circumstances dictate.
  - Revenue funds are reallocated from low to high priority areas as necessary.
- 1.5 The Council's Fees and Charges Policy forms part of its wider income strategy. An annual review of fees and charges will be carried out.
- 1.6 As required, the Council must continually seek to secure savings or introduce new ways of working to ensure it can deliver sustainable budget proposals in line with the MTFS and provide finance for investment in priority areas wherever possible.

- 1.7 The Medium Term Financial Plan, the General Fund element of the MTFs, produced at Appendix E is to be reviewed at least annually by the Cabinet.
- 1.8 Housing rent levels will vary as set out in the HRA Business Plan.
- 1.9 The uncommitted HRA reserve must be maintained at or above a minimum level of £2.5M.
- 1.10 In setting the following year's HRA budget there must not be any "unidentified savings".
- 1.11 The Capital Programme must align with the Council's priorities.
- 1.12 The Council will use prudent borrowing to fund its Housing Capital Programme if necessary.
- 1.13 The Council will use prudent borrowing to fund its Non Housing Capital Programme where such investment cannot be met from planned receipts from the sale of specific surplus non housing capital assets.
- 1.14 Unless approved by the Cabinet, it will be assumed that 50% of the proceeds from Right to Buy sales will be used to fund the Non Housing Capital Programme.
- 1.15 The Council will continually explore ways of securing additional sources of both revenue and capital income.
- 1.16 There must be sufficient investment in the housing stock to secure the Decent Homes Standard. Latest forecasts indicate the achievement of the Decent Homes Standard will be in 2015.
- 1.17 In view of the limited resources available for capital investment the Council will seek to dispose of surplus assets to help sustain ongoing capital investment and reduce revenue costs incurred by the Council wherever possible.
- 1.18 The total cost of the Capital Programme will not exceed a realistic and affordable assessment of the capital finance available to fund it.
- 1.21 The projects in the Capital Programme will cover a five-year planning horizon and will be reviewed at least annually to ensure that schemes within the programme continue to support the priorities of the Council.
- 1.22 The Council's investments must be kept under review in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council's Treasury Management Strategy places emphasis on minimisation of risk above interest return on investments i.e. the "return of capital" before "return on capital".

- 1.23 The Council will comply with the Treasury Management Code of Practice and Prudential Code. Borrowing undertaken to finance capital expenditure will be prudent and affordable in terms of the impact on the revenue budget.
- 1.24 The Council will seek to develop existing partnerships and forge new ones to achieve further benefits for the local area, particularly in its priority areas.
- 1.25 The Council will continue to evaluate and manage the financial risks it faces.

## **2. INTRODUCTION**

- 2.1 This document sets out the Council's approach to its strategic medium term financial planning and provides an operational framework for both Councillors and Officers to ensure economic, efficient and effective financial management by the Council on behalf of its residents, taxpayers and other stakeholders. It is a document that also identifies the processes that are used to link corporate priorities to resources and forecast the level of resources needed and available over a number of years.
- 2.2 The document links to the Council's other corporate and financial strategies, and in particular supports the following:-
  - a) The Council's Corporate Plan.
  - b) The Council's priority areas.
  - c) The prudential regime for capital finance in local government.
  - d) The Council's Asset Management Plans.
  - e) The Council's Service Plans.
- 2.3 The Council's strategic financial objective is to ensure access to sufficient financial resources, applied efficiently, effectively and economically to enable it to meet its corporate priorities and service objectives. The means for achieving this aim are set out in section 1 above.
- 2.4 Legislation requires Councils to distinguish between:-
  - a) Revenue and capital expenditure; and
  - b) Spending on council housing and spending on other services.
- 2.5 Revenue expenditure relates to the day-to-day running costs of services (salaries, heating, lighting, depreciation, etc.) whilst capital expenditure relates to money spent to acquire or improve assets that provide benefit, or that have a useful life, over a longer term (buildings,

vehicles, computer equipment, etc.). There is a legal definition of “expenditure for capital purposes” set out in s16 of the Local Government Act 2003.

- 2.6 All day-to-day expenditure and income related to the provision of housing is recorded in a separate account known as the Housing Revenue Account. Day-to day expenditure and income for all other services are recorded in the Council’s General Fund.
- 2.7 In 2014-15:
- a. The proposed net budget for General Fund services is £12.684million.
  - b. Total gross expenditure on the Housing Revenue Account will be £51.33million, which will be funded from rents, service charges and interest.
  - c. The Council’s total planned capital expenditure will be £29.942million, split between £26.549million allocated for housing and £3.393million allocated for other services.
- 2.8.1 There are major areas where Housing activity and finances interact with General Fund activity and finances:-
- a) The HRA is a user of support services from the rest of the Council for which appropriate charges are levied.
  - b) The allocation of investment and borrowing interest from the General fund to the HRA based on the net indebtedness position of the HRA.
  - c) Kier Harlow Ltd undertakes a wide range of work that impacts on these activities.
- 2.9 Capital expenditure is financed from capital receipts, capital grants, revenue contributions and long-term borrowing under the Prudential Code, in accordance with the Council’s treasury management and annual investment strategies. These are reviewed annually.
- 2.10 General Fund revenue expenditure is currently financed from:-
- a) Council Tax.
  - b) Fees and charges.
  - c) Formula Funding -Revenue Support Grant and retained Business Rate income.
  - d) Other specific and non-specific grants.
- 2.11 HRA revenue expenditure is mainly financed from:-
- a) Rents charged for Council dwellings and garages.
  - b) Charges made to leaseholders.

c) Investment income.

- 2.12 Revenue reserves are reviewed annually. The Council's policy is not to fund revenue expenditure from balances unless there are exceptional circumstances. Reserves may be used to fund "one-off" items of expenditure provided this does not impact on any of the other objectives of the MTFS.
- 2.13 Like all other Councils, in planning its finances, the Council recognises that there will be changes which will affect it financially, but over which it has little, or no, control. Some of those facing the Council in the medium term are:-
- a) Changes in interest rates.
  - b) Changes in Government grant.
  - c) Pay and price variations.
  - d) New, or changes to existing, legislation and changes to the operation of Government policy.
  - e) Rising pension costs.
  - f) Variations in asset disposal values and volumes.
  - g) Economic recession and the credit crunch.
  - h) Changes in European legislation (e.g. employment, housing, procurement, etc).
  - i) Price volatility e.g. energy prices.
- 2.14 The Council receives Government financial support towards its General Fund budget and Council tax through the Formula Grant mechanism.
- 2.15 The MTFS from 2014/15 and beyond incorporates a reduction in Formula Funding of 14.16% in 2014/15 and 16.43% in 2015/16 after adjusting for specific grants moving into Formula Funding in line with the announcements contained within the draft Local Government Finance Settlement made on 18 December 2013. These assumptions do not include growth in the local share of business rates at this time. An assumption has been made that Formula Funding will reduce by a further 10% in each of the remaining years covered by this MTFS. The financial forecasts will be reviewed during 2014/15 in light of the final Local Government Finance Settlement 2013 and the announcements relating to the national control totals which will influence the overall resources available through Formula Funding for future years of the MTFS.
- 2.16 Through the changes introduced as a result of the move to Formula funding and Business Rate Retention the Council carries the risk of the volatility in local business rates and will be reliant on the growth in the local economy for future increases in funding. This will be especially

important given the Government's retention of the RSG mechanism through which it will have the ability to restrict future Formula Funding if it so chooses as a method of reducing the national budget deficit. The table below reflects the impact on the Councils funding for variations in the start-up funding assessment across a range of possible increases/decreases -

	2014/15	2014/15	2014/15
	Baseline	Actual Funding	Funding Difference
	£'m	£'m	%
Baseline + 5%	5.899	6.354	7.7
Baseline + 2%	5.899	6.081	3.1
Baseline +1%	5.899	5.990	1.5
Baseline	5.899	5.899	0.0
Baseline - 1%	5.899	5.808	-1.5
Baseline – 2%	5.899	5.717	-3.1
Baseline – 5%	5.899	5.691	-3.5

The MTFs assumptions are based upon the Baseline funding scenario and therefore variations of +/- 1% against this baseline could increase or decrease available funding as set out in the table above in 2014/15.

- 2.17 During 2013/14, the first year of the new Business Rates Retention scheme, Harlow has experience significant variations in business rates income and as a result projections show that it has fallen below the safety net threshold and is likely to require safety net payments from the Government to cover the in-year losses. The impact is seen as a temporary one and has occurred in the main as a result of short term business rates reliefs that could not have been foreseen at the time of the NNDR1 return being made to Government in January 2013.

### **3. CAPITAL EXPENDITURE AND TREASURY MANAGEMENT**

- 3.1 Capital spending is essential to the successful delivery of the Council's priorities. The Council is, however, currently restrained by the limited availability of capital and revenue resources to finance capital spending. Under Government capital receipt pooling regulations 75% of sale of Council house capital receipts under Right to Buy, and 50% of other housing asset disposal capital receipts, have to be paid over to the Government "pool". The continuation of the pooling of RTB receipts was strongly challenged under the consultation process for Self financing but the Government did not change this aspect of the proposals in the final Self Financing regulations despite the debt underpinning the asset base was transferred to the Council in the March 2012 debt settlement.



### **3.2 Aims, Key priorities and Targets of Capital Expenditure.**

- 3.3 The projects in the Capital Programme (as summarised at Appendix C) help to meet the Council's priorities as set out in the Corporate Plan within available and affordable resources.
- 3.4 These priority areas are identified through consultation with the community, service users and customers. In particular, the HRA projects reflect the Council's decision to retain its housing stock and achieve the Decent Homes Standard by 2015 under the new Self Financing proposals.
- 3.5 The total planned cost of the Capital Programme must never exceed a realistic and affordable assessment of the capital finance available to fund it. The summary at Appendix C shows that the Non-Housing programmes will exceed current forecasts of Council finance available over the planning period. Where necessary, borrowing to fund the programme will be undertaken within the parameters agreed in the Council's Prudential Borrowing Strategy and as a result of declining receipts from the disposal of surplus assets the MTFP reflects the need to finance borrowing costs.

### **The Prudential Code**

- 3.6 The Local Government Act 2003 brought about a new statutory borrowing regime for councils known as The Prudential Code. This arrangement gives the Council much greater flexibility and freedom to borrow without Government consent than hitherto was the case, as long as it can afford to repay the amount borrowed.
- 3.7 The aim of the Code is to support Councils when making capital investment decisions, to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in line with the Council's Corporate Plan.
- 3.8 The Code prescribes a set of prudential indicators that must be used, and the factors that must be taken into account in order to show that the Council has fulfilled its objectives. They are not used to compare performance between Councils but to measure an individual Council's performance over a period of time.
- 3.9 The Code also lays down clear procedures for setting and revising the prudential indicators with the Council's Head of Finance responsible for ensuring that the Council has taken into account all matters specified in the Code, and for monitoring compliance with the established limits approved by the full Council before the start of each financial year. Prudential indicators relating to borrowing and investments are now contained within the revised Treasury Management Code of Practice, rather than the Prudential Code of Practice.

## Treasury Management

- 3.10 The Council has customarily considered and approved an annual Treasury Management Strategy Statement as required by the CIPFA Code of Practice on Treasury Management (revised December 2009). The Prudential Code referred to above introduced new requirements for the management and reporting of borrowing and investments.
- 3.11 The Council made provision to enter into borrowing to fund the Housing Capital Programme from 2008/09 onwards, and for the Non- Housing Capital Programme in 2008/09 and 2009/10, on a short term basis only, pending securing capital receipts from planned asset sales. The borrowing to fund the Non-Housing Capital Programme will be repaid in full once the capital receipts are realised. However, as a result of the reduced asset base available for disposal and the current market conditions it is anticipated that this position will not be sustainable. The MTFP therefore contains provision to finance borrowing of up to £2m per annum for non-housing capital investment in each year of the planning period. Limited short-term borrowing for cash flow purposes has also been authorised under the Code. Self financing for the HRA will enable the investment levels in the housing stock to be significantly increased and this is covered in more detail elsewhere on the Cabinet agenda.
- 3.12 An Annual Investment Strategy is drawn up as required under the Code. At present the Council has a considerable sum invested (£34.6m as at 30 December 2013 including £8.8m from the Growth Area Funding project). An indicative analysis of the investment balance is as follows:-

<b>Source of Investments</b>	
	<b>£m</b>
General Reserve	2.8
Earmarked Reserves	9.0
HRA Working Balance	3.5
Growth Area Funding Grant	8.8
Working Capital	10.5
<b>Total</b>	<b>34.6</b>

- 3.13 These investments are managed by the Council's own staff. The investments are managed so as to secure the best possible return with the minimum of associated risk.

## **4. REVENUE EXPENDITURE**

### **General Fund**

- 4.1 General Fund revenue expenditure is incurred on the day-to-day services the Council provides other than those provided through the HRA. Spend by the Council here falls into two main categories:-
- a) Statutory services which the Council is legally obliged to provide or commission, such as refuse collection.
  - b) Discretionary services i.e. those, which the Council is empowered but not legally obliged to provide or commission.

### **Housing Revenue Account.**

- 4.2 Revenue expenditure within the HRA is incurred on:-
- a) The day-to-day services provided in maintaining and managing the Council's housing stock.
  - b) Contributions towards capital expenditure that is not funded from usable capital receipts, or other capital funding sources.
- 4.3 The Housing Revenue Account Business Plan sets out the Council's priorities for its housing stock and reflects the changes which took place with effect from 1 April 2012 as the existing housing subsidy system was replaced by self financing. The priorities for the Council's housing in the town are driven by national, regional, sub regional and local housing priorities. They are also informed by the views and perspectives of stakeholders, especially tenants and leaseholders. In addition, local housing priorities are driven by the Local Plan, Community Plan and the Corporate Plan.
- 4.4 Details of the medium term financial planning and financial projections and outcomes are included in the HRA Business Plan. The HRA Business Plan also contains an action plan that sets out responsibilities and timescales for the delivery of the key housing priorities.
- 4.5 The MTFP continues to assume that the changes introduced for Housing Finance will be cost neutral for the general fund.
- 4.6 Financial projections for the HRA covering the period 2014/15 to 2018/19 are set out in the HRA Medium Term Financial Plan, attached at Appendix D.

## **5. RESERVES**

- 5.1 The Council's statutory financial officer, the Head of Finance, is required to consider the adequacy of reserves when the budget and council tax are set. This assessment distinguishes between committed or earmarked reserves and general or uncommitted reserves.

- 5.2 Levels of the Councils earmarked reserves are reviewed on an on-going basis as part of the annual budget process and through the preparation of the Council's Statement of Accounts
- 5.3 The minimum level of general or uncommitted reserves for the General Fund and HRA, as currently assessed by the Head of Finance, are to be £2.5million The projected level of actual uncommitted reserves balances held over the 5-year period of the MTFS are set out in the General Fund Medium Term Financial Plan at Appendix E, and the HRA financial plan at Appendix D, respectively.

## **6. GENERAL FUND MEDIUM TERM FINANCIAL PLAN 2014-2019**

- 6.1 A General Fund Medium Term Financial Plan (MTFP) is developed from this strategy on an annual basis. Rolling 5 year financial forecasts are prepared, based on the most up to date information available at the time. Like all other Councils, Harlow's financial position is dynamic and budgets need to be continually monitored to avoid significant under or overspendings.
- 6.2 The Council operates a budget monitoring system, which involves monthly reports to the Corporate Management Team and Portfolio Holder for Resources and Enterprise, and quarterly reporting to the Cabinet. The Council has tightened its fiscal policy in the light of the considerable challenges it faces over the medium-term. Accordingly, a key strategic financial objective within the MTFS is that annual Council Tax increases shall be no greater than RPIX or the Government prescribed limit. The revised MTFP at Appendix E shows the net reduction in General Fund expenditure over each of the next five years required to maintain a balanced budget. For illustrative purposes Appendix E is based on an assumed 1.49% per cent increase in Council Tax for 2014/15 and 1.5% in each subsequent year of the MTFS period to enable the impact of the Council Tax freeze grant to be minimised when the funding ceases at the end of the current CSR period in 2014/15
- 6.3 A summary of the revised MTFP for 2014/15 to 2018/19 is attached at Appendix E. The net reductions in General Fund expenditure required over the planning period, inclusive of a 1.5% increase in Council Tax, are:-
- £1.335 million for 2015/16
  - £1.448 million for 2016/17
  - £1.235 million for 2017/18
  - £1.274 million for 2018/19

- 6.4 The plan identifies the level of investment to be made to support the Council's priority areas and also the level (and the detail) of any savings required to meet the Council's agreed financial position.
- 6.5 The Plan is a key component of individual service plans and a major objective for the Council's Corporate Management Team. In drawing up their service plans each Head of Service must set out the extent to which their proposals assist the Council in achieving its financial targets and priorities over the next three years. The service plans include proposals for capital and revenue growth bids, savings, reallocation of resources and additional income.

## **7. THE ANNUAL REVENUE BUDGETS**

- 7.1 The Council's HRA and General Fund budgets represent the Council's expectation of the cost of providing its ongoing services in a year. As such they are integral parts of the MTFs, reflecting the financial implications of the Council's aims and objectives for the year.
- 7.2 Each year the Council is required by law to approve balanced budgets, which means that planned levels of expenditure on services after taking into account government grant income and contributions from reserves, must be covered by the budgeted amount of Council Tax income (for the General Fund) and rent income (for the HRA). In doing so the Council has to decide upon:-
- Competing claims for additional expenditure.
  - The level of investment required in priority areas.
  - The level of, and the areas in which, savings can be made.
  - The level of rents and council tax to be levied.
- 7.3 The Council has worked extremely hard to ensure that it sets realistic and achievable budgets. Over the period 2005/06 – 2013/14 it has achieved savings of almost £18.5m to ensure that this objective is achieved and has sensibly and prudently reviewed and replenished reserves as appropriate whenever possible. In addition the 2014/15 budget proposals contain total savings proposals and other base budget adjustments of a further £1.5m. Given the significant level of savings already made by the Council and the on-going austerity measures being implemented by Government, it is extremely likely that it will be increasingly difficult for the Council to sustain further budget reductions whilst protecting service provision.

## **8. FEES AND CHARGES**

- 8.1 The Council obtains income from fees and charges levied for providing certain services. The Government determines some of these charges but there are a number of areas where the Council has discretion as to

whether to levy a charge, and, if it decides to do so, the level of that charge.

- 8.2 In carrying out the annual review of fees and charges existing charges are:-
- a) Compared against the legally permissible maximum as well as local and national market rates.
  - b) Compared against the cost of providing the service.
  - c) Compared against the objective for this charge (i.e. charge to make a profit/break even/subsidise).
- 8.3 The annual review of fees and charges will also consider wider issues of equity and access to services, as well as seeking to identify areas where charges could be made where currently it is not the Council's policy to do so. It will also consider the timing of the introduction of any changes.
- 8.4 For 2014/15 fees and charges proposals have been made taking into account the ongoing economic conditions and their impact upon income streams and existing income targets.

## **9. KEY PARTNERSHIPS**

- 9.1 The Council is committed to working in partnership with local community groups, the voluntary sector, the private sector and other service providers so that as far as possible the co-ordination of services with community needs is realised and also with a view to maximising economy and efficiency and securing additional funds for the benefit of the local community.
- 9.2 As part of this strategy the Council seeks to develop existing partnerships and forge new ones to achieve further benefits for the local area, particularly in its priority areas.
- 9.3 The Joint Venture Partnership, with Kier Services Ltd, commenced on 1 February 2007. Costs and savings arising from the contract review approved by Cabinet in March 2012 are included in the MTFP.
- 9.4 With regard to working with the voluntary sector, the Council is anxious to achieve value for money from the grants that it provides to these organisations. Partners applying for financial support are required to demonstrate efficiency savings comparable to the targets that the Council has to meet, and work towards achieving the Council's priorities.
- 9.5 The Council continues to seek to transfer the running of discretionary services to the community. It has made significant progress on this matter and is being seen as leading on this initiative within the public

sector. The MTFP includes budget savings as a result of the current proposals. The Council has safeguarded the services through the creation of the Discretionary Services Reserve which will be used when necessary to ensure third parties taking on responsibilities for these services are supported whilst they establish themselves and the relevant management and funding arrangements to ensure long term success of the transferred services. The 2014/15 budget proposals include further service transfers to be supported by the reserve and as set out in the General Fund Budget Report these services will be supported until 2015/16 given the windfall income that has been earmarked to make further contributions to the reserve.

## **10. RISKS**

- 10.1 The Accounts and Audit Regulations 2003 state that the Council should ensure that its accounting control systems include measures to ensure that risk is appropriately managed.
- 10.2 The Audit Commission's Code of Audit Practice makes it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks to the Council should be assessed in the context of the Council's overall approach to risk management.
- 10.3 In order to manage and mitigate risk in the Council it includes a statement on the system of internal control with its Annual Statement of Accounts. This review and reporting mechanism incorporates a broader statement of corporate governance than had previously been required as set out in the CIPFA/SOLACE Corporate Governance Framework. Under this framework the Council must review both its internal controls as well as its wider governance arrangements, and publish an Annual Governance Statement as part of the Accounts.
- 10.4 The Council is very aware of the need for effective risk management and considers that the assessment and minimisation of all types of risk to be vital. It has an adopted Risk Management Strategy in place, the aim of which is 'for the systematic identification and control of risks, hazards and losses, to reduce the impact of risk upon Council decision making. The MTFP supports this aim through the provision of financial resources to enable this work to be progressed particularly in relation to insurable risks.
- 10.5 The Head of Finance has identified the risks set out in Appendix D of the 2014/15 General Fund Revenue Budget report, which appears elsewhere on the Cabinets agenda, as the most significant for the MTFP. The mitigation of these risks is an integral part of the Council's performance management framework.

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**ABBREVIATIONS:**

CIPFA	Chartered Institute of Public Finance and Accountancy
HRA	Housing Revenue Account
MTFP	Medium Term Financial Plan (the General Fund budget projections over the 5-year period of the MTFS)
MMI	Municipal Mutual Insurance Ltd.
MRP	Minimum Revenue Provision
MTFP	Medium term Financial Plan
MTFS	Medium Term Financial Strategy (the full financial plan across five years that considers the General Fund and HRA revenue and capital budgets)
RPIX	Retail Prices Index excluding Mortgage Interest Payments
SOLACE	Society of Local Authority Chief Executives
SORP	Statement of Recommended Practice
VFM	Value For Money