Borough of Broxbourne

MEDIUM TERM FINANCIAL STRATEGY

2021/22 - 2025/26

October 2020

BOROUGH OF BROXBOURNE

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INTRODUCTION

The Medium Term Financial Strategy (MTFS) is Broxbourne Borough Council's (the Council) strategic financial planning document. It aims to provide assurance that the Council's spending plans for the years 2021/22 - 2025/26 are affordable.

The Strategy is in two parts:

Part 1: Context and current position sets out and assesses the criteria used to shape the Council's spending plans for the period.This includes the current financial position of the Council, the corporate priorities for the next four years and the potential impact on the Council's finances of external factors such as the national and local economy and Government policies.

Part 2: Strategy for 2021/22 - 2025/26 describes the Council's financial plans and the assumptions and financial management principles on which they are based, referring to the context provided in Part 1. The strategy anticipates the spending pressures the Council is facing and the level of savings or additional income that will be needed to maintain key services. It sets out the budgetary requirements in terms of net expenditure and funding streams and provides a five-year budget forecast.

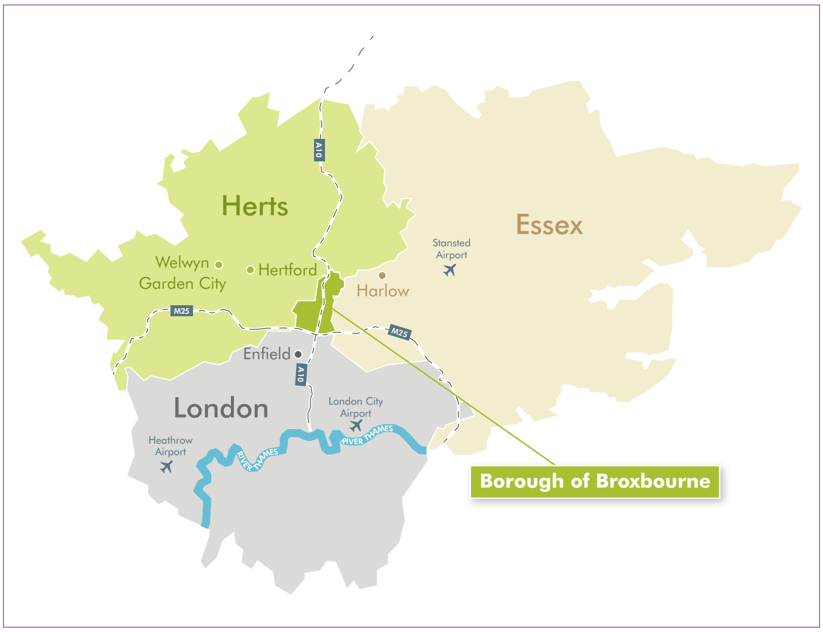
The MTFS covers the five-year period April 2021 to March 2026.

The underlying assumptions for the budget projections are set out in Appendix A and the outlined budget forecasts are included in Appendix B. Both appendices will be updated every year throughout the life of this strategy as part of the annual review that is carried out before budgets are set for the next financial year.

PART 1: CONTEXT AND CURRENT POSITION

The Borough of Broxbourne

The Borough of Broxbourne is located in south east Hertfordshire, with London to the south and Essex to the east. It has a population of 97,300 (*source: Office for National Statistics mid-2019 population estimate*). The largest towns are Cheshunt, Hoddesdon and Waltham Cross.



Local employment is mixed, with professional and scientific services including retail and wholesale, with construction dominating. There are particular specialisations in the manufacture of electrical equipment, civil engineering and scientific research and development. The Borough has a relatively high proportion of very small businesses employing only one or two people and few major employers. A third of the workforce is employed outside the Borough mostly in London. Unemployment has been comparatively low in the recent past, although poor skills are a barrier to progress in employment for many residents. 31% of working age residents have no qualifications or only basic qualifications (NVQ Level 1) compared to 22% in Hertfordshire as a whole.

Certain parts of the Borough (Broxbourne, Goffs Oak and Hoddesdon) are among the least deprived areas in the country. However, there are also areas with comparatively high levels of deprivation, particularly in Turnford, Waltham Cross and Wormley. For housing, the level of owner occupation is above the national average, but house prices and rents have risen significantly due to high demand.

The Council's priorities for the next four years centre around creating jobs and housing, whilst enhancing the green environment. Having adopted a new Local Plan for Broxbourne, the Council has a clear framework for future development of the Borough.

Corporate Priorities 2020/21 – 2023/24

The Council has agreed three corporate priorities for the period 2020/21 – 2023/24. Each priority will be delivered through a set of objectives:

A thriving economy offering business growth and jobs

- commence construction of Brookfield Riverside and Brookfield Garden Village
- enable sustainable growth in local employment for residents by encouraging the creation of high-skilled, high-value jobs on identified sites
- pursue the implementation of the housing and infrastructure needed to support a thriving economy
- foster development of town centres as vibrant locations for business and leisure
- work with local businesses and education partners to provide a skilled workforce
- increase the availability of high-speed broadband in the Borough

Sustainable living in an attractive environment

- take action to improve air quality
- increase tree cover and greenery and enhance biodiversity in the Borough
- increase the proportion of local journeys made by sustainable modes of travel
- deliver affordable homes for local residents and reduce homelessness
- help residents to lead a healthy lifestyle
- promote community safety and reduce fear of crime

An effective Council, efficient and responsive to residents

- improve the quality of services significantly through redesign and better use of IT
- engage effectively with residents to understand their priorities
- maintain a stable financial position
- build strong partnerships to deliver more for the Borough
- be transparent and ensure effective scrutiny

Several of these objectives will require significant capital resources, particularly facilitation of the developments at Brookfield and new employment sites in the Borough, delivering affordable homes and investing in digital technology to improve services. The objective to promote walking and cycling over car use is dependent on the development of a safe network of footpaths and cycle paths across the Borough, which will also require capital investment.

The Council will need to work in partnership and maximise funding from external sources, such as the Government and Hertfordshire Local Enterprise Partnership (LEP), if it is to initiate the economic development and housing projects.

Review of Financial Performance 2014/15 – 2020/21

Historically, local authorities received a significant proportion of their funding from the Government as a Revenue Support Grant (RSG). From 2010 this grant was reduced year on year, and local authorities were informed it would be abolished after 2019/20. Therefore, the Council had to plan for a future without the support of this grant, which in 2014/15 was £2.4 million.

In addition, the Council planned for other spending pressures during this period. These included increases in the national minimum wage, increases in employer pension contributions, inflationary increases in costs, the introduction of the apprenticeship levy, reductions in the income received from the sales of recyclable materials and a requirement to increase salaries to market levels.

After consulting residents, the Council prepared an efficiency plan and adopted a multi-strand approach to achieving the necessary budget adjustments. The approach comprised:

- ending the policy of not raising council tax which had been in place since 2009/10
- a programme of efficiency savings, including increased use of shared services
- property investments to generate a higher return than traditional treasury investments
- investing in leisure centres and improving their efficiency to ensure an excellent customer experience whilst maintaining financial viability
- maximising external income through reviewing fees and charges

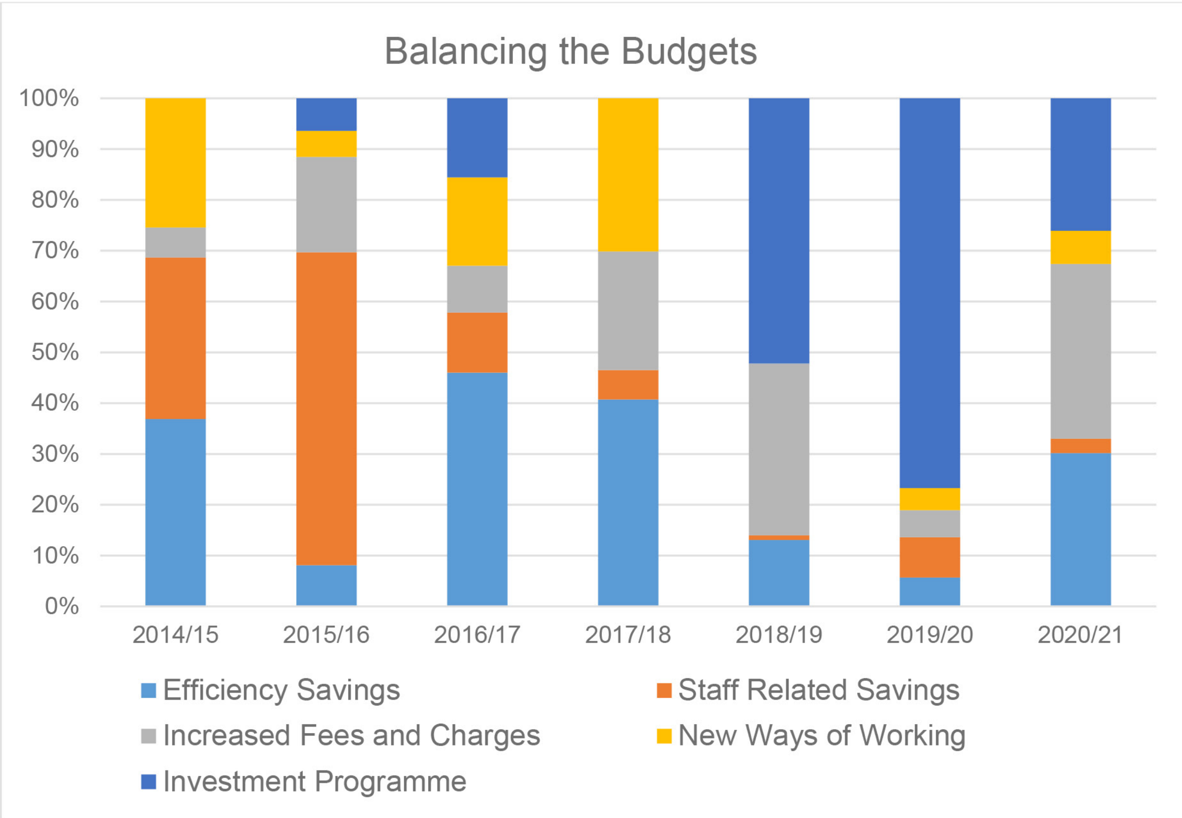
This approach was successful, and the Council was one of only two local authorities to achieve financial self-sufficiency by August 2017. In both 2018/19 and 2019/20 the Council would have still been able to set balanced budgets (without using reserves) had the RSG not been available.

Council tax increases

The policy of not increasing the council tax, in place since 2009/10, was changed and small increases were applied each year from 2016/17. These increases were within the value permitted without incurring a duty to hold a residents' referendum. Over the five year period from 2016/17 to 2020/21, successive annual increases raised the council tax for a Band D property by 48p per week (£25 per year).

Savings and additional income

Over the seven year period, from 2014/15 to 2020/21, the Council identified and delivered savings and generated additional income with a total value of over £10.7m to enable it to set balanced budgets and achieve self-sufficiency. The following chart shows how the Council used different approaches to achieve this.



The total value of the savings and income generated under each of the headings over the period are:

Nature of saving/additional income	£000
Efficiency savings	£2,499
Staff related savings	£1,713
Increased fees and charges	£2,051
New ways of working	£1,097
Investment programme	£3,383
Total savings and additional income	**£10,742**

Service delivery - Leisure services

In order to support the Council's priorities, there has been a change in focus in how the leisure centres operate, with a more commercial approach. This change in approach, alongside targeted capital investment in the sites and equipment, led to increased customer satisfaction and increased member numbers. This also led to additional income being generated (over and above the surplus held in reserves and used to fund equipment replacements and upgrades) which played a significant part in helping the Council achieve self-sufficiency.

Financial risk assessment

As a result of the initiatives and different approaches to service delivery introduced over the previous seven years, the Council is currently in a healthy financial position.

However, maintaining this could be a challenge from 2020 onwards, given the uncertainties in the economic environment and Government policy.

COVID-19

The financial impact of the COVID-19 pandemic will have a continuing effect on both income and expenditure. In March 2020, the Council approved a supplementary estimate of £2m, to be funded from the General Fund reserve, to meet the immediate expenses and loss of income arising from the lockdown.

In the short term, the Council has felt the financial impact of the pandemic through significant losses in income as a result of leisure venues needing to be closed as the country went into lockdown. When they could re-open, it was at reduced capacities due to social distancing requirements. Other key income streams, such as car parking and commercial rental income were similarly impacted. The Council has received support from central Government, in the form of both grants and compensation for a percentage of income lost (excluding rental income) as a result of COVID-19 related restrictions. However, this financial support is time limited and will not support the Council beyond 2020/21.

In the longer term, the effects of the pandemic on the wider economy (with a recession likely) and social distancing measures are likely to persist and impact on the Council's financial standing. Income from council tax and business rates is likely to reduce, income from the Council's long-held local commercial property portfolio could be at risk if local businesses struggle to recover and the additional income generated by leisure services is unlikely to bounce back to the pre-pandemic levels until or unless social distancing rules are relaxed.

The Fair Funding Review

The Government is proposing to introduce significant changes to local Government finance (the Fair Funding Review). The changes were originally planned for April 2020 but have been delayed. It is considered likely that the Council's settlement funding assessment (the minimum amount of business rates the Government determines the Council needs to retain to deliver its services) will be reduced by the Government as part of the Fair Funding Review, as it seeks to reallocate resources into high demand services such as adult social care, children's services and national economic recovery programmes following the COVID-19 pandemic.

Business rates reform

In addition to the Fair Funding Review, the Government has committed to a fundamental review of the business rates system. The likely outcomes of this are still unknown and range from abolishing business rates and replacing them with an alternative scheme to making small alterations to the existing business rates retention scheme. The Council currently retains approximately 6% of all the business rates it collects.

In summary, the main identified risks to the Council's funding over the period of this MTFS are:

- loss of income from leisure services as a result of social distancing requirements
- the longer term impact of COVID-19 on the local economy and the resilience of local businesses
- lower council tax and business rates yields caused by recession or restrictions on the value by which they can be increased
- the outcome of the Fair Funding Review
- the outcome of business rates reform
- new or extended legal duties set by Government; and
- maintaining the Council's assets

The Council does have some exposure to interest rate changes, both in terms of its cash investments (the interest generated from which are used to fund the capital programme) and the short term borrowing it has undertaken. Interest rates will continue to be monitored and if any significant changes are forecast, their impact on the Council's finances will be assessed and any mitigating action (such as seeking long term borrowing options) will be taken.

Financial Resilience Assessment

The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced an index to enable local authorities to review their financial resilience and compare it to other similar authorities. There are a variety of indicators used to compare authorities, but, in essence, CIPFA view the key determinants of the financial resilience of the Council as its level of reserves and having a low reliance on Government grant (as opposed to council tax, business rates and other locally raised income) to finance expenditure on the delivery of services.

Based on the most recently available assessment (2018/19) the Council compares well to other authorities, showing that the Council is at a low risk of financial stress. This judgement is backed up by the external auditor, who has issued an unqualified value for money conclusion every year.

Maintaining financial position

In order to mitigate against the risks outlined above and ensure that the Council maintains its strong financial position, work will continue on existing initiatives and new plans will be identified and put into action.

The foundations of this will be a commercial, customer first culture. The Council-wide transformation programme has already seen this approach rolled out to most services and this will continue, ensuring that services are modernised and opportunities are identified and implemented to allow customers to engage in different ways.

Technology will be maximised to facilitate efficient ways of working, making sure that learning is taken from the changes necessitated by COVID-19, and a culture of continual improvement will be nurtured and applied to both internal processes and customer interactions.

PART 2: STRATEGY FOR 2021/22 - 2025/26

Principles of financial management

Both financial and non-financial resources will be required to meet the Council's corporate objectives. This will require a balancing act between the way in which priorities are delivered and what resources are available to support this delivery in a financially sustainable way. Planning now to address this balance will make it easier to reduce risk by phasing changes and to ensure that sufficient funds are held in reserves to allow the Council to respond to variations in demand or altered priorities.

The Council conducts financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body. The Council has a proven track record of minimising waste and achieving efficiency savings year on year and it will ensure that its budgets continue to deliver value for money, are aligned to the corporate priorities and are based on prudent and realistic estimates.

The Council has a duty to apply tax payers' money responsibly and has a system of internal control and governance arrangements in place to ensure that all public money is soundly managed. The Council's financial management and governance arrangements are subject to external audit and have consistently been found to be sound. The following principles underpin the Council's financial management arrangements:

- budget savings and additional sources of income will be identified to minimise the impact of funding cuts and protect frontline services
- sound financial controls will be maintained as set out in the Council's financial regulations and contract standing orders
- decision making will be based on complete, reliable and timely information and an evaluation of the financial risk implications
- income from the use of assets will be optimised
- trading opportunities will be explored as and when they are identified
- new ways of working will be sought, including working with partners in the public, private and voluntary sectors to maximise resources to deliver the corporate objectives
- by applying competitive tendering and adopting best procurement practices, costs of supplies and services will be controlled

Balanced budgets and the council tax requirement

The Council has a duty to set a balanced budget each year. This means that the expenditure budgeted for services must be fully offset by the income budgeted to be received. This income comes from fees and charges, rents, service specific Government grants, business rates and council tax.

Each year, the Council sets its council tax requirement. This is the amount of income that the Council needs to generate from council tax to set a balanced budget. Historically, this would have been the balancing figure for the budget – with the amount required to be funded from council tax, after all other income has been taken into account, being achieved via the necessary increase in council tax. However, since the introduction of the requirement to hold a local referendum for any increases in council tax above the limit set by Government (currently 1.99% or £5, whichever is higher), the maximum amount of council tax income achievable is known at the start of the budget setting process and any difference between expenditure and income has to be balanced via additional income from other sources or by finding savings.

Council tax

The amount of council tax included in the budget is based on the number of domestic properties in the Borough. The properties are divided into bands based on value as determined by the Valuation Office Agency (VOA). The annual council tax for the Borough is set at the Band D rate and properties in all other bands pay a proportion of the Band D rate as shown in the adjacent table:

Band	Proportion of Band D rate payable
A	6/9
B	7/9
C	8/9
D	1
E	11/9
F	13/9
G	15/9
H	2

In order to calculate the budget for council tax income, the above weightings are applied to all the domestic properties in the Borough to provide the council tax base. This is then adjusted for the Council Tax Support (CTS) scheme. The CTS replaced Government's council tax benefit and is a locally devised council tax discount scheme. As the discount reduces the amount of council tax that can be collected, the tax base is reduced by the number of Band D equivalent properties that are eligible for a discount under the scheme.

The amount of council tax to be included in the budget is calculated by multiplying the adjusted number of Band D properties by the proposed council tax rate for the year in question.

To forecast the amount that will be raised by council tax in future years, two factors are taken into consideration; the increase in the number of Band D equivalents in the tax base (this increase would be as a result of new housing developments and/or previously unoccupied properties being brought back into use) and the proposed annual increase in the council tax rate.

The detailed assumptions used to forecast the projected council tax income figures for the life of this MTFS are included in Appendix A.

Business rates

The business rates retention scheme allows councils to keep a percentage of the business rates they collect; this is currently set at 40% for Broxbourne, with the remainder being collected on behalf of the Government (50%) and Hertfordshire County Council (10%). However, from the 40% Broxbourne retains, it has to pay a tariff to central Government, meaning that, the Council only keeps around 6% of the business rates it collects.

The amount of business rates income to be received is calculated based on the rateable value of each hereditament (property) multiplied by the business rates multiplier. The value of properties are determined by the Valuation Office Agency (VOA), an independent Government agency. The multiplier is set by Government, generally increasing in line with inflation each year. Therefore, the only way in which the Council can influence increases in business rates income is by encouraging new commercial developments within the Borough, thereby increasing the number of properties.

As outlined above, the Government is undertaking a fundamental review of the business rates system and as yet, the likely outcome of this is unknown. Therefore, all assumptions regarding future business rates receipts are based on the current scheme.

New Homes Bonus

The New Homes Bonus was introduced by the Government as an incentive to encourage house building in order to meet the national shortfall in housing supply. For every new home created above 0.4% of the existing housing stock, the Council receives a payment, which is weighted according to the council tax band of the property, based on the national council tax rate for a Band D property. There is an additional payment of £350 for each affordable home.

New Homes Bonus receipts have always been time-limited and recently, the Government has indicated its intention to withdraw the scheme completely. Therefore, the Council does not use New Homes Bonus to support revenue expenditure, instead using it to help fund the capital programme.

The savings requirement

As previously set out, the Council has a statutory duty to set a balanced budget each year. Therefore, if the projected income and expenditure do not match then there is a need to find savings or additional income to close the gap. This is known as the savings requirement.

A summary of the five year forecast as at October 2020 is shown in the table below:

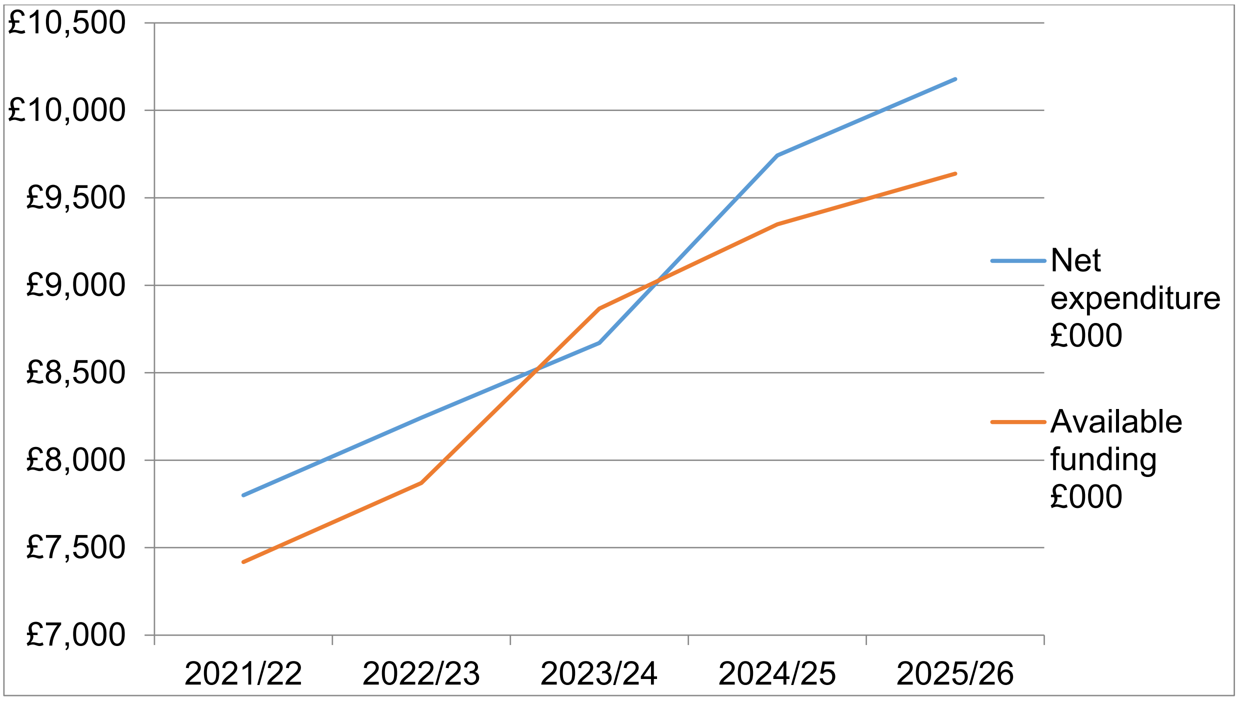
	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	**£000**	**£000**	**£000**	**£000**
Opening budget requirement	**£7,495**	**£7,800**	**£8,243**	**8,670**	**£9,742**
Salary inflation	£151	£154	£157	£160	£163
General inflation	£264	£312	£342	£351	£362
Allowance for anticipated cost increases	£668	£930	£332	£280	£280
Additional income	£(1,030)	£(103)	£(104)	£(368)	£(369)
Savings already identified	£(268)	-	-	-	-
Planned use of earmarked reserves	£(248)	£(650)	-	£898	-
Impact of Covid-19	£767	£(200)	£(300)	£(248)	-
Anticipated budget requirement	**£7,800**	**£8,243**	**£8,670**	**£9,742**	**£10,179**
Council tax	£4,918	£5,226	£5,614	£5,981	£6,255
Business rates	£2,500	£2,644	£3,253	£3,368	£3,383
Total funding	**£7,418**	**£7,870**	**£8,867**	**£9,349**	**£9,638**
Annual savings requirement	**£382**	**£373**	**£(197)**	**£394**	**£541**

No provisions have been made in the above figures for unforeseen expenditure (growth) and therefore, any growth items will need to be funded by making savings elsewhere or by generating additional income.

The savings requirement will change each year during the life of this MTFS as annual budgets are set and more clarity gained over funding streams. Therefore, the detailed budget forecasts are included in appendix A and will be updated on an annual basis to ensure that an up to date view of the financial future of the Council is maintained.

Revenue Budget Strategy

The following chart presents the information in the previous table graphically, with the gap between the two lines illustrating the savings requirement.



What this graph demonstrates, is that the Council's projected underlying budget requirement is not sustainable within the forecast levels of funding. To close the gap between the lines, the Council will require further savings to be made or additional income to be generated.

In order to achieve this, the Council will carry out a three-track approach;

1. Reviewing all services to ensure that they continue to meet the needs of residents and provide value for money. As well as a review of working practices, with a view to streamlining them, the review will examine all costs, fees and charges and the level of service provided. The review will also evaluate the potential for savings from externalisation or partnership with one of more other local authorities.

2. Reviewing the possibility for efficiencies, both in individual services and corporately, through further investment in digital technology, as part of the Council's continuing transformation programme.

3. Rationalising assets in the context of changing business needs and new working practices enabled by digital technology. For example, if more staff can work from home and meet online, the space requirement for offices will decrease.

Income generation

Income will be maximised to ensure that fee charging services are provided at a nil cost subsidy to the taxpayer. Fees and charges will be increased annually by the rate of inflation or by a comparative amount obtained via benchmarking except where legal requirements, contractual obligations or market forces render this inappropriate.

New income streams will be developed through identifying potential areas for generating additional income, especially for services not currently charged for and the Council's successful investment programme will continue under the parameters set out in the Investment Strategy.

The Council will continue to support Badger BC Investments Ltd to acquire properties to rent on the open market and the interest payments from the Company will be used, if required to support services, or else be reinvested in the capital programme.

The Council will look to maximise grant funding opportunities to help achieve corporate priorities. This will include working in partnership with organisations such as Hertfordshire Local Enterprise Partnership (LEP) and Homes England.

Maximising yield from council tax and business rates

The Council has to plan for a resilient and buoyant council tax base in order to protect vital services. This means enabling new development of housing through the adopted Broxbourne Local Plan 2018-2033, leading to an increased number of new properties paying council tax.

The Council must also maintain its high collection rate for both council tax and business rates, and retain tight control of systems of discounts and exemptions for the council tax support scheme. It will be necessary to increase council tax, limiting the increase to the parameters set by the Government so as not to trigger a public referendum.

In order to maximise business rates income the Council will attract new investment into the Borough, enabled by the Local Plan which identifies major new employment sites for development. The Council will also work closely with the VOA to ensure the rating list is complete, up to date and fit for purpose for the Council to predict and monitor the collection of what is owed.

The Local Plan and Ambition Broxbourne are vehicles for the Council's growth aspirations for the future. The Local Plan identifies employment sites for development that will bring 6,000 jobs to the Borough by 2033, alongside matching improvements to infrastructure and more than 7,000 new homes.

Ambition Broxbourne proposes actions to improve the economic prosperity of the area by 2030. Its vision is that by 2030 the Borough will have a thriving, vibrant and prosperous economy that is underpinned by innovation, enterprise and entrepreneurship which:

- drives innovation and business growth
- focuses on attracting more knowledge-based blue chip companies
- has a job market connected to and shaped by young people
- has a well-educated and skilled population willing and able to compete in the local and global economy
- encourages a community characterised by independence and pride
- targets support for the most vulnerable
- supports knowledge driven economic development within the Borough and across the wider area
- create a labour market where the educational institutions (connected from early years to higher education) meet the current and future needs of the economy

This will protect and grow the Council's share of the business rates tax base, minimise the number of businesses which are not paying the correct level of business rates and maintain high collection rates.

Capital spending strategy

The Council's capital spending strategy is prepared within the framework set out in the Capital Strategy and Investment Strategy documents.

The annual and future year plans for expenditure and how this will be funded are contained in the annual Capital Programme report.

These documents can be found on the Council's website.

Reserves

The Council maintains a healthy level of reserves which enable it to respond to unforeseen events and known future liabilities.

The level of earmarked reserves held by the Council as at 31 March 2020 is shown in the following table.

Reserves	£000
Capital and building works reserve	3,200
Broxbourne Sport and Broxbourne Leisure equipment replacement	688
Broxbourne Environmental Services equipment replacement	367
Economic development reserve	505
Personnel reserve	291
Grave maintenance reserve	17
Service specific grants reserve	3,267
Service protection and enhancement fund	3,293
Housing and planning delivery grant reserve	812
Performance reward grant reserve	45
Repairs and renewals fund	999
Park Lane footbridge reserve	318
Brookfield Rrserve	3,700
Lottery Grant reserve	21
Community Safety projects reserve	142
Rental Income protection reserve	590
Collection fund reserve	2,548
Total earmarked reserves	**20,804**

In addition to this, at 31 March 2020, the Council held £6.18m in its General Fund reserve.

These reserves are an important way of projecting the Council's current resources into the future and preparing to meet future needs such as:

- capital and building works reserve, which will be used to finance capital works including works to the Council's buildings as well as purchases of vehicles, plant and equipment
- equipment replacement reserve will be used to finance the purchase of vehicles and equipment for Broxbourne Environmental Services Trading Limited (BEST)

- economic development reserve will be used to invest in the economic well-being of the Borough
- personnel Reserve is set aside to provide for potential personnel costs
- service specific grants reserve are grants that have been received in advance of expenditure being incurred but which need to be recognised as income in the year the grant was received
- service protection and enhancement fund will protect and enhance services in future years
- housing and planning delivery grant reserve will fund future expenditure associated with the Local Plan
- repairs and renewals fund will enable accelerated maintenance of revenue generating fixed assets
- the Collection Fund Reserve will help protect against future volatility in council tax and business rates income levels.

Monitoring

The budgets will continue to be monitored on a monthly basis by the finance team in collaboration with budget holders. Areas considered high risk – either because income targets are at risk or because there is significant pressure on expenditure budgets, will be reported on a monthly basis to the Council's Corporate Management Team (CMT).

Formal quarterly budget monitoring reports will be prepared for both revenue and capital budgets and, having been reviewed by CMT will be distributed to Members of the Council.

Budget holders are accountable for remaining within their overall budgets and are empowered to use the virement process (that is reallocating existing budgets from areas where there is no need for expenditure to those that are under pressure) within the financial regulations to manage budget variances within their own areas of responsibility. This regular monitoring will ensure tight budgetary control.

Supplementary budgets will be treated as a last option for financing a project or budget variance and will be subject to the same rigorous scrutiny and justification criteria which applied in preparing the original budget. Any supplementary estimate will need to be funded from an appropriate reserve or secured external funding source.

Conclusion

The Council is in a strong financial position that it wants to maintain, whilst continuing to provide high quality services and delivering its corporate objectives. This strategy sets out the framework under which this will be achieved.