



Harlow Council

***Medium Term Financial
Strategy***

2016/17 to 2020/21

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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 2015/16 to 2019/20 in February 2015.
- 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. The General Fund finances must continue to be managed so that for the planning period commencing 1 April 2016:
 - a) General Fund revenue reserves are maintained at or above the approved recommended minimum level of £2.5m, with an aim to operate above this level to provide flexibility in managing the Council's budget throughout the year and over the MTFS planning period.
 - b) General Fund uncommitted revenue reserves are not used to support the budget except for funding one-off and exceptional items of expenditure.
 - c) Any increase in Council Tax shall be no greater than the maximum permissible under the Localism Act 2011, which is announced annually by Government. This will ensure that increases are maintained at a reasonable and affordable level whilst avoiding the need to undertake a costly local referendum.
 - d) Revenue funds are reallocated from low to high priority areas as necessary.
 - e) 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.
 - f) In setting the following year's General Fund budget there must not be any unidentified savings.
- 1.4. 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.

- 1.5. The Medium Term Financial Plan (MTFP), the General Fund element of the MTFS, produced at Appendix E, is to be reviewed at least annually by the Cabinet.
- 1.6. 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 reserve must be maintained at or above a minimum level of £2.5 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.
 - d) There must be sufficient investment in the housing stock to maintain the Decent Homes Standard which was achieved in 2014/15.
 - e) 50% of the proceeds from Right-to-Buy sales will be used to fund the Non Housing Capital Programme.
- 1.7. The Capital Programme must align with the Council's priorities and:
 - a) the Council will use prudential borrowing to fund its Housing and Non Housing Capital Programme if necessary.
 - b) in view of the limited resources available for capital investment the Council will seek to dispose of surplus assets to help sustain ongoing non housing capital investment and reduce revenue costs incurred by the Council wherever possible.
 - c) the total cost of the Capital Programme will not exceed a realistic and affordable assessment of the capital finance available to fund it.
 - d) 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.
 - e) 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.
- 1.8. 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.
- 1.9. The Council will continue to evaluate and manage the financial and operational 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 the Key Messages section above.
- 2.4. In developing a balanced General Fund, HRA and Capital budget for 2016/17:
 - a) The proposed net budget for General Fund services is £10.6 million.
 - b) Total gross expenditure on the Housing Revenue Account will be £52.0 million, which will be funded from rents, service charges and interest.
 - c) The Council's total planned capital expenditure will be £25.5 million, split between £20.9 million allocated for housing and £4.6 million allocated for other services.

3. General Fund

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

General Fund revenue expenditure is currently financed from:

- a) Council Tax.
- b) Fees and charges.
- c) Settlement Funding Assessment (SFA) which combines Revenue Support Grant and retained Business Rate income.
- d) Other specific and non-specific grants.

- 3.2. The Council receives Government financial support towards its General Fund budget through the local government finance settlement which sets out the Government's assessment of the Settlement Funding Assessment (SFA) for Harlow along with all other local authorities in England.
- 3.3. The General Fund MTFs from 2016/17 and beyond incorporates a reduction in Formula Funding of 14.16% in 2016/17, in line with the announcements contained within the draft Local Government Finance Settlement made on 17 December 2015, and further reductions of 15.9% in 2017/18, 10.1% in 2018/19 and 2.8% in 2019/20. These assumptions do not include growth in the local share of business rates at this time. The financial forecasts will be reviewed during 2016/17 in light of the final Local Government Finance Settlement and the consultation processes that are expected in relation to the local authority funding mechanisms as announced in the Chancellor's Autumn Statement on 25 November 2015.
- 3.4. Through the changes introduced as a result of the move to SFA 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 announcement that the draft Finance Settlement indicates that Harlow will receive no RSG support by 2019/20 and the funding mechanism will be focussed purely on the full retention of business rates for local authorities.
- 3.5. The Council operates some of its discretionary services through the use of the Discretionary Services Reserve. A key funding stream for the fund is the money received by the Council as part of the New Home Bonus scheme (NHB). In the Autumn Statement the Government announced that a review of the NHB system is to be conducted during 2016. The outcome of the review could be significant if funding is reduced both in value and the period over which NHB is paid in the future. Any changes are not currently expected to impact in 2016/17 but will be factored in to the MTFs proposals when it is reviewed as part of the 2017/18 budget planning process.

4. Housing Revenue Account (HRA)

4.1. Revenue expenditure within the **HRA** is incurred on:

1. The day-to-day services provided in maintaining and managing the Council's housing stock.
2. Contributions towards capital expenditure that is not funded from usable capital receipts, or other capital funding sources.

The expenditure is financed from:

- a) Rents charged for Council dwellings and garages.
- b) Charges made to leaseholders.
- c) Investment income.

4.2. 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.

4.3. 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. Despite the introduction of Self-Financing in 2012/13, and the significant borrowing undertaken by the Council in March 2012, there are now significant changes to the HRA financial arrangements which have been announced by the government and will have long-term impacts on the HRA. These have been fully detailed in the HRA Business Plan but include rent reductions, for which the Government intends to legislate, combined with "pay to Stay" increased rents for those families earning over £30,000 and the sale of higher value HRA properties to compensate housing associations for the extension of the RTB scheme to their properties.

4.4. Although the Council must account for its General Fund services and Housing-related services separately by law, 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.

5. Fees and Charges.

- 5.1. 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.
- 5.2. 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 surplus/ breakeven/ subsidise).
- 5.3. 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.
- 5.4. For 2016/17 fees and charges proposals have once again taken into account the ongoing economic conditions and their impact upon income streams and existing income targets.

6. Capital Expenditure and Treasury Management

- 6.1. Capital expenditure is essential to the successful delivery of the Council's priorities and 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.
- 6.2. 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".
- 6.3. 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.

- 6.4. 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, as had previously been the case, as long as it can afford to repay the amount borrowed.
- 6.5. 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.
- 6.6. The Code requires councils to determine a set of prudential indicators that are intended to determine and measure the financial strength of their investment and treasury plans. It prescribes some of these 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.
- 6.7. 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.
- 6.8. 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 2011). The Prudential Code referred to above introduced new requirements for the management and reporting of borrowing and investments.
- 6.9. 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 was anticipated to have been 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. It had been envisaged that Self Financing for the HRA would enable the investment levels in the housing stock both for major repairs programmes and for the potential building of new affordable homes within Harlow. The changes announced by the Government on the rent reduction proposals particularly have changed this significantly and this is covered in more detail within the HRA Business Plan.

- 6.10. An Annual Investment Strategy is drawn up as required under the Code. At present the Council has a considerable sum invested (£53.3m as at 31 December 2015 including £6.3m from the Growth Area Funding project). An indicative analysis of the investment balance is as follows:

Source of Investments	
	£m
General Reserve	4.4
Earmarked Reserves	17.4
HRA Working Balance	10.9
Growth Area Funding Grant	6.3
Working Capital	14.3
Total	53.3

- 6.11. The investments are handled by the Council's own staff. The investments are managed so as to secure the best possible return with the minimum of associated risk as set out in the principles of the Treasury Management Strategy.

7. Annual Revenue Budgets and Medium Term Financial Plans.

- 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. The Council has worked extremely hard to ensure that it sets realistic and achievable budgets. Over the period 2005/06 – 2015/16 it has achieved General Fund savings of over £22 million to ensure that this objective is achieved and has sensibly and prudently reviewed and replenished reserves as appropriate whenever possible. In addition the 2016/17 budget proposals contain total savings proposals and other base budget adjustments of a further £1.1m. 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.

- 7.3. Like all other Councils, in planning its finances, the Council recognises that there will be changes that will affect it financially, but over which it has little, or no, control. Some of those facing the Council in the medium term include:
- a) The National and world wide economic environment.
 - b) New, or changes to existing, legislation and changes to the operation of Government policy.
 - c) Changes in Government grant.
 - d) Pay and price variations (especially energy etc.).
 - e) Movements in the costs of employee pensions.
 - f) Variations in asset disposal values and volumes.
 - g) Changes in interest rates.
- 7.4. 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.
- 7.5. The Council operates a budget monitoring system, which involves monthly reports to the Corporate Management Team 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 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 1.5% per cent increase in Council Tax for 2016/17 and 1.5% in each subsequent year of the MTFS period.
- 7.6. Work will be required during the early part of 2016 to begin to formulate plans to enable the budget gaps to be addressed over the next 4 years. This will include issues such as securing additional revenue streams to support the general fund as well as the review of the gap as additional information is received regarding funding changes expected from the

Government. There will also be a need to ensure that the information provided by the Government, in relation to the longer term financing of local government, is reviewed and responses to formal consultation are made in order to try to influence changes which could have a significant impact upon Harlow.

- 7.7. 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.
- 7.8. 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.
- 7.9. Financial projections for the HRA covering the period 2016/17 to 2020/21 are set out in the HRA Medium Term Financial Plan, attached at Appendix D.
- 7.10. A summary of the revised General Fund Medium Term Financial Plan for 2016/17 to 2020/21 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:
 - £1.425 million for 2017/18
 - £0.886 million for 2018/19
 - £0.446 million for 2019/20
 - £0.382 million for 2020/21.

8. Reserves

- 8.1. 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.
- 8.2. Levels of the Council's 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.

- 8.3. 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 and £2.7 million respectively. 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. Given the risks associated with the HRA as set out in the HRA Business Plan it is proposed that the minimum working balance on the HRA is increased by a further £1.6million from 2016/17 to protect the account from risks associated with the Government's proposals relating to the sale of high value void properties (details of which, at the time of writing in January 2016, are awaited).

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. 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.
- 9.4. The Joint Venture Partnership, with Kier Services Ltd, commenced on 1 February 2007 for a ten year contract period. Work has commence in 2015 following a Cabinet decision not to re-tender the work in the open market but to bring the services into the control of a wholly owned Local Authority Trading Company (LATC) with effect from February 2017. This will be a major change for the Council and the services currently provided through the JVCo and a major project to be managed over the next 12 months.
- 9.5. The Council continues to seek to transfer the running of discretionary services to the community. It has made significant progress and is being seen as leading on this initiative within the public sector. The Council has safeguarded the services through the creation of the Discretionary Services

Fund 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 services will be supported until 2018/19 given the windfall income and New Homes Bonus payments that have 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. Risk management continues to be a key area of focus for the Council and is now regularly reported to the Audit & Standards Committee.
- 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 continued 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 2015/16 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.