Part I
Release to Press

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| Meeting: | EXECUTIVE | Agenda Item: | 10 |
| Portfolio: | Resources | | |
| Date: | 13 SEPTEMBER 2016 | | |

**GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY (2016/17 – 2020/21)**

KEY DECISION

| | | |
|---|---|---|
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**1. PURPOSE**

1.1 To update Members on the national public finance context and the impact on the Council.

1.2 To advise Members on the current and future position of the Council's General Fund budget over the next five years.

1.3 To propose savings targets for the period 2017/18 – 2019/20.

1.4 To update Members on the 'Financial Security ' Future Town Future Council priority

**2. RECOMMENDATIONS**

2.1 That the Medium Term Financial Strategy (MTFS) principles, as outlined in paragraph 4.5.12 of this report, be re-approved.

2.2 That the progress against the 'Financial Security' priority as outlined in section 4.6 of the report be noted.

2.3 That, for modelling purposes, Council tax increases are set at the threshold of 1.99%, subject to any change in government rules to achieve a balanced budget (paragraph 4.8.1 of this report refers).

2.4 That, for modelling purposes, fees and charges increases are in line with inflation with any increase above inflation used to contribute towards the saving target.

2.5 That the updated inflation assumptions used in the Medium Term Financial Strategy (section 4.12 refers) be approved.

2.6 That a General Fund savings target of £2.536million be approved for the period 2016/17 – 2019/20, of which £1.118Million is still to be identified in years 2018/19 and 2019/20, (paragraph 4.6.12 refers).

2.7 That all General Fund growth approved for priority schemes be funded from within the existing baseline budgets or further savings in addition to the targets identified, (paragraph 4.5.11 refers).

2.8 That the renamed Leaders Financial Security Group oversees the development of the 2017/18 – 2019/20 savings package.

2.9 That a minimum level of balances for the General Fund of £2.761million, be approved for 2017/18 (paragraphs 4.17.8 - 4.17.9 refer).

2.10 That Members approve the Government's four year funding offer and that Assistant Direct (Finance) submits the MTFS as the Council's efficiency plan by the deadline of the 14 October 2016.

2.11 That if material changes to forecasts are required following further Government announcements the Assistant Director (Finance) be requested to revise the Medium Term Financial Strategy and re-present it to the Executive for approval.

2.12 That public consultation be commissioned in line with the requirements of the Council's Consultation and Engagement Strategy.

2.13 That the Trade Unions and staff be consulted on the key messages contained within the Medium Term Financial Strategies and more specifically when drawing up any proposals where there is a risk of redundancy.

## 3. BACKGROUND

3.1 This an update on the full revision of the 2015 MTFS published in September 2015. This document provides an update on the assumptions contained with the 2015 MTFS.

3.2 Since the last MTFS was published there have been a number of events and government initiatives that will inevitably impact on the Council's financial position, whether this be the EU referendum or the publication of the consultation on the retention of 100% business rates.

3.3 In addition the Council's ambitions around its Future Town Future Council priorities have been published (13 October 2015) which includes the regeneration of the Town and building new council housing.

## 4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Purpose of the Medium Term Financial Strategy

4.1.1 The MTFS is the Council's key General Fund financial planning document and sets out the Council's strategic approach to the management of the General Fund including council tax levels, capital funding and treasury management. This strategy underpins the Council's key priorities for Stevenage as set out in the Future Town Future Council agenda and other strategic documents of the

Council. It is important to note that the key aim of the MTFS is to facilitate the Council in achieving the targets set out in those documents, by setting financial targets and principles, identifying additional resources for priorities and developing financial projections to manage any deliverability or sustainability issues. The MTFS was fully reviewed in September 2015 and this report updates the assumptions contained within the 2015 Strategy.

4.2 The Economy and External Factors

4.2.1 Since the last 2015 Strategy update there have been some momentous decisions taken in the UK with the referendum result to leave the European Union (EU) on the 23 June 2016. This led to considerable uncertainty in the financial markets with currency fluctuations and politically, a change to the Government's leadership team.

4.2.2 It is too early to say what the new Chancellor's view of spending reductions are, however prior to his departure George Osbourne had abandoned his target to restore government finances to a surplus by 2020. In a speech he said, given the effects of the referendum vote, the Government had to be "realistic about achieving a surplus by the end of the decade". The target had been the Chancellor's most prized goal and had been driving austerity measures in previous budgets, but he said the economy is showing "clear signs" of shock following the vote to leave the European Union. Giving a speech in Manchester, Mr Osborne said: "The referendum is expected to produce a significant negative economic shock to our economy. How we respond will determine the impact on jobs and growth. We must provide fiscal credibility, continuing to be tough on the deficit while being realistic about achieving a surplus by the end of the decade".

4.2.3 The Country has a new Chancellor and it is too early to gauge what this will mean for future funding cuts or indeed the impact of the referendum vote long term on both the Country and the Council. In readiness to anticipate and/or deal with referendum issues the Leader of the Council (Councillor Sharon Taylor) announced a cross party working group to look at the impact which is due to meet in October 2016.

4.2.4 The Bank of England has lowered the base rate from 0.5% to 0.25% on the 4 August 2016 and introduced more quantitative easing with a projection of gilt purchases (£60Billion) and Term Funding Scheme to provide £100Billion of cheap funding to banks. This could have a positive impact on the Council in terms of new cheaper borrowing as the Public Works Loan Board (PWLB) rates are pegged to gilt prices which have reduced. However, existing borrowing will now be even more expensive to reschedule and investments will be lower. The impact of lower Bank of England base rates has been factored into the updated MTFS.

4.2.5 When the 2015 Strategy was written, the outlook for government funding was not clear other than it was likely to reduce significantly. The 2016/17 finance settlement saw a four year settlement offered, which the Council must respond to by the 14 October 2016. The 2015 Strategy's anticipation that Revenue Support Grant would disappear by 2019/20 has been realised and the Strategy has been updated to reflect the profiling of the withdrawal. Despite the funding deal being offered over the next four years, the biggest caveat to this must be the redistribution of business rates income by 2019/20, which the government has said will be fiscally neutral. It is currently not clear the impact on two tier councils, but is likely to lead to addition financial responsibilities being passported to Local Government.

4.2.6 In addition to all the uncertainty about future business rates income to be retained by the council, it is likely that the impact of the Welfare Reform Bill will increase demand on the Council's welfare services as a result of reducing the benefit cap to £20,000 for a couple (outside London) in the Autumn of 2016. A consequence could be an increased demand for services and higher levels of arrears.

4.2.7 The Welfare Reform Bill has already had a big impact on the Council's Housing Revenue Account (HRA) 30 year business plan. Planned measures in the Bill aim to reduce council rents (1% for four years), which have cost £225Million over 30 years for Stevenage. The HRA business plan will be updated at the November 2016 Executive and will identify measures to help mitigate the impact of lost resources to the HRA. This is in addition to 'pay to stay' and the levy or sale on higher value voids which compound the financial problems for the HRA.

4.2.8 Other legislation due to be enacted for 2017/18 will see an Apprenticeship levy chargeable to larger employers (including councils) of 0.5% of their pay bill. This will not replace funding for the current apprenticeship programme the Council currently funds as employee costs are not eligible. The MTFS has been updated to reflect the likely impact.

4.2.9 It would be fair to say that Local Government has faced considerable financial challenges over the last few years with significant reduction of government grant since 2010/11. This has meant that local authorities have had to become innovative and resourceful in the ways to meet these challenges in order that budgets are not systematically reduced and front line services diminished. This will be delivered for the council via the Financial Security strand of the Future Town Future Council programme and an update has been included in this report.

4.2.10 The impact of public sector cuts and tax changes have been assessed/estimated over the next four years and total £22.634Million for the Council.

| Projected Impact of Public Sector Funding Reductions/tax and legislative changes £'000 | | | | | |
|---|---|---|---|---|---|
| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Total |
| **General Fund:** | £'000 | £'000 | £'000 | £'000 | £'000 |
| RSG reductions | 546 | 339 | 351 | 0 | 1,236 |
| Increased demand for services/impact on arrears - due to welfare reforms | Not yet fully known | | | | |
| Introduction of state pension (increased national insurance contributions) | 260 | 260 | 260 | 260 | 1,040 |
| Introduction of Apprentice levy | 56 | 56 | 56 | 56 | 224 |
| Impact of BREXIT | Not yet fully known | | | | |

| Projected Impact of Public Sector Funding Reductions/tax and legislative changes £'000 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Total |
|---|---|---|---|---|---|
| **Total General Fund** | **862** | **655** | **667** | **316** | **2,500** |
| **Housing Revenue Account:** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Rent reductions (welfare reforms) | 2,099 | 3,699 | 5,335 | 5,503 | 16,635 |
| Higher Value voids | 711 | 728 | 747 | 765 | 2,951 |
| Pay to stay | Not yet fully known | | | | |
| Increased demand for services/impact on arrears - due to welfare reforms | Not yet fully known | | | | |
| Introduction of state pension (increased national insurance contributions) | 105 | 105 | 105 | 105 | 420 |
| Introduction of Apprentice levy | 32 | 32 | 32 | 32 | 128 |
| Impact of BREXIT | Not yet fully known | | | | |
| **Total HRA** | **2,946** | **4,564** | **6,218** | **6,405** | **20,134** |
| **Grant Total** | **3,808** | **5,219** | **6,886** | **6,721** | **22,634** |

4.2.11 In summary the Council's MTFS needs to be cognizant not only to direct government grant support cuts through RSG, but also to the impacts as a result of other government cost saving initiatives such as changes to welfare, future reforms of Business Rates, or where responsibilities are passed to local government without full match funding.

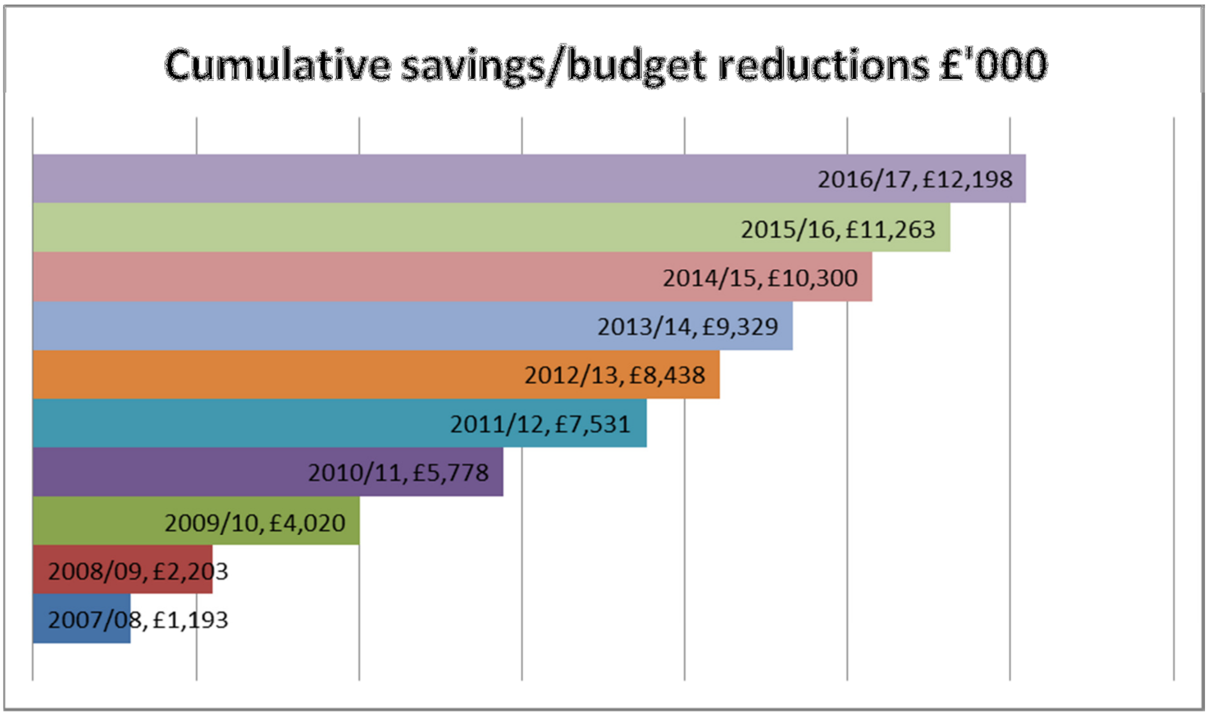
4.3 Links to Key Corporate Plans and Strategies

4.3.1 The General Fund MTFS sets out the link in financial planning terms between the Council's priorities as set out in the Corporate Strategy, clarifying the way that resources will be allocated to meet these priorities. In addition the MTFS supports the delivery of the 'Future Town Future Council' priorities.

4.4 Local Factors

4.4.1 Stevenage, like many councils, has had an annual savings target initially to eliminate a dependency on running services from reserves and from 2010/11 as a result of government support cuts. The MTFS provides a financial forecast of the cost of providing the Council's General Fund services and the resources that are likely to be available over the medium term period – thereby giving early warning of any predicted "budget gaps".

4.4.2 The level of government support cuts since 2010/11 has meant a challenging financial environment. Council's still need fund inflationary pressures while income has been constrained (i.e. council tax). The Council has tried where possible to minimise front-line service reductions and has been able to identify and implement significant savings as is demonstrated in the following chart.




4.4.3 In 2014/15 the Council changed its approach to meeting any annual funding gap by using Priority Based Budgeting (PBB) which was implemented following a visit to Aberdeen City Council, (who had developed this approach). In essence Members were not just concerned with the immediate funding shortfall to set a balanced budget, but looked at the General Fund over a three year period. This meant Members were able to review a whole suite of savings options, giving a more effective prioritisation process and allowing both Members and officers to plan ahead.

4.4.4 By 2015/16 it was clear that this approach while having delivered substantial savings had not delivered 100% of the three year's savings package since being introduced in 2014/15 and that savings options being brought forward were diminishing.

4.4.5 The 2015 MTFS considered a different approach to identifying savings through the Financial Security priority and this report provides an update in section 4.6.

4.5 Objectives of the Strategy

4.5.1 There are three overarching strategic financial objectives the Council has previously established and remain unchanged in the 2016 MTFS, these are:

- Reduce reliance on reserves
- Reduce reliance on prudential borrowing to support the Capital Strategy
- Create a balanced budget with no significant unplanned under - or overspends.

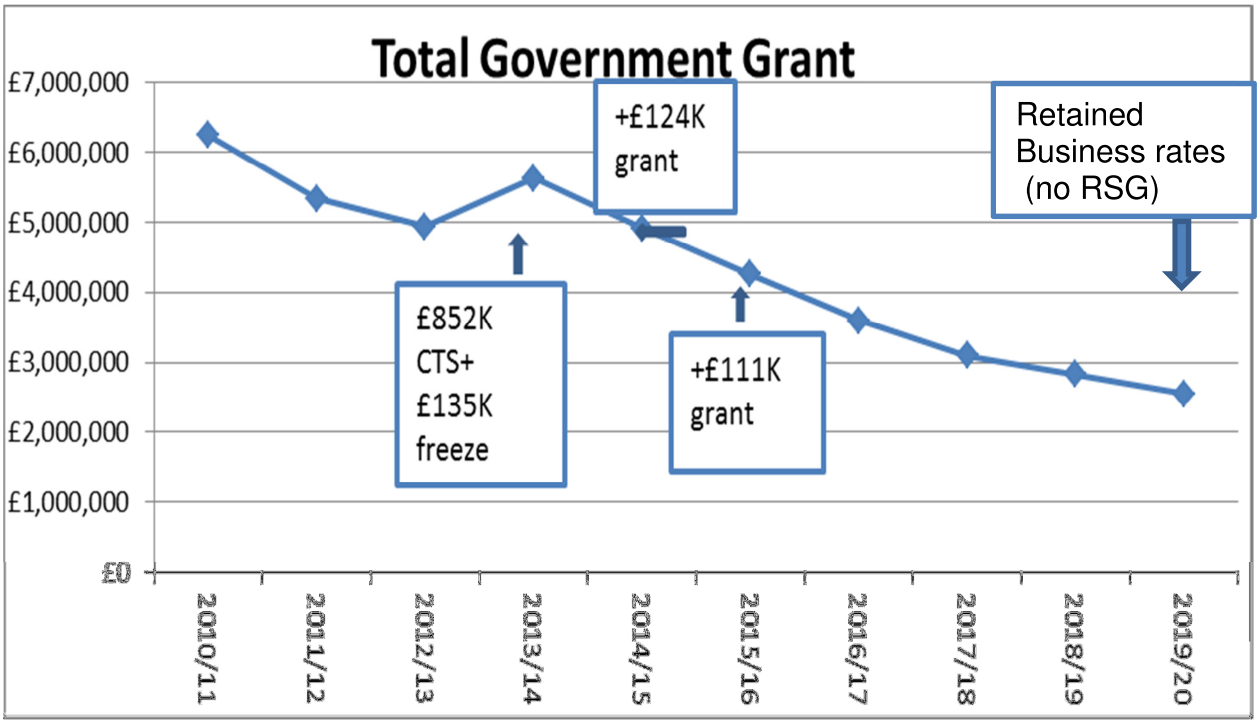
4.5.2 This MTFS has been updated to reflect the Government's four year finance settlement 2016/17-2019/20. Previously the MTFS had as one of its principles

'The Council is not dependent upon ever decreasing Revenue Support Grant funding from central government'. This has been superseded by the removal of RSG in the settlement by 2019/20. The revised objectives are supported by the Council's 'Financial Security' priority which will:

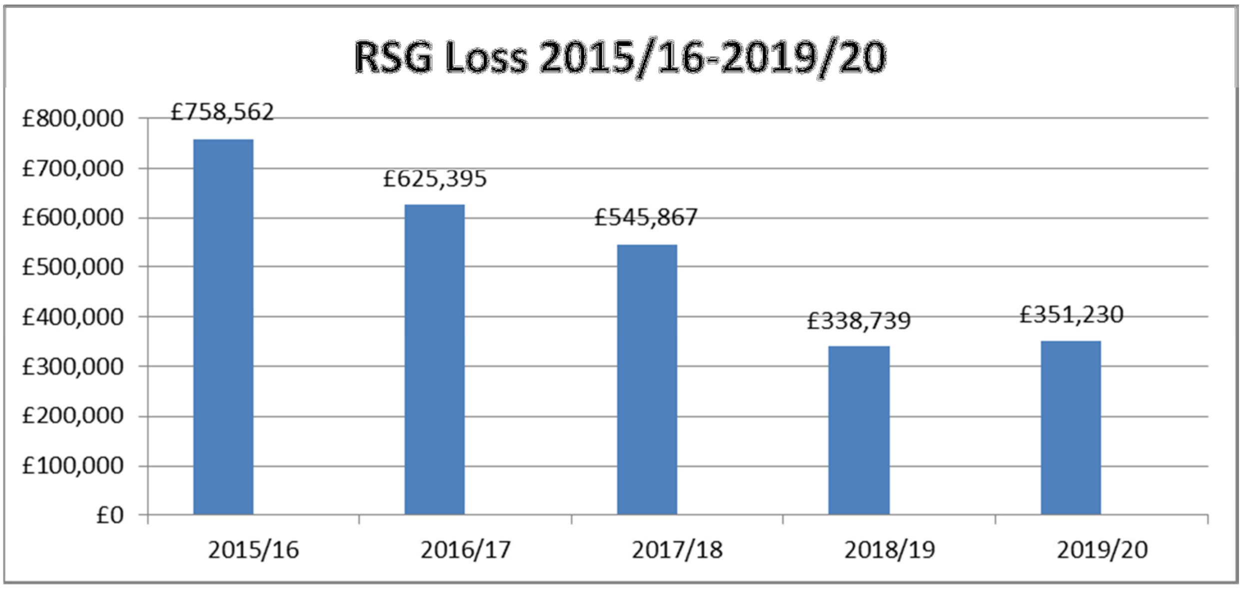
- Provide a sustainable solution to the removal of Revenue Support Grant funding by 2019/20
- The General Fund MTFS projected future budget gap is managed and closed by 2021/22
- The Council is able to support a sustainable level of borrowing to fund its requirements for capital expenditure
- The Council does not depend upon short term sources of funding such as New Homes Bonus

4.5.3 **Provide a sustainable solution to the removal of Revenue Support Grant funding by 2019/20** - The 2015 strategy assumed that RSG would have been removed from 2019/20. The four year settlement offer to the council does removed RSG by 2019/20 although the profiled reduction is different. In some neighbouring authorities RSG has gone by 2017/18, based on government assumptions about the relative size of the council tax base for individual councils.

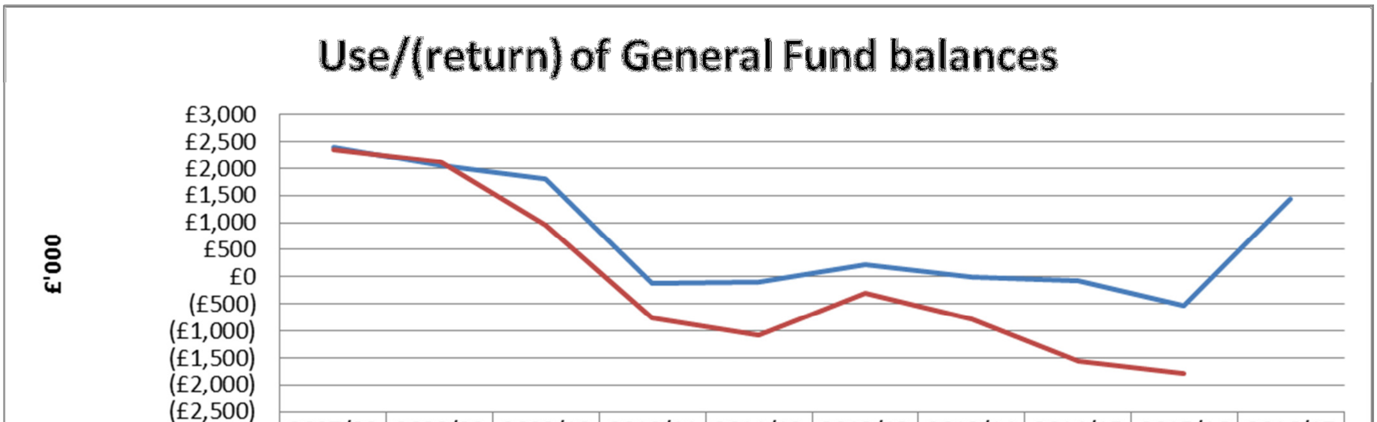
4.5.4 As stated above government funding has declined since 2010/11, this is despite £1.2Million of grants for services either transferred to councils or grants added into RSG/NDR , (Council Tax Support, Homeless and council tax freeze grant). RSG and NDR funding is shown in the following chart .




4.5.5 RSG reduction is summarised in the following chart and shows the grant loss higher in years 2016/17 and 2017/18, (unlike the 2015 MTFS which had assumed a straight line reduction). This increases the pressure on balances in the early years of the funding settlement. The second MTFS objective ‘**The General Fund MTFS projected future budget gap is managed and closed by 2021/22’**, allows for a draw on balances until 2021/22 because balances are sufficiently robust to ensure that a sustainable reduction in net costs is achieved.



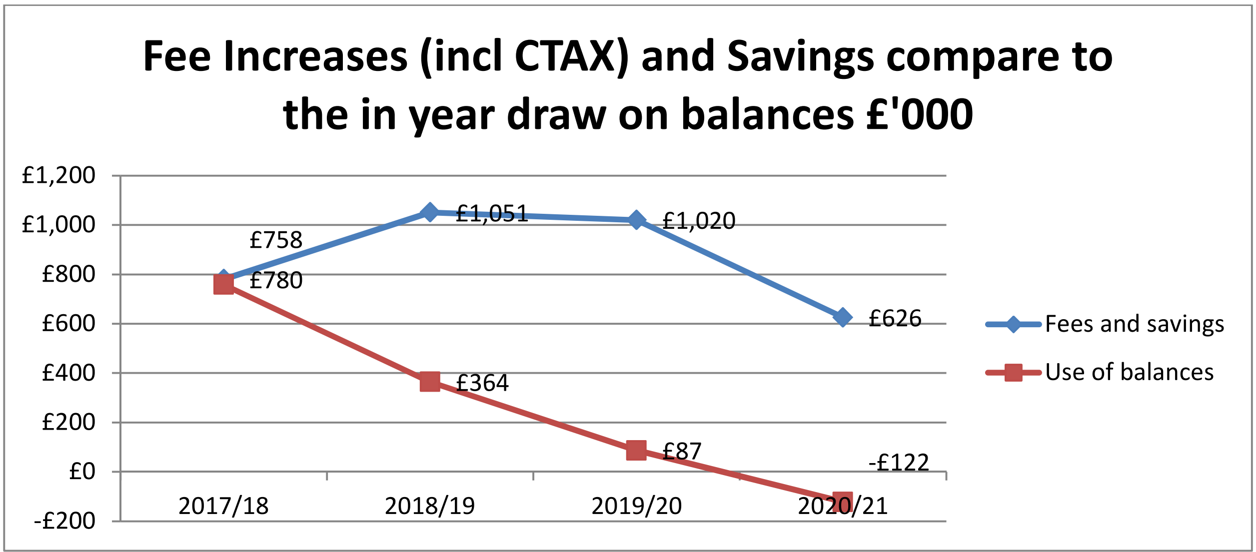

4.5.6 **The MTFS projected budget gap is managed and removed** - Over the last seven years over a cumulative £8Million budget reductions have been achieved, the Council has set balanced budgets and indeed made some contribution back to reserves, the following chart shows the level of budgeted and actual draw on balances since 2007/08.




| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|---|---|---|---|---|---|
| Original Budget | £2,395 | £2,065 | £1,805 | (£107) | (£106) | £226 | (£8) | (£71) | (£538) | £1,437 |
| Actual | £2,351 | £2,120 | £952 | (£767) | (£1,081) | (£292) | (£770) | (£1,561) | (£1,797) | |

Note: the contribution to balances in 2014/15 includes an adjustment for carry forwards of £94K and 2015/16 includes carry forwards of £422K

4.5.7 The MTFS projections for the General Fund must be set in the context of the level of savings that are achievable (‘Financial Security’ work programme), the available General Fund balances and the need to close the projected budget gap. The following chart shows the level of fee and council tax increases and savings required, which still creates a draw on balances. However by the fourth year the level of planned fee/savings reduces and the General Fund makes a small surplus and meet the objective of the MTFS to achieve an on-going balanced budget by 2021/22.




4.5.8 However there are a lot of unknowns about the impact of BREXIT, the future of Business rates and NHB, changes which could significantly adversely impact on the General Fund. In addition the impact of future regeneration in the town could lead in the short term to a loss of business rate income which will require sufficient balances to be held during that period until new business premises are occupied.

4.5.9 The MTFS use of balances is planned, however it is anticipated that if the General Fund is unable to close the gap then slowly, over time, the Council's reserves will diminish and the targeted budget reductions will need to increase. The gradual reduction in the draw on balances allows a phased approach to budget reductions taking into account the readjustment required to deal with the additional pressure caused by the RSG removal. The alternative would be to set a higher savings target but this is likely to cause detrimental impact to key services and that is why the phased approach is recommended.

4.5.10 The projected draw on balances in 2016/17 (£2.27Million) is higher than in future years because of a prior year £935,734 repayment of business rates to the Collection Fund together with prior year carry forwards of £422,321.

4.5.11 There is no allowance for revenue growth within the MTFS or increases in borrowing costs for capital. It is recommended that any increase in General Fund costs as a result of these pressures are met from increases in a savings target or fees and charges.

4.5.12 The mechanism by which the Council can meet the annual savings target is detailed in Section 4.6 of this report. The MTFS principles for financial planning purposes were updated as part of the 2015 update and are summarised as follows:

| 2015 MTFS principles |
|---|
| To remove the General Fund's reliance on RSG by 2019/20 and achieve an on–going balanced budget by 2021/22 by ensuring inflationary pressures are matched by increases in fees and income or reductions in expenditure. |
| To consider as part of the budget setting process, and throughout the year as necessary, what support can be given to the community, tenants, leaseholders and businesses in times of particular hardship. |
| To use the Council's reserves in a cost-efficient and planned manner to deliver the Council's priorities. |
| To maximise the Council's income by promptly raising all monies due and minimising the levels of arrears and debt write-offs. |
| To identify alternative means of resourcing the Capital Strategy to minimise the impact of borrowing (GF only). |
| In setting General Fund balances a % for overruns (currently 1.5%), specific known risks, loss of savings & risks associated with new ventures and the cost of borrowing for the capital programme is included. |
| To identify variations to the approved budget via quarterly monitoring and only incur additional on-going spending when matched by increased income or identified savings. |
| To propose Council tax increases in line with inflation for modelling purposes with any increase above inflation used to achieve a balanced budget. |
| To ensure that resources are aligned with the Council's Strategic Plan and corporate priorities |

4.6 The Council's Budget Challenge – Sustainability Plan

4.6.1 If the Council is to achieve 'Financial Security', the on-going gap between the level of resources and expenditure necessitates difficult decisions to be made. Effective prioritisation and management of resources, at the setting of the budget and in response to in-year variances, value for money initiatives and partnership working have become increasingly significant in meeting the challenge.

4.6.2 The Council introduced Priority Based Budgeting (PBB) in 2014/15 recognising that the level of budget reductions required over the following three years could not be realised without significant impact on front line services.

4.6.3 The PBB process was designed to be a comprehensive programme of reform for the Council with the intention of delivering better outcomes for Stevenage residents for less money. PBB would also help determine the future focus of the Council in a world of diminishing resources with 2016/17 being the third and last year of PBB (PBB3).

4.6.4 The PBB process has enabled a longer term look at budget reductions particularly as some require a longer lead in time than just one year. However the total savings produced have not met the three year funding gap. Consequently in 2016/17 a new approach to meeting the funding gap was implemented as part of the 'Future Town Future Council' priority 'Financial Security'.

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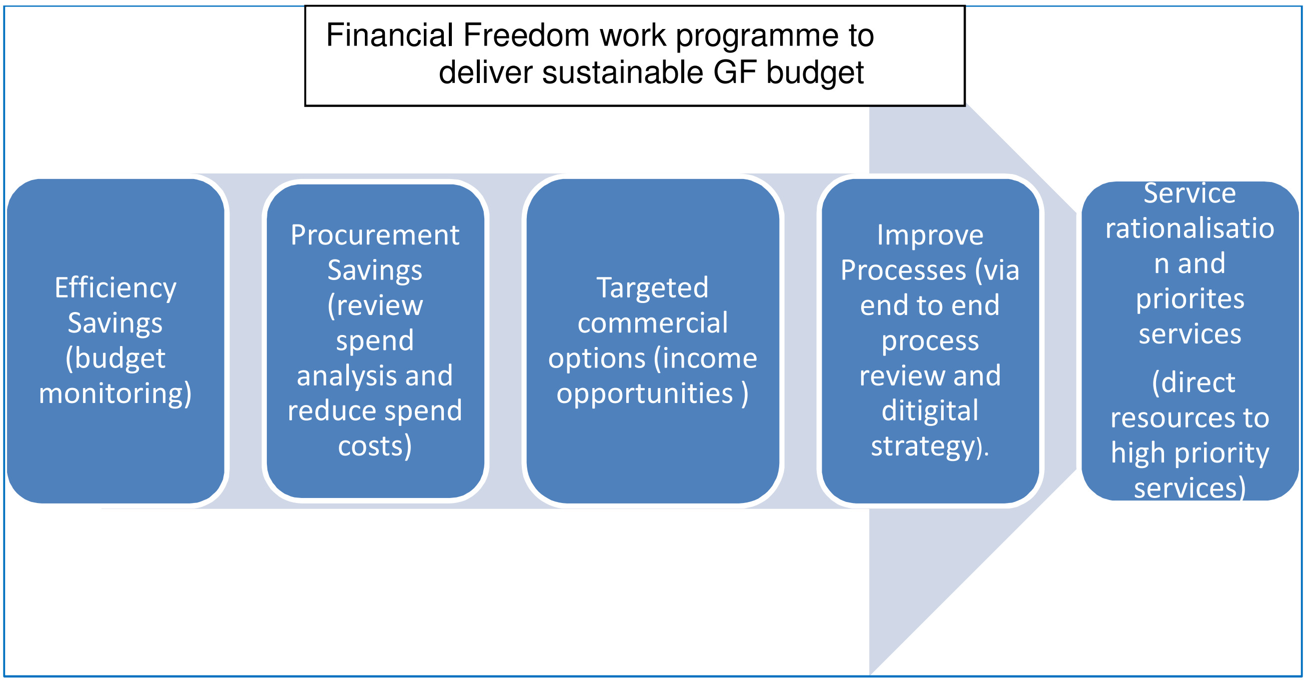
4.6.5 The revised approach to meet the budget gap is a year round process for cash savings and income options, to reduce the General Funds net costs. The five strands of the approach are shown in the following diagram.




4.6.6 The process is still designed to ensure savings are made in areas of a lower policy priority, however as the Council's cost base has reduced from £14.8million in 2007/08 to £9.1million in 2016/17 the options for de-prioritisation have diminished. Any shortfall in the target required will need to be 'topped up' by service reductions.

4.6.7 In order to achieve the level of budget reductions required on-going the Financial Security process runs throughout the year. An officer team has been working on potential options and the Leader's Financial Security Group has now met.

4.6.8 It would be fair to say that progress to date has not been as fast as officers would have liked and the majority of savings that have been identified relate to efficiency savings reported and removed from the General Fund as part of the quarterly monitoring process, (£396,490). However a number of targeted commercial options will be coming forward during the coming months which will help fund the 2018/19 -2019/20 budget gap. There are proposals that total £100,000 relating to energy efficiency, advertising and dual use of council premises that will contribute to the unallocated target in future years.

4.6.9 In addition Corporate Procurement officers have been identifying areas of spend that could be procured more efficiently and are working with officers to achieve this to deliver savings.

4.6.10 The Council is currently working on a Digital Strategy and has engaged some support to improve workflow processes all of which the Financial Security Group will be tracking to capture savings from improved processes. These reviews have started and could deliver savings for 2018/19 onwards.

4.6.11 As part of the work of the LFSG Members will also be reviewing services and look to find savings from those services which are not considered a high priority, this work will be on-going.

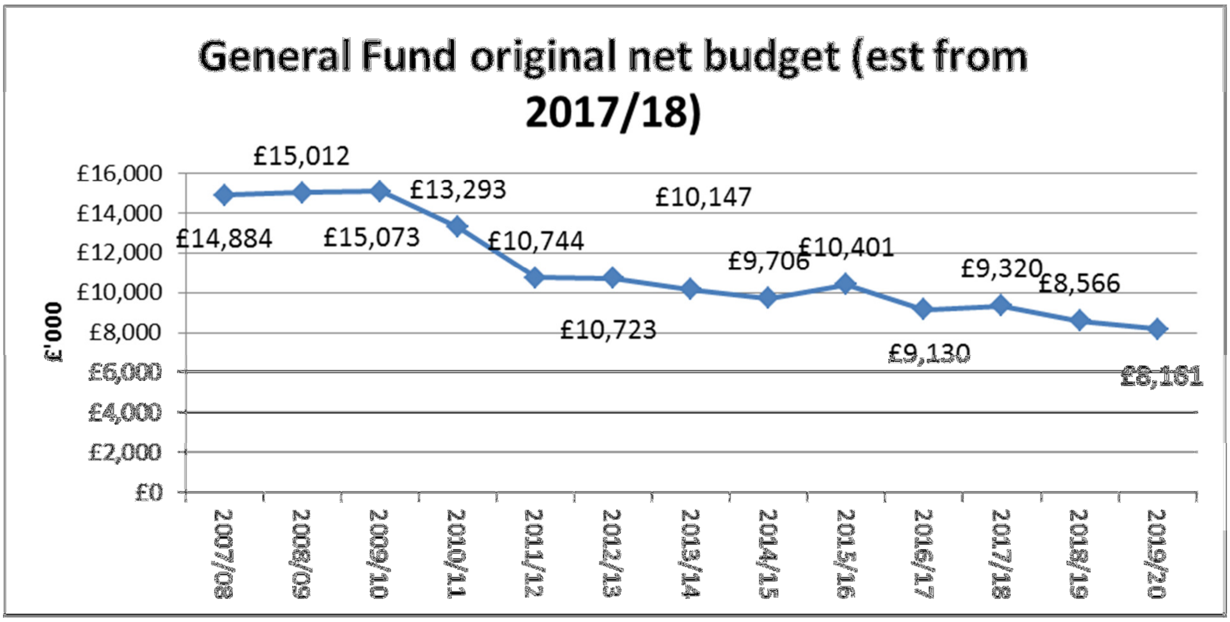
4.6.12 The MTFS £2.5Million savings target for the period 2016/17-2019/20 of which £1.1Million is still unidentified for the period 2018/19-2019/20. The table below summarises the savings required.

| Summary of savings: | 2016/17 £ | 2017/18 £ | 2018/19 £ | 2019/20 £ | Total £ |
|---|---|---|---|---|---|
| Prior year savings | (322,950) | (77,816) | | | (400,766) |
| 2016/17 savings approved February 2016 | (233,090) | (40,041) | (13,140) | | (286,271) |
| Quarterly Monitoring Savings | (373,170) | (23,320) | | | (396,490) |
| 2017/18 in principle savings | | (269,052) | (64,854) | | (333,906) |
| Restructure savings | | | (58,000) | | (58,000) |
| Total identified Savings | (929,210) | (410,229) | (135,994) | 0 | (1,475,433) |
| Less one off Costs | 57,970 | | | | 57,970 |
| Remaining target to find | 0 | 0 | (518,680) | (600,000) | (1,118,680) |
| Total Savings | (871,240) | (410,229) | (654,674) | (600,000) | (2,536,143) |

4.6.13 The Financial Security strands will be used to deliver these savings which will be monitored through the Leader's Financial Security Group.

4.7 Revenue Resources

4.7.1 The General Fund net budget has reduced from some £14.8Million (2007/08) to an estimated £8.16Million by 2019/20. The reduction in the cost base has been facilitated by the savings that have been extracted from the budget since 2007/08 (see also paragraph 4.4.2).




4.7.2 The General Fund net budget is funded from council tax, government funding via RSG (until 2019/20) and retained business rates. The percentages included in the table below show how the General Fund will become more reliant on two main income streams, council tax and business rates. This means that firstly for business rates, sufficient allocated reserves should be held to dampen any timing issues relating to fluctuations in income (see paragraph 4.5.10 and the MTFS does have an allocated reserve balances for business rates lost before the safety net is paid by the government ). Secondly, by 2020/21 nearly 70% of the net budget will be funded from council tax and the MTFS does assume an annual increase in council tax, (see also sections 4.8-4.10).

| | % of net Original Budget | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year: | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| Council Tax | 45.90% | 49.50% | 47.10% | 58.20% | 57.50% | 62.80% | 67.70% | 69.50% |
| RSG | 33.30% | 27.00% | 17.90% | 13.50% | 7.40% | 4.10% | 0.00% | 0.00% |
| NDR | 20.90% | 24.20% | 40.20% | 12.60% | 27.00% | 28.90% | 31.30% | 32.00% |

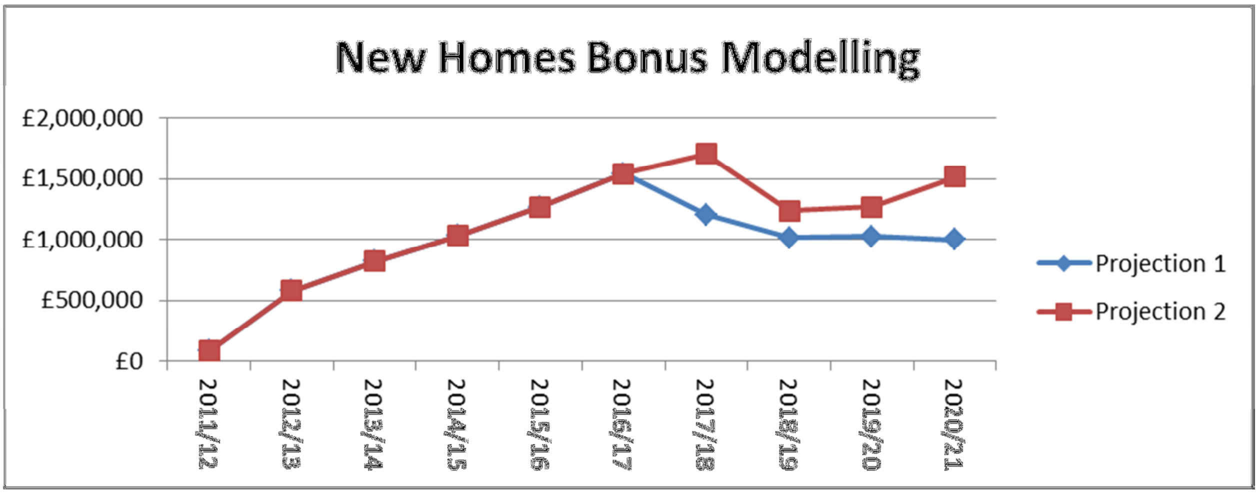
4.7.3 It has been the Council's policy to date not to rely on temporary income streams to fund permanent services, which includes the use of New Homes Bonus (NHB). To date, only £200,000 has been added to the General Fund base budget from NHB (and £250,000 for capital). This continues to be the view of the Assistant Director (Finance), that it is prudent to NHB funding to support one-off projects rather than support on-going revenue spend on services. The Government has signalled its intent to reduce the number of years an NHB amount once awarded is given, from six to four years. Although changes to the schemes were consulted on(closing date10 March 2016), to date no outcome following the consultation has been released.

4.7.4 Currently each new home brings the Council approximately £1,186 in NHB based on 80% of a national average Band D Council Tax Charge, with the County Council benefiting from 20%.

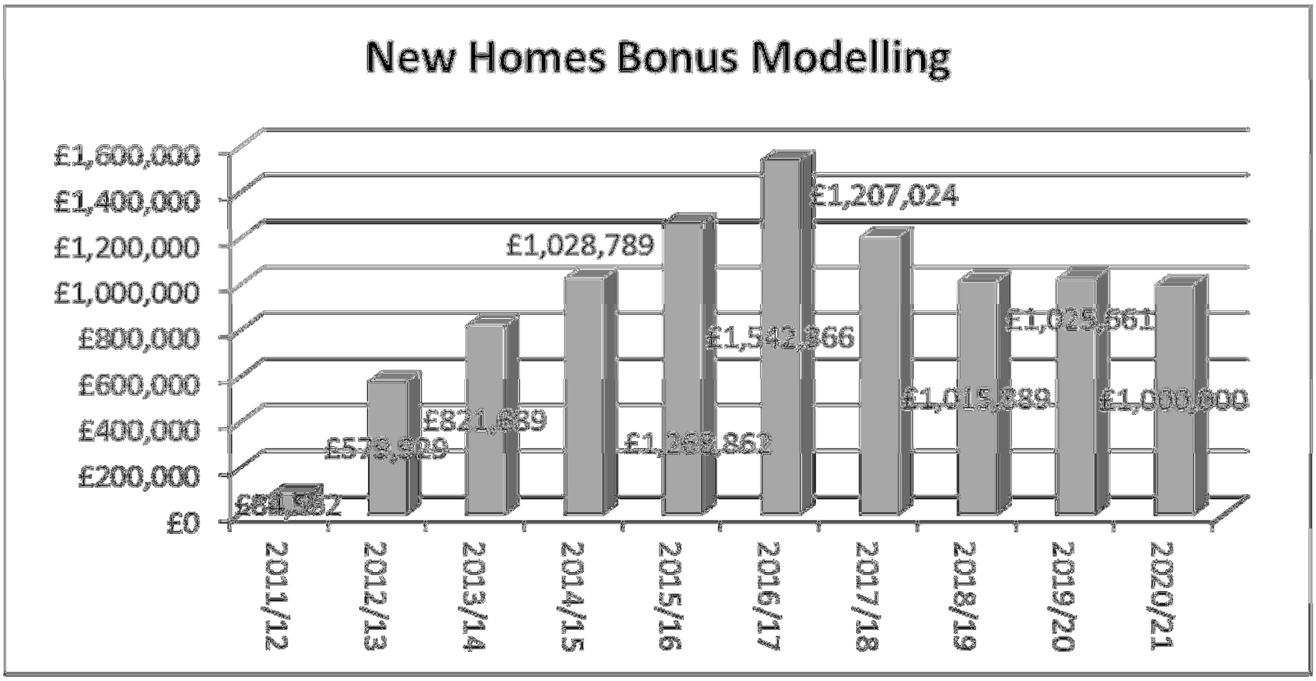
4.7.5 The amount HNB paid in 2016/17 is £1.54Million, however going forward it depends how the government decides to reduce the funding from six to the proposed four years. The following chart shows the impact if:

- Projection one - funding is reduced by five years in 2017/18 and then to four years in 2018/19

- Projection two - all funding prior to 2017/18 is paid for the full six years and thereafter four years




4.7.6 The following chart shows the income that would be received under option one (reducing from five years in 2017/18 and a further year in 2018/19). Based on annual £250,000 per year this would deliver £1,000,000 of which £450,000 is ring fenced for the General Fund and capital programme, leaving £550,000 for remaining schemes, including Neighbourhood improvements and apprentices. Members will be updated when the government publishes the new rules which maybe contained within the Autumn Statement.




4.8 Council Tax

4.8.1 Council Tax will represent over 70% of the Council's core resources (paragraph 4.7.2 refers) and for modelling purposes the MTFS assumes that council tax will be increased by the maximum amount of 1.99% before a referendum needs to be held. This is below the level of projected RPI inflation. (The 2015 MTFS assumed an RPI increase and where inflation exceeded the cap on council tax increases a 1.9% was proposed). The 2016 MTFS has modelled the maximum increase to help close the funding deficit identified in the strategy and to minimise the level of additional savings required per year. The RPI inflation assumptions compared to the MTFS council tax increase show that for all years RPI inflation is projected to be higher than the modelled increase as shown in the following table.

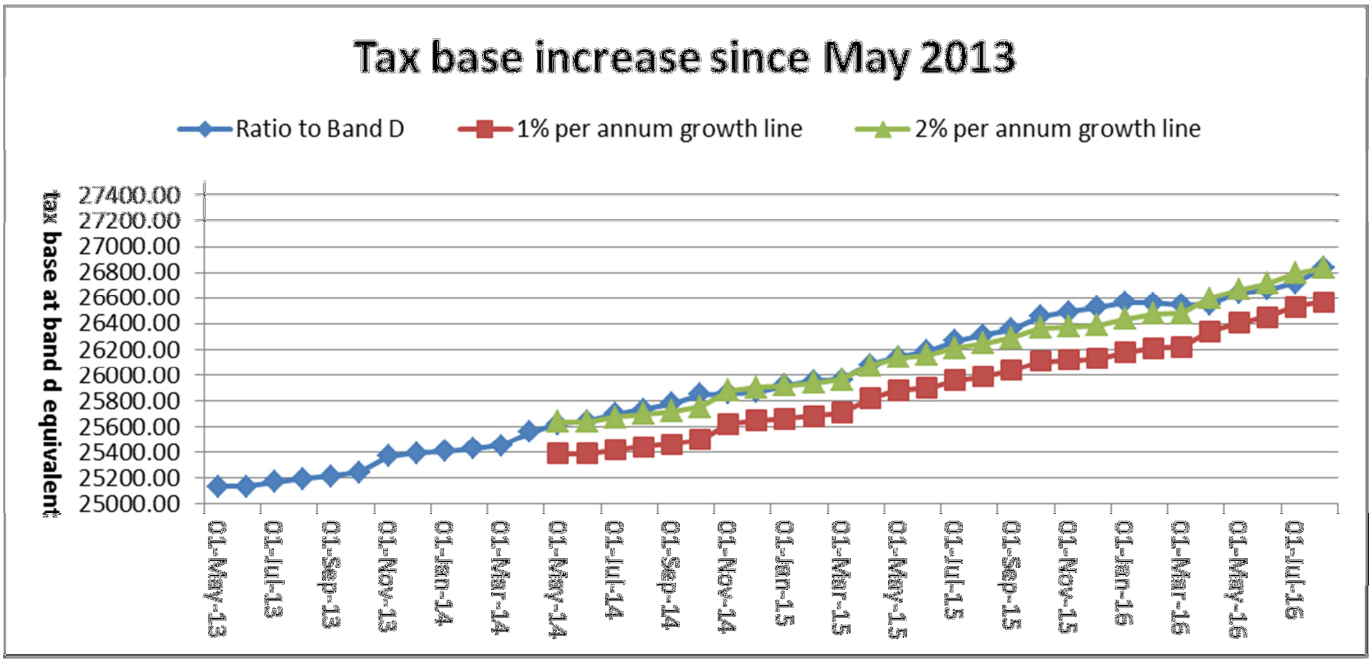
| | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| RPI indices increases | 2.00% | 3.00% | 3.34% | 3.35% |
| Council Tax - % increase | 1.99% | 1.99% | 1.99% | 1.99% |

4.8.2 In 2016/17 SBC took the Government's offer to allow district councils to increase council tax by £5 on a band D which represented a 2.65% increase for the year. Any increase in council tax above the assumption in the MTFS and below the cap will contribute towards the General Fund's annual year budget reduction target.

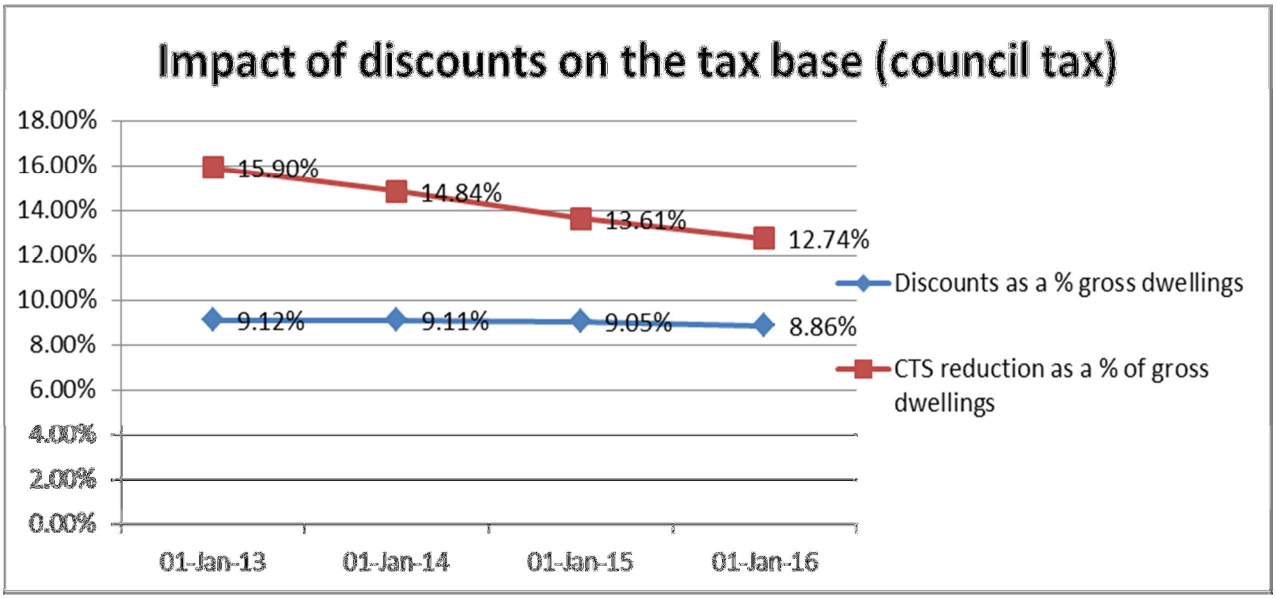
4.8.3 The other component to the amount of precept raised is the tax base the precept is raised on (or the number of chargeable properties). Historically a 1% increase in the tax base has been assumed each year for modelling purposes. Looking forward for the next four year's projections have been completed to determine:

- where growth has happened in the tax base and will it continue (which bands etc, impact of business to residential conversions.)
- what level of council tax support and exemptions should be modelled
- The impact of any single person discount reviews

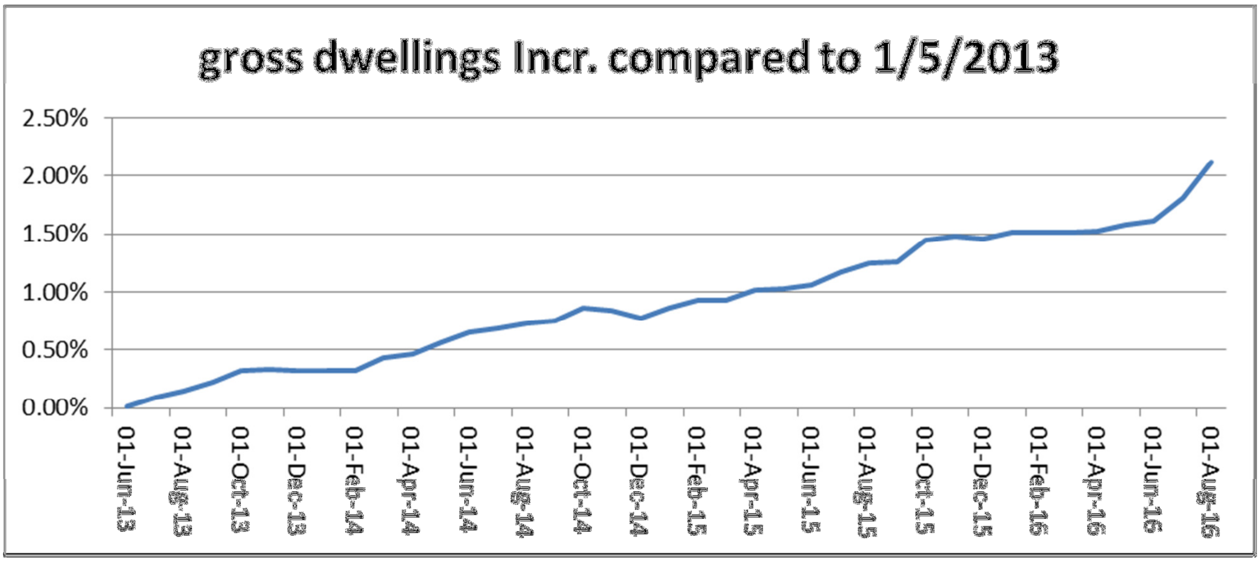
4.8.4 The modelling has shown that the tax base since May 2014 has increased in line with a 2% increase in the tax base, however this has been more linked to a reduction in Council Tax Support (CTS) awarded than purely property numbers.




4.8.5 Looking at the following chart it is clear that the proportion of discounts both CTS and others i.e. single person discount are becoming a smaller reduction to the tax base, with CTS falling from 15.9% deduction of the gross dwellings to 12.74% by January 2016, other discounts have also fallen from 9.12% to 8.86%.



4.8.6 Looking historically at the growth in the gross chargeable dwellings has only increased 2.12% from 1 May 2013 to 1 August 2016, or 753 properties. However there has been an increase in business to residential conversions in Stevenage as well as other new properties coming on stream. The increase in taxbase despite relatively modest increases in properties demonstrates the impact that the reduction in CTS costs and other discounts have had on the tax base.




4.8.7 In terms of projecting property numbers, over recent years there has predominately been an increase in band B and C properties and an assumption has been made that for 2017/18-2018/19, 500 properties per year will come into the tax base and thereafter 250 properties. The 2017/18 tax base is estimated to grow by 2.2% compared to the original tax base for 2016/17, this is because the current tax base is higher than the original estimate and consequently a surplus of £132,000 has been projected to be returned to the General Fund in 2017/18. The projections included in the MTFS assume that the level of CTS and other discounts remain at their current levels for band B and C properties.

4.8.8 If the tax base does not grow as quickly as projected then the level of council tax income will be reduced. The level of tax base for future years is for modelling purposes only and each individual year will be set as part of the budget setting process in January preceding the start of the financial year. It is assumed that an increase in properties in the town will not mean additional resources will be currently needed by front line services, however there will be a point whereby increased properties will require, for instance, additional refuse collection resources.

4.8.9 A 1% increase in council tax nets the Council around £50,000 per annum. Any increase in council tax payable will also increase the amount of council tax that would need to be paid by those working aged claimants eligible for council tax support. However as outlined in section 4.9 no changes are proposed to the CTS scheme for 2017/18.

4.8.10 The level of council tax assumed in the MTFS is based on;

- 250 band B and 250 band C properties for 2017/18 and 2018/19 reducing to a total of 250 properties in future years.
- No change to the CTS scheme (no change recommended for 2017/18 by the July Executive).
- CTS costs remain as at the same proportion of the tax base as they do now, with no increase projected
- Removal of discounts on empty properties and 50% premium on long term empties (agreed July 2016 Executive)

4.8.11 The income generated by the projected tax base and a 1.99% increase per year per property band is shown below, together with the additional income that could be raised by a £5 increase on a band D property if the government regulates for this for future years. In addition any additional income generated by council tax reduces the level of budget savings required.

| Council Tax Increases | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| MTFS Council Tax increase % | 1.99% | 1.99% | 1.99% | 1.99% |
| Year on year increase in tax base | 2.22% | 0.97% | 0.68% | 0.54% |
| MTFS Council Tax | £5,223,329 | £5,379,135 | £5,523,661 | £5,664,164 |
| Increase for Year | (£ 213,386) | (£ 155,806) | (£ 144,526) | (£ 140,503) |
| Increase if £5 band D | (£ 30,406) | (£ 59,357) | (£ 86,510) | (£ 111,716) |

4.8.12 Should the Government reduce the current 2% cap on council tax increases (before a referendum is triggered), to say 1% or if Members approve a 1% rise per year (up to and including 2020/21), there would be an adverse financial impact on the MTFS from 2017/18 onwards resulting in an additional loss of council tax income of £530,000 by 2020/21.

4.8.13 In addition to reviewing the tax base the Shared Revenue and Benefits service and/or SAFS will be ensuring that exemptions granted for council tax are regularly reviewed and data matching exercises regularly undertaken to valid the tax base.

4.9 Council Tax Support Scheme (CTSS)

4.9.1 In 2013/14 the Council agreed to operate the new Local CTSS at zero cost to the wider taxpayer and this scheme has been in operation for four years. The scheme is funded from government grant (10% of the fixed cost as at 2013/14, £6,574,375). The grant is no longer identified separately within RSG and NDR during which time the Council has had significant reductions in government grant.

4.9.2 In 2016 the Assistant Director (Finance) presented options to the Overview and Scrutiny Committee and Executive to propose changes to the scheme for 2017/18. Based on relatively low levels of income that could be generated for SBC from changing the scheme e.g.changes to eligibility criteria, including capital allowances and the percentage payable before CTS, Members recommended no change to the scheme.

4.9.3 The MTFS assumes for tax base modelling purposes that the claimant caseload has plateaued and will not reduce and any increase will be pro-rata to the level of increases in property numbers.

4.10 Business Rates

4.10.1 Future Business Rate redistribution and level of annual inflationary increase is due for some significant changes. The Government has already consulted on some amendments. As part of recent consultation business leaders suggested that if business rates are updated by inflation, then the indexation should be in line with the CPI. Local authorities highlighted this would have to be considered in the context of local government financing. The Government has responded by saying that from April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI to be consistent with the main measure of inflation, currently CPI. This is in line with the Government's previous commitment to consider moving the indexation of indirect taxes from RPI once fiscal consolidation is complete. The current differential between the two indices is 1% (RPI being the higher).

4.10.2 The Government is also consulting on 100% retention of business rates (from 2019/20), (the Government currently takes a 50% share). The Government has stated that this change will be fiscally neutral and is therefore likely to lead to a transfer of financial responsibilities from central to local government. The risk is that the pace of inflation on transferred services could outstrip that of the retained income with no link to growth in business rates. This issue is further exacerbated in two tier council areas in terms of how business rates will be apportioned. If there is a switch to county council funding which reduces the 40% share to districts (before the tariff is applied) this could see any potential future growth gains for Stevenage significantly dampened.

4.10.3 There is also a valuation review for 2017 of the rating list, this could bring swings in the valuation list and significant adjustments to baseline funding, the impact of which, at this stage, is unknown. This is also compounded by the ever increasing level of appeals that are outstanding, (provision made £6.8Million as at 31 March 2016).

4.10.4 **The MTFS currently assumes that the council will achieve the baseline amount of business rates each year** i.e. no inclusion of any growth or losses. the baseline amount however could be adversely impacted if for instance a large proportion of schools convert to academies and so obtaining mandatory relief and the NHS challenge for mandatory relief is upheld. Proposed changes to Business Rates distribution after 2019/20 does contain safety nets and tariffs to top up or top slice from NDR retained by councils.

4.10.5 An assessment has been made of the known changes on the business rates yield to date and it is anticipated that the council can achieve the assumptions in the MTFS. However the impacts identified in paragraphs 4.10.2-4.10.4 could adversely impact on the the level of NDR achievable**. Based on the level of risk to SBC's future share business rates no adjustments have been made to future NDR income for growth**. As the plans become clearer about the future of business rates the MTFS will be updated.

4.10.6 The Shared Revenue and Benefits service and/or SAFS will be ensuring that the business rate regulations are adhered to and outside companies have been used to help identify areas where assessments are incorrect and under value the rating list.

4.11 Four Year Finance Settlement

4.11.1 The 2016/17 finance settlement for RSG and baseline NDR was notified to Local Authorities on the 18 December 2015. This was a four year settlement for the period 2016/17-2019/20. At the time the funding was published the government intimated that councils would need to sign up to the four year deal to gain some certainty over future years funding. Subsequently a letter was sent to all councils on the 10 March setting out the rationale for applying. The letter is attached at Appendix B and asks that local authorities apply by the 14 October with a link to their four year efficiency plan. The letter concludes by stating that future funding cannot be guaranteed for those not signing up. The letter states that '*Allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit'.*

4.11.2 The Assistant Director (Finance) view is there is a risk to losing RSG at a faster rate than contained within the settlement proposal. The NDR element of the funding is linked to the baseline assessment but may be impacted by the 2017 revaluation and the changes to business rates that the government is proposing from 2019/20 when NDR will be 100% retained by Local Authorities (see also section 4.10).

4.11.3 Stevenage is also looking for significant investment into the Town Centre and it would be appropriate that SBC demonstrates its efficiency plans and resilience to funding cuts while have strong ambitions to regenerate the town.

4.11.4 Based on the paragraphs above it is recommended that the council sign up to the four year settlement offer by the 14 October deadline and use the MTFS as the relevant document that sets out those plans.

4.12 Projections for Future Council Spending 2016/17- 2020/21

4.12.1 The assumptions made in the report together with other known budget adjustments are detailed in Appendix A. Further detail regarding the rational for the inflation assumptions made in the MTFS are in the following paragraphs.

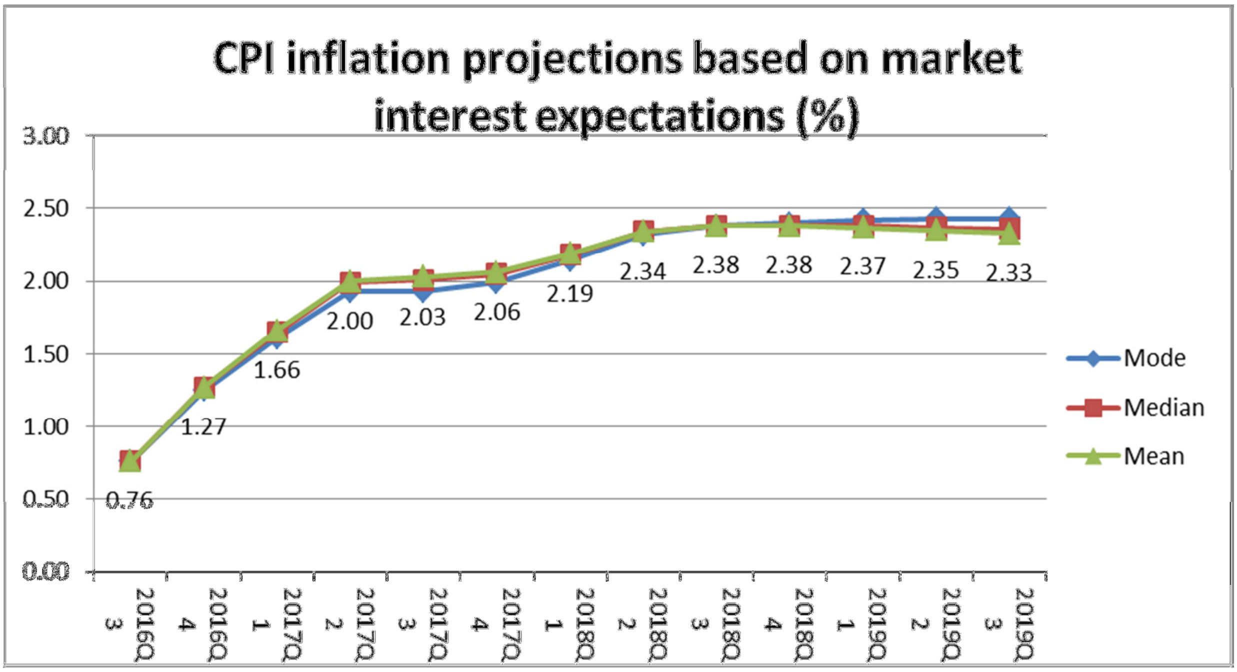
| | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| Inflation-Applied to: | | | | |
| Salaries - % increase | 1.00% | 1.00% | 1.00% | 1.00% |
| Pension Increase | Based on a £85K increase in the lump sum | | | |

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| | payment | | | |
| CPI indices increases | 0.90% | 2.00% | 2.34% | 2.35% |
| RPI indices increases | 2.00% | 3.00% | 3.34% | 3.35% |
| Fuel Increases | 0.00% | 4.00% | 4.34% | 4.35% |
| Gas (unit charge only) | 10.77% | 10.84% | 10.90% | 10.90% |
| Electricity (unit charge only) | 10.03% | 10.32% | 10.38% | 10.38% |

4.12.2 The inflation assumptions shown in table above have been calculated using a range of information sources which are:

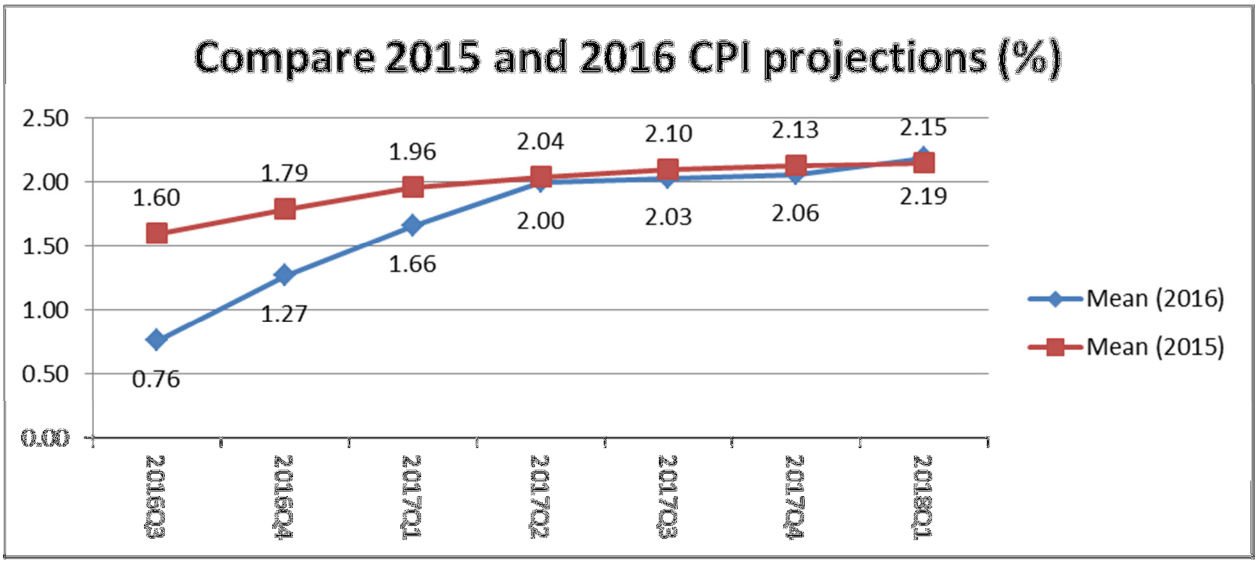
| | Rationale for inflation assumption |
|---|---|
| Salaries - % increase | The increase of 1% has been based on the government's intention to limit pay awards to 1% during this parliament. The MTFS assumes that Local Government Employer offer will mirror this. |
| Pension Increase | At the last pension valuation the council entered into a 'stablisation model' which capped the maximum increase in costs to meet the pension deficit. This has been assumed beyond the pension revaluation date. |
| Consumer Price Index (CPI) indices increases | This is based on the Bank of England forecasts as outlined in the August quarterly update. (2017/18 cost inflation based on slight increase on July 2016 %). |
| Retail Price Index (RPI) indices increases | This is based on a 1% differential between the CPI forecast by the Bank of England (see also paragraph 4.12.6) |
| Fuel Increases | Based on estimate for 2016/17 with future years increases being 2016/17+RPI inflation |
| Gas (unit charge only) | This has proved difficult to forecast and the MTFS contains the average increase annually which the council has experienced in addition to the current forecasts |
| Electricity (unit charge only) | As above |

4.12.3 The summary in the following chart is based on the Monetary Panel Committee (MPC) best collective judgement of the most likely path for inflation as published August 2016.



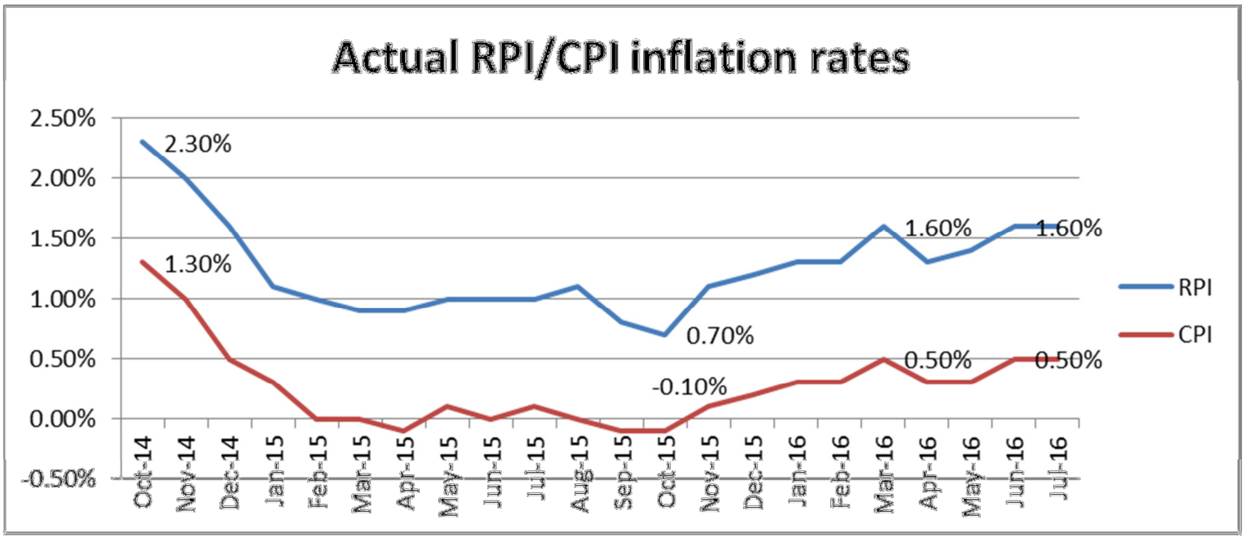

(mean CPI projections shown on the chart) Source: Bank of England quarterly report published August 2016

4.12.4 The August 2016 projection for CPI for the period Q3 2016 to Q4 2017 is slightly lower than the previous projections. The 2015 projections thought CPI would be 1.6% by Q3 2016/17 (July-September 2016), however CPI for July is only 0.6%. However projections beyond Q1 2017/18 estimate that CPI inflation will increase above the 2% target to 2.33% by Q3 2019.

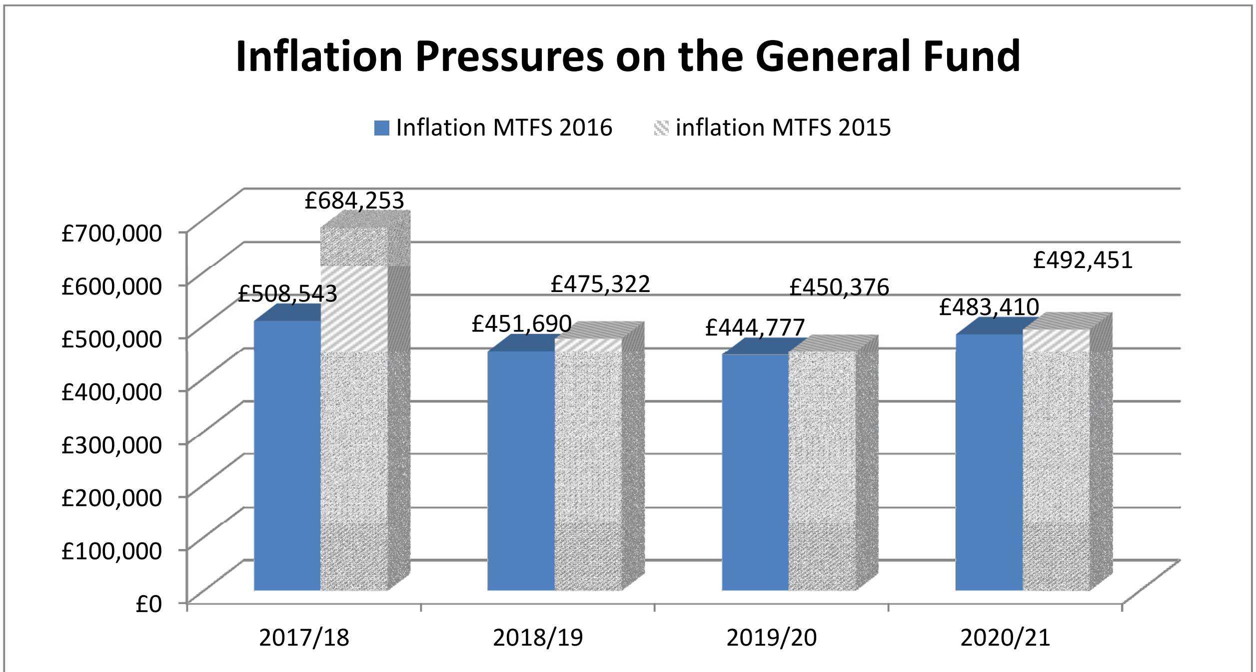



4.12.5 The CPI is a measure of consumer price inflation produced to international standards and in line with European regulations. First published in 1997 as the Harmonised Index of Consumer Prices (HICP), the CPI is the inflation measure used in the UK government's target for inflation. The CPI is also used for purposes such as uprating pensions, wages and benefits. The CPI 12-month rate (the amount prices change over a year) between June 2015 and June 2016 stood at 0.5%. This means that a basket of goods and services that would have cost £100.00 in June 2015 cost £100.50 in June 2016.

4.12.6 The Government prefers to use the CPI indices to measure inflation, however a number of the Council's contracts and income streams (Business Rates) are linked to the September RPI. There is a differential between the two indices which varies from 0.8% (October 2015) to 1.1% (July 2016). The MTFS assumes that RPI inflation will be 1.0% higher than CPI from 2017/18 (MTFS 2015 assumed 0.9%).




4.12.7 The total cost of inflation to the General Fund and therefore the amount required to be met from balances/savings options is shown in the following chart. Compared to the 2015 MTFS the cost of inflation is £166,000 lower in 2017/18 and then the gap significantly reduces between the two estimates for future years.



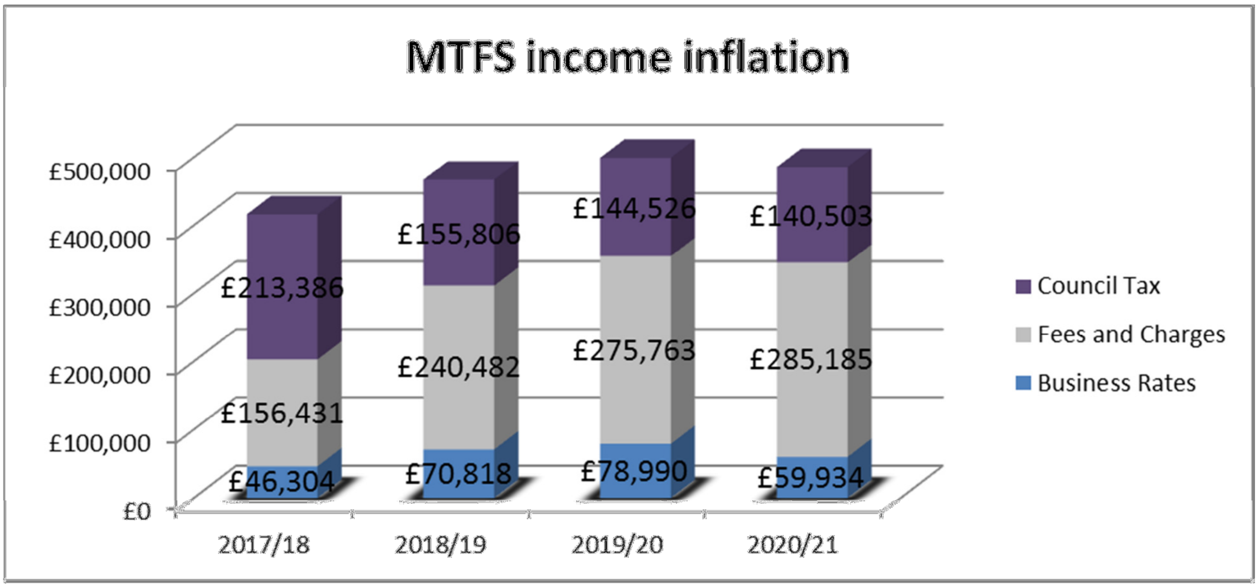
4.12.8 Inflation also can and has a positive impact on the Council's income streams and the following assumptions have been made in the MTFS.

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| Inflation-Income (RPI) | | | | |
| Council Tax - % increase | 1.99% | 1.99% | 1.99% | 1.99% |
| Retained Business Rates increase % | 1.97% | 2.95% | 3.20% | 2.35% |
| Fees & Charges (where applicable) | 2.0% | 3.00% | 3.34% | 3.35% |

4.12.9 The assumptions used for the annual increases are shown in the table below.

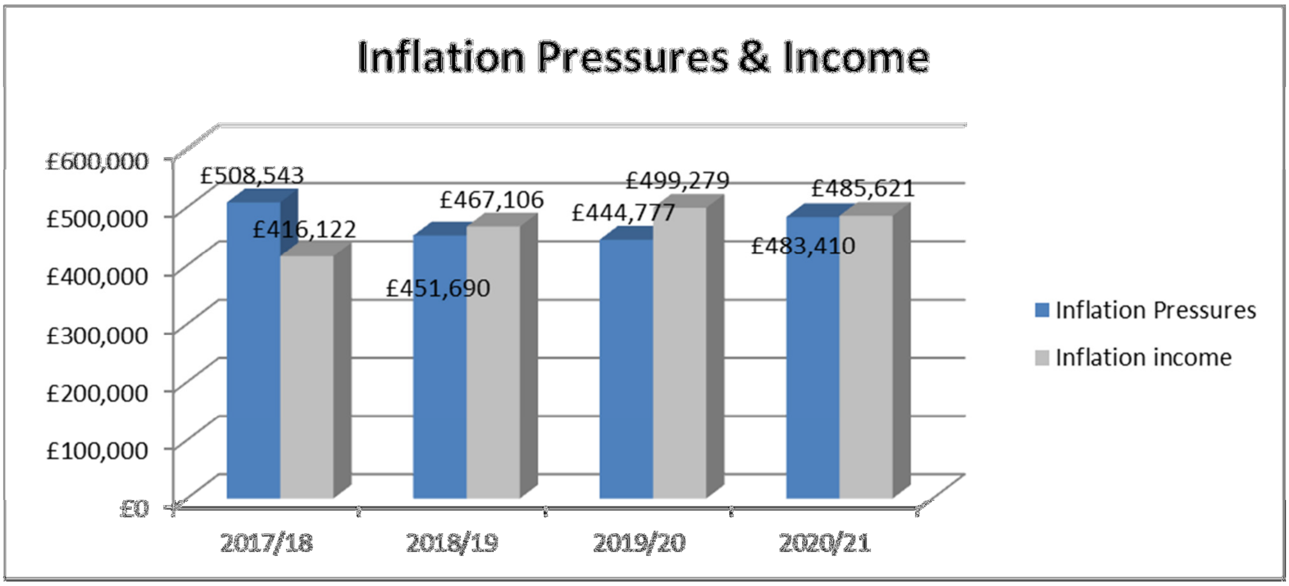
| | Rationale for inflation assumption |
|---|---|
| Council Tax - % increase | The 2015 MTFS assumed RPI inflation increase the 2016 MTFS recommends increasing Council tax by the maximum 1.99% set just below the anticipated government prescribed cap on increases (see section 4.8). |
| Retained Business Rates increase % | This is based on the 4 year finance settlement offer (February 2016). The inflation assumptions only make a £3.8K difference to the governments figures so the increases included in the four year funding settlement have been used for estimate purposes. For 2020/21 the CPI forecast has been used, (see section 4.10). |
| Fees & Charges (where applicable) | This is based on a 1% differential between the CPI forecast by the Bank of England (see also paragraph 4.12.6). |

4.12.10 The total income generated from inflationary increases to the General Fund and therefore mitigating part of the inflationary pressures identified in paragraph 4.12.7 is shown in the following chart.




4.12.11 The assumptions around increases for retained business rates are based on then RPI increase to 2020/21 and then CPI thereafter. The previous 2015 MTFS noted that there was a risk the government would switch to the CPI indicator. The Government has signalled this increase from 2020. This has been built into the MTFS.

4.12.12 The current MTFS projects that income inflation starts to exceed inflationary pressures from 2018/19 and therefore contributes to reducing the in year deficit for the General Fund.




4.13 Budget Pressures

4.13.1 The MTFS has been updated for a number of budget pressures that have arisen/changed since the last update or budgetary reports to the Executive and Council. These include:

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- Projected cost of Shared Internal Fraud service £72,830 – This service was funded for two years under the original business plan agreed by the participating councils. Significant savings have been made by the service (both cashable and non cashable) from a variety of initiatives across both housing and the General Fund. For 2015/16 the total savings were an estimated £108,000, (see table below). An update on the future funding of the service will be given to the September Partnership Board but the MTFS assumes continual funding for estimate purposes.

| 2015/16 | Fraud Loss £'000 | Cashable Savings £'000 | Other Savings £'000 | Total £'000 |
|---|---|---|---|---|
| SAFS estimated savings for SBC | 135 | 66 | 108 | 309 |

Officers have started tracking these savings to ensure they are realised by the Council.

- A sum of £150,000 has been included in 2017/18 for modelling purposes to pump prime initiatives which may come forward for instance under the digital strategy and process reviews. While it is anticipated that business cases will generate savings it is likely there will be upfront costs and having this fund will enable options which will contribute to the savings target to be pursued (subject to the correct governance) without having to request the budget to do so each time. This is a one off sum and it may be that further amounts are required in later years.

- The Projected saving on the formation of the Building Control Company has reduced in 2016/17 by £61,099 and by an estimate £173,000 for the period 2017/18-2019/20. This is partly due to a higher loan to the company in the current financial year and lower projected savings, however this is still considered financially and operationally beneficial to the council. The projected savings for Stevenage are still estimated to be £159,000 for the period 2016/17-2019/20.

4.13.2 There is no allowance within the MTFS for growth approved for priority schemes. The assumption is, as with previous years, that it is funded from within the existing baseline budgets or further savings in addition to the targets identified.

4.14 Borrowing and Investment interest costs

4.14.1 The projected borrowing and investment interest costs assumed in the MTFS are summarised in the table below.

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|
| Investment interest | 0.58% | 0.38% | 0.48% | 0.70% | 1.00% |
| Impact on MTFS | (£40,080) | £20,259 | (£1,891) | (£9,191) | (£11,902) |
| Borrowing costs | 2.00% | 2.10% | 2.25% | 2.45% | 2.95% |
| Impact on MTFS (garage investment) | 0 | (£4,050) | (£80,887) | (£95,350) | (£97,955) |

()= increased income/reduced cost

4.14.2 The reduction in the Bank of England base rate to 0.25% in August and a further predicted reduction to 0.1% in December 2016 will supress income received from investments. The General Fund is not reliant on investment income to support expenditure due to relatively modest amounts received (£66,870 for 2016/17) and the majority of investment balances relate to the HRA.

4.14.3 However for the General Fund because average cash balances are higher than the original budget projected, 2016/17 investment interest retained by the General Fund will be higher but is predicted to reduce for the following few years.

4.14.4 The impact of the Bank of England's reduction in the base rate and subsequent quantitative easing measures, have reduced the cost of Public works Loans Board lending rates (which are pegged to 80 bases points above gilt prices). This currently means that the cost of borrowing for the garage improvements (approved at the July Executive) would be £97,955 per year lower by 2020/21 than estimated in the original business case. This is dependent on the reduced rates being realised and the Government not changing the gilt/PWLB loan differential of 100 basis points, less 20 basis points for the certainty rate the council is eligible to access.

4.15 Housing Revenue Account (HRA)

4.15.1 The HRA has its own MTFS and 30 year business plan that will be updated at the November 2016 Executive. The Chancellor's July 2015 budget and the Welfare Reform Bill are estimated to have had a significant detrimental impact on the resources available in the HRA business plan which impacts on the 2014 Business Plan. It is estimated that £12Million of rental income will be lost in the first five years of the plan and £225Million over the next 30 years as a result of the planned 1% rent reduction for the period 2016/17-2019/20. This equates in value terms as 25% of the total planned capital works for the period.

4.15.2 In addition the extension of the RTB scheme to housing associations and the use of HRA resources to fund this has meant that, there is further financial pressures on the HRA in terms of the 'higher value void levy' the regulations of which are still to be published. This is in addition to the impact of 'pay to stay' and reductions to the benefit cap in the autumn of 2016.

4.15.3 The HRA cannot borrow to bridge the gap because of the debt cap set by the government (the HRA could only have a maximum of £217.685Million of debt). In addition, reduced resources means that borrowing may not be an affordable option.

4.15.4 The HRA benefits in part from savings generated by the General Fund as many services provide support to both the HRA and the General Fund. When savings and growth bids are formulated the relative impact to each fund is calculated.

14.6 Income And Charging Policy

4.16.1 The fees and charges set by the Council for services provided are the subject of an annual review. Changes made between years are agreed as part of the overall budget and council tax setting procedure and form part of the Council's key revenue stream forecasts.

4.16.2 The key principles behind charging are:

- discretionary charges should recover costs unless the strategy is to provide a particular service at a subsidy;
- discretionary income should be maximised through appropriate commercial charges;
- a sound and robust system of discounts should be in place for those who would otherwise find that they could not access services where deemed appropriate.

4.16.3 Provision of many of the Council's services is a statutory requirement and charges for access to these are laid down as part of that requirement. There is therefore, no discretion on the setting of these fees available to the authority. It is however crucial that these charges are updated in line with statutory changes and the information made available to our customers.

4.16.4 It is essential that statutory as well as discretionary services should be reviewed. The true cost and effectiveness of providing statutory services must be known so that fees charged meet the cost of service provision, wherever possible. Where this review indicates an under recovery of cost, alternative methods of service provision and comparison with other comparable authorities must be undertaken to elicit opportunities for minimising the liability to the authority. This should be considered as part of the review of services under the financial security work stream.

4.16.5 The Local Government Act 2003 includes a general power for councils to charge for discretionary services i.e. services that an authority has the power, but it is not obliged to provide. Some discretionary charges are governed by alternative legislation, in which case this general power does not then apply.

4.16.6 The Council has a Corporate Fees and Charges working group that keeps the Council's charging policy under review. In addition, this working group will develop proposals for fees and charges increases and concession income for the 2017/18 budget.

4.16.7 Any income arising from concession income will be included in the fees and charges target and if more than projected will contribute towards the years savings target.

4.16.8 The MTFS assumes a minimum RPI inflation increase for fees and charges where the council has discretion over charging. The MTFS assumes the following.

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|
| RPI indices increases | mixed | 2.00% | 3.00% | 3.34% | 3.35% |
| Fees and charges income | £195,740 | £156,431 | £240,482 | £275,763 | £285,185 |

4.17 Reserves and Balances

4.17.1 The Council's General Fund reserves are classified as either general or for a specific purpose. The General Fund or the Council's main reserve is designed to cushion the impact of unexpected events/emergencies and help absorb the impact of uneven cash flows.

4.17.2 The Council's General Fund balances as at 1 April 2016 was £7.888million and is forecasted to be £4.5million by 31 March 2021. This is a reduction of £3.36Million in general balances while at the same time the implementation of £2.5Million of budget reductions, in addition to increases in fees and charges and council tax.

4.17.3 In setting the Council's annual budget, the level of balances and allocated reserves need to be carefully considered. Guidance issued by CIPFA emphasises this requirement, particularly in light of the responsibilities placed upon the S151 Officer on an annual basis (under the Local Government Act 2003), to report on the adequacy of proposed reserves when Council sets the council tax for the forthcoming year.

4.17.4 The Act includes a reserve power for government to lay down the minimum reserves local authorities must allow for when they set their budgets. It is therefore expected, that authorities will have regard to the CIPFA guidance when considering the adequacy of balances and allocated reserves.

4.17.5 It is important that the Council has sufficient reserves and balances to enable it not only to achieve its ambitions but also to ensure that the Council can meet its service provision expectations.

4.17.6 Reserves can be held for three main purposes:

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- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events or emergencies; and
- A means of building up funds to meet known or predicted liabilities. (This is often referred to as allocated reserves).

4.17.7 In order to assess the adequacy of unallocated general reserves when setting the budget, the Assistant Director (Finance) must take account of the strategic, operational and financial risks facing the authority.

4.17.8 In terms of determining the level of general balances for the MTFS and 2017/18, the Assistant Director (Finance) has based her advice on consideration of the following factors:

(a) An amount necessary to cover a 1.5% overrun in gross expenditure **£1.073m**

(b) An amount necessary to cover a 1.5% shortfall in expected gross income **£0.933m**

(c) An amount necessary to cover specific risk items identified in the Strategic Risk Register **£0.400m**

(d) An amount necessary to cover loss of savings approved and risks associated with implementing new ventures (Financial Security) **£0.250m**

(e) An amount to cover the cost of borrowing for the capital programme **£0.105m**

4.17.9 Based on the above assessment the minimum level that the Council's general balances should be set aside is as follows:

| | General Fund £'000 | | | | |
|---|---|---|---|---|---|
| Year: | 2016/17 £'000 | 2017/18 £'000 | 2018/19 £'000 | 2019/20 £'000 | 2020/21 £'000 |
| Minimum Balances | (£2,797) | (£2,761) | (£2,761) | (£2,761) | (£2,761) |
| Projected Balances | (£5,616) | (£4,857) | (£4,493) | (£4,406) | (£4,528) |
| Variance | (£8,413) | (£2,096) | (£1,732) | (£1,645) | (£1,767) |

4.17.10 The MTFS projects the General Fund balances to be within the minimum level set for the General Fund in 2016/17. This is shown in the table below, although the balances are above the minimum balances up to 2020/21 there are on-going savings required of £1.3Million (including 2020/21) which need to be identified.

.

| | General Fund £'000 |
|---|---|

| Year: | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|
| Opening balance | (£7,888) | (£5,616) | (£4,857) | (£4,493) | (£4,406) |
| use/(trf to) balances | £2,272 | £758 | £364 | £87 | (£122) |
| Closing balance | (£5,616) | (£4,857) | (£4,493) | (£4,406) | (£4,528) |

4.17.11 The Council's Allocated revenue reserves as at 31 March 2017 are projected to be £1.790Million, the amount set aside for capital of £1.167Million is projected to spent by the year end (this does not include any assumptions about underspends).

| Allocated Reserve | Balance as at 1 April 2016 £'000 | Forecast balance as at 31 March 2017 £'000 |
|---|---|---|
| **Revenue Reserves:** | | |
| New Homes Bonus | (£1,365) | (£727) |
| Future Town Future Council | (£337) | (£87) |
| Planning Delivery | (£170) | (170) |
| Regeneration Assets | (£968) | (£577) |
| LAMS default | (£42) | (£56) |
| NDR | (£172) | (£172) |
| Town Centre | (£30) | (£1) |
| **TOTAL REVENUE RESERVES** | (£3,084) | (£1,790) |
| Capital Reserves: | | |
| Capital Reserve (Revenue and Capital contributions) | (£1,167) | 0 |
| **TOTAL CAPITAL RESERVE** | (£1,167) | 0 |
| **TOTAL ALLOCATED RESERVES** | (£4,251) | (£1,790) |

4.17.12 Members should note that 41% of the reserves relates to NHB of which only £119K is unallocated to schemes. A further £603K (New Homes Bonus Reserve) is allocated and due to be spent on specific schemes during 2017/18.

4.17.13 There has been commentary from central government on the level of reserves held by councils. However, officers feel it is misleading to compare the net expenditure to the level of balances that should be held. The General Fund has a 2016/17 net budget of £9Million but gross expenditure of £70Million. In addition every council will have its own set of risks it is exposed to. Furthermore with more funding risks being transferred to local government and the need to find innovative solutions to meet projected budget gaps would require a higher level of balances to be held.

4.18 Capital

4.18.1 As part of the 2016/17 budget the capital programme was rebased and all capital schemes were scored and challenged by the then LSPG. This is because in the last few years one of the significant pressures on the General Fund has been the impact of supporting the General Fund Capital Strategy. The Council has sought to contain the cost of capital on the General Fund by deferring significant levels of capital investment over recent years, with a fix on fail approach to managing its assets.

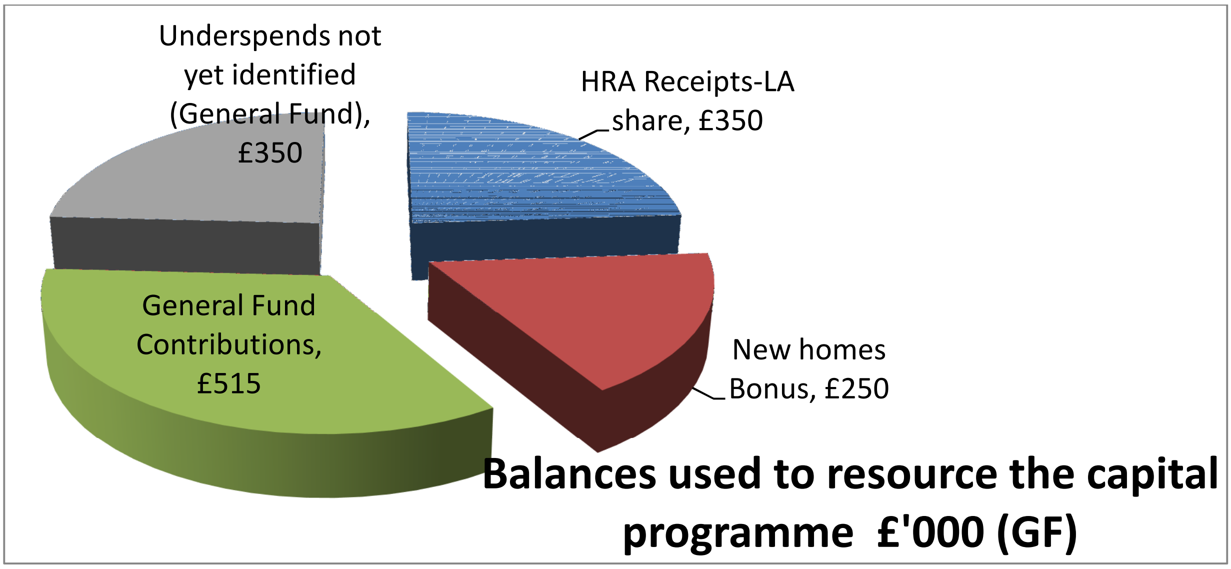
4.18.2 For the 2017/18 capital programme schemes will be classified as follows:

Schemes to be considered on Business Case:
- Category 1 : Return on investment schemes
- Category 2 : Income generating asset schemes

Schemes to be considered on Priority:
- Category 3 : Mandatory requirements
- Category 4 : Schemes to maintain operational effectiveness
- Category 5 : Match funding schemes

4.18.3 The 2017/18 will again involve a bidding process for the capital programme and requires the completion of individual investment appraisal templates, which will cover such items as scheme objectives and outcomes, contribution to the Council's corporate priorities, the whole life cost, funding sources and key delivery milestones.

4.18.4 Officers will be compiling new bids for the capital programme 2017/18 onwards. The monies transferred to the capital reserve to fund the programme are shown below and if an estimated £350,000 of underspends is realised in the financial year a total of £865,000 is transferred from the General fund with a further £250,000 from new homes bonus and £350,000 from Right To Buys (RTB's).




4.18.5 The balance on the capital reserve is £1.4Million as at 2019/20, however this does rely on the contribution from General Fund underspends (not yet identified), the amount of capital receipts being realised for the period and no further growth bids, the latter being clearly unrealistic.

4.18.6 The balance of capital receipts as at the 2019/20 is estimate to be £2.22Million giving total available resources for capital of £3.62Million (if all disposals are realised at their estimated sale price). The 2017/18 capital bidding process will inevitably bring forward new capital bids as those that were approved in the main for 2016/17 related to high priority or priority one or works that cannot be avoided and several schemes were deferred.

4.18.7 However the current position is an improvement on the previous year's financial position, (September 2015) projected unused capital resources as £349,024 in total. The increase is largely as a result of higher disposal process than estimated.

4.18.8 The 2016/17 General Fund budgets for £90,000 borrowing costs. If no borrowing is taken, this too will be transferred to the capital reserve in addition to that shown in the pie chart in 4.18.4. The General Fund still does makes a considerable contribution of £515K per year to the capital programme, but clearly there could be a pressure on the General Fund to borrow based on previous years experiences. The MTFS however does not currently have any allowance for new borrowing other than that included for the garage improvements and it is recommended that provision within the minimum level of General Fund balances £105,000 (equating to servicing £5Million of borrowing at 2.1%) is allowed for. It is also recommended that as one off underspends occur in year these are transferred to the capital reserve.

4.19 Approach to Consultation

4.19.1 Last year was the third year of our Priority Based Budgeting approach. To inform the PBB process we gathered the views of our residents and stakeholders through consultation, finding out their preferences for reducing services, increasing fees and charges and increasing Council Tax. We also asked what they deemed to be the most important services that we provide to our communities. These findings are part of Council's final decision in setting the Budget and any future budget reduction options.

4.19.2 In 2015/16 the bi-annual Residents' Survey included questions relating to Council priorities, service delivery and the Budget 2016/17, (postal replies-1,356 responses). This was supplemented with an interactive event at Stevenage Day in June 2015. It included three activities asking residents to tell us what our top three priorities should be from a list of nine, how we should distribute our spend across a range of 18 public services, and their preferences as to how the Council should fill its Budget gap.

4.19.3 From a list of 16 possible priorities resident survey respondents were asked to choose in order of priority and then rank their top three. The results are overleaf:

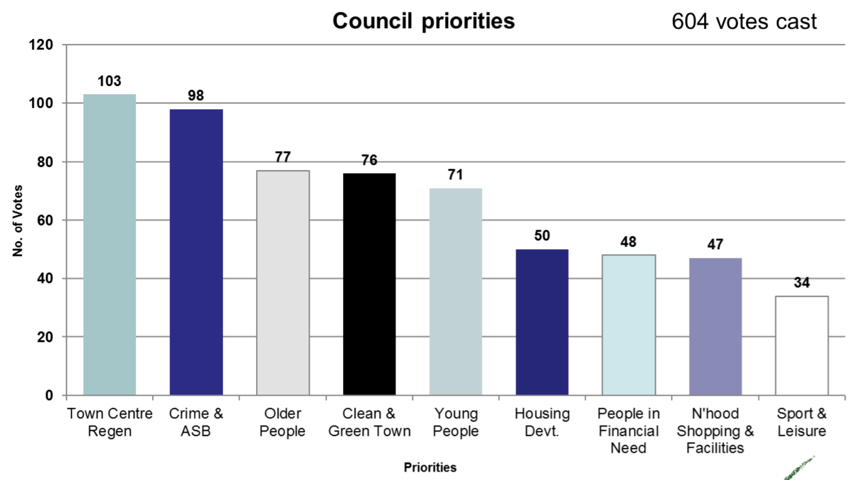
## Residents' Survey (SBC Priorities)

| Priority | Rank | 2013 |
|---|---|---|
| Tackling crime and anti-social behaviour | 1 | 1 |
| A regenerated town centre | 2 | ☆ |
| A range of housing including affordable housing to buy or rent | 3 | 2 |
| Clean streets, pavements and cycleways | 4 | 3 |
| Good shopping facilities in the town centre | 5 | ☆ |
| Activities and support for younger people | 6 | 4 |
| Activities and support for older people | 7 | 5 |
| Good household waste and recycling facilities | 8 | |
| A thriving business sector | 9 | |
| Services to help people in need (e.g. foodbanks, support for the Citizens Advice Bureau, Council Tax support) | 10 | |

- Participants were then asked to rank them 1, 2 and 3 (1 being the most important).
- With the exception of 'A regenerated town centre' and 'Good shopping facilities in the town centre' which were new for 2015, the remaining options of the top seven are the same as in 2013.

Participants at Stevenage Day were given three 'votes' and asked to choose three priorities from a choice of nine. The result is below:

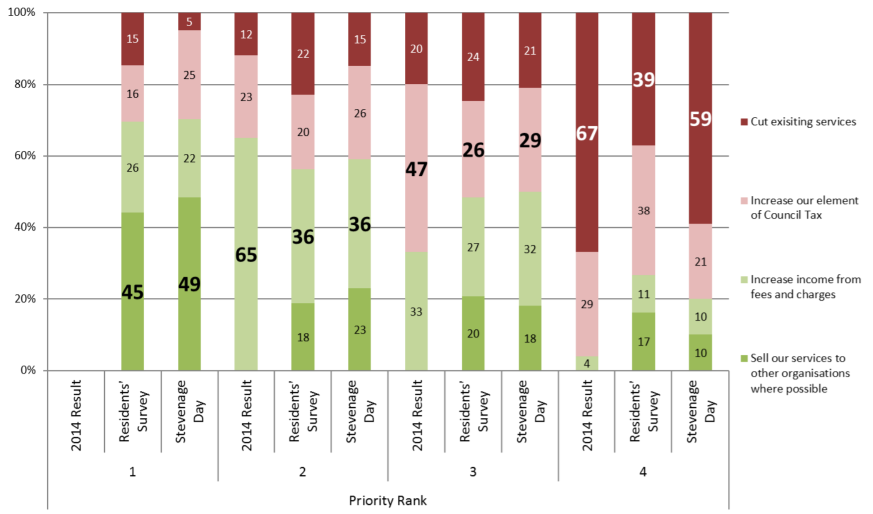
## Stevenage Day (SBC Priorities)




4.19.4 In terms of dealing with budget shortfalls- At both Stevenage Day and in the Residents' Survey we asked respondents to tell us their preferences as to how the council can make up the shortfall in its Budget. In the previous two years' consultation, we have asked people to rank their preference for (1) increasing our income from fees and charges, (2) increasing our element of Council Tax and (3) cutting services (with one being their preferred option and three being the least). We included an extra option for this year, to sell our services to other organisations, which was the first preference of participants. With that exception, the order of the original three remains the same as in 2014, as shown below:

## Budget Shortfall

Residents' preferences for making up the £900,000 (as at June 2015) Budget shortfall.




4.19.6 For the 2017/18 budget proposals the Council will again consult with residents and stakeholders when a set of proposals have been agreed, the second stage of consultation (late November to December 2016) will involve the Council seeking their views on how local people might be affected. This will help to inform any associated Equality Impact Assessments and help the Council to make its final Budget decisions in January and February 2017.

4.19.7 The Council will provide feedback to residents after both stages to let them know how the findings will be used. A final publication of results in the form of 'You Said, We Did' will be included on our website following Council in February2017.

4.20 Decision Making Process

4.20.1 The Leader's Financial Security Group : The LFSG will play an important part of the Financial Security process. The Members group consists of Executive and Non-Executive Members from the three political groups. This process, unlike in previous years, will run throughout the financial year. The level of efficiency savings already identified in 2016/17 and the in principle savings for 2017/18 agreed at the November 2016 Executive means that the LFSG workload will consist of challenging:

- New commercial options
- Savings Options 2017/18
- Growth bids Capital and Revenue (2017/18) Fees and Charges (2017/18)
- Rationalisation of Services on-going

4.20.2 It is currently planned that the normal approval process will be followed:

| | | |
|---|---|---|
| September 2016 | Executive | MTFS |
| | Overview and Scrutiny | MTFS |
| November 2016 | Executive | GF and HRA 2017/18 savings Package HRA Business Plan |
| | Overview and Scrutiny | GF and HRA 2017/18 savings Package HRA Business Plan |
| December 2016 | Executive | Draft HRA 2017/18 Budget (incorporating savings) |
| | Overview and Scrutiny | Draft HRA 2017/18 Budget (incorporating savings) |
| January 2017 | Executive | Draft GF 2017/18 Budget (incorporating Savings) |
| | Executive | Final HRA 2017/18 |
| | Overview and Scrutiny | Draft GF 2017/18 Budget (incorporating Savings) |
| | Council | Final HRA 2017/18 |
| February 2017 | Executive | Final GF 2017/18 |
| | Council | Final GF 2017/18 and Council Tax |

4.20.3 Following the approval of the proposed savings packages for 2017/18, the Council will have an obligation to begin consultation with staff and partners

.

4.20.4 The proposals for 2018/19 and 2019/20 will also need monitoring on their development for the following budget cycles as it is expected that these will involve more complex implementation programmes. These will come forward as reports to the Executive as options are developed and signed off by SMB and the LFSG.

4.21 Risk Management

4.21.1 A review of the risks facing the General Fund budgets has identified several issues that at the present time have unknown impacts on the overall financial position of the funds. The current MTFS projections are based on prudent assumptions, and include the Assistant Director (Finance) best assessment of the financial risks. However, if any of these risks become a reality then the MTFS will need to be updated once the actual impacts are known.

| Risk Area | Risk Mitigation | Likelihood | Impact |
|---|---|---|---|
| **Government Grant Reductions (Negative Risk) -** The Government accelerates its public | The MTFS recommends that Members 'sign up' to the 4 year finance settlement which should lock | Low (previously medium) | High |

| Risk Area | Risk Mitigation | Likelihood | Impact |
|---|---|---|---|
| expenditure reduction programme, and front loads reductions to Local Government grants against those already assumed within the MTFS. | in the reduction in RSG. | | |
| **Anticipated Savings not achieved (Negative Risk) –** Final implementation of agreed savings options does not deliver expected level of savings either on a one-off basis or ongoing. | Regular monitoring and reporting take place, but the size of the budget reductions increase the risk into the future. Non achievement of savings would require compensating reductions in planned spending within services. | Medium (previously low) | Medium |
| **Council Tax (Negative Risk) -** The Government further freezes Council Tax levels without compensation or with one off grant. | The 2016/17 finance settlement allowed a £5 increase in council tax band d and changed focus from freezing council tax | Low (previously Medium) | High |
| Council Tax Support (Negative Risk) – increased demand is under estimated. | An increase in demand would impact on future years as the deficit in the collection fund would need to be repaid by the General Fund. has been a down trend on the case load in recent years | Medium | Medium |
| **Localisation of Business Rates (Potential Negative and Positive Risk) –** A major employer leaves the town and impacts the business rate yield due to the Council | Negative: The safety net means a maximum loss in year of £172K which the council has included in an allocated reserve. On-going this would impact on the savings target and ultimately services. | Medium | High |
| NEW: The government brings forward 100% NDR retained by Local Government and additional services are transferred to Councils (negative risk) | The Council will respond to consultation on business rates via the Hertfordshire Chief Financial Officers group (HCFO) and the Society of District Treasurers (SDLT) to lobby that if services do transfer they map NDR growth. | Medium | High |
| NEW: The 2017 NDR rating list impacts on the council's baseline assessment and | Officers will be monitoring changes to the NDR system and will be responding to consultation on the needs assessment to ensure that the | Medium | Medium |

| Risk Area | Risk Mitigation | Likelihood | Impact |
|---|---|---|---|
| increases appeals and reduces the yield (Negative risk) | impact of the 2017 rating list if adverse is reflected in a reduced tariff | | |
| NEW: The Government introduces CPI for NDR before 2020/21 (negative risk) | There is a 1% differential between RPI and CPI and a reduction in the amount of NDR assumed within the MTFS would require compensating reductions in planned spending within services or increased efficiencies to be identified. | | |
| **Impact of the Universal Credit (Negative Risk) –** The grant given to the Council is cut before the Revenue and Benefits Partnership is able to reduce costs. The Welfare reform bill may impact on residents' ability to pay Council bills. | A reduction in the amount of grant assumed within the MTFS would require compensating reductions in planned spending within services . However UC is being implemented at very slow pace and the current case load is reducing. | Medium | High |
| **Inflation (Negative Risk) –** The majority of contracts the Council holds include an annual price increase usually in line with RPI. | General balances are risk assessed to ensure overall levels are maintained that can meet higher than expected inflation rates. | Medium | Medium |
| **Impact of Future Welfare Reforms (Negative Risk) –** There could be an increase in the need for the council's services requiring additional resources to be put into those services | Regular monitoring and reporting and the council has a welfare reform group which monitors impacts. | Medium | Medium |
| **All MTFS risks not adequately identified (Negative or Positive Risk) –** Financial risks and their timing are not accurately judged leading to either a pressure or benefit to the MTFS. The risk is currently heightened with the range of government consultations that are currently 'live' that could have a financial impact. | Council's risk management framework ensures operational and strategic risks are identified as part of the annual service and MTFS planning process | Low | High |
| Impact of changes to Cap | The Council's MTFS had a £5 band | Medium | Medium |

| Risk Area | Risk Mitigation | Likelihood | Impact |
|---|---|---|---|
| on council tax increases | d increase and 1.99% projected going forward. If the cap is reduced to 1% for 2017/18 and subsequent years the budget reduction target will need to increase to compensate for the loss of income | | |
| **NEW: the impact of the EU referendum negative risk)** the impact of Brexit leads to economic instability and further financial cuts to the council's budgets | A reduction in the resources available within the MTFS would require compensating reductions in planned spending within services . The council would use the Financial Security priority to help address this. | Medium | Medium |
| **Impact of future years capital programme (Negative)** There could be increased pressure from the capital programme on the General F und. | There is a robust challenge process for capital bids. Officers will be required to confirm that resources are in place to deliver any approved spend. | Medium | High |

**5. IMPLICATIONS**

5.1 Financial Implications

5.1.1 This report is financial in nature and consequently financial implications are included in the above.

5.2 Legal Implications

5.2.1 The objective of this report is to outline a medium term financial strategy and forecast for the next five years. There are no legal implications at this stage of the planning cycle, however, Members are reminded of their duty to set a balanced budget.

5.3 Equalities Impact Assessment

5.3.1 The Council has committed itself to providing high quality services that are relevant to the needs and responsive to the views of all sections of the local community, irrespective of their race, gender, disability, culture, religion, age, sexual orientation or marital status. The General Equality Duty (Section 149 of the Equality Act 2010) requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations in the exercise of its functions. The Equality Duty and the impact of decisions on people with protected characteristics must be considered by decision makers before making relevant decisions, including budget savings.

5.3.2 The process used to develop the Council's budget has been designed to ensure appropriate measures are in place to ensure the impact of decisions on the community is considered as part of the decision making process. It is officers' view that undertaking an Equalities Impact Assessment (EqIAs) on the strategy is not appropriate at this stage. EqIAs will be done on individual savings proposals (when relevant) at an early stage in the budget savings process to aid decision makers in their consideration of the Equality Duty. This work is being planned into the budget setting process.

5.4 Policy Implications

5.4.1 The approval of the revised budget framework includes a link for the Council's service planning requirements to ensure service priorities are identified. In addition the budget framework represents a development of a policy led budgeting approach across Council services and the overall Financial Strategy.

5.5 Staffing and Accommodation Implications

5.5.1 It will be evident that there are potentially staffing implications in this report and the matter should be discussed with the Trade Unions at the earliest opportunity.

BACKGROUND DOCUMENTS

BD1 - General Fund Financial Strategy - 21 September 2015
http://www.stevenage.gov.uk/content/committees/139616/139705/139725/Executive-21-September-2015-Item-10.pdf

**APPENDICES**

Appendix A – General Fund Medium Term Financial Forecast
Appendix B- Four Year Finance Settlement Letter