Part I – Release to Press

Meeting: **EXECUTIVE** **Agenda Item:**

Portfolio Area: RESOURCES

Date: **14 SEPTEMBER 2022**

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY UPDATE (2022/23 – 2026/27)

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1. PURPOSE

1.1. To update Members on the General Fund Medium Term Financial Strategy (MTFS) including any potential on-going COVID and Cost of Living crisis impacts.

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

1.3. To update Members regarding the revised inflation projections and pressures for the General Fund MTFS.

1.4. To update the 'Making Your Money Count' financial targets for the period 2023/24 – 2026/27.

2. RECOMMENDATIONS

2.1 That Members approve the change to the MTFS principles, as outlined in paragraph 3.12 to this report and as amended in paragraph 4.9.9.

2.2 That, for modelling purposes, Council tax increases be set at the threshold allowed assumed at 1.99%, subject to any change in government rules, in order to help achieve a balanced budget as set out in paragraph 4.6.8.

2.3 That the updated inflation assumptions used in the MTFS as set out in section 4 of the report be approved.

2.4 That the approach to Making Your Money Count budget options as set out in section 4.8 be approved.

2.5 That an amount of £300,000 for 2023/24 be approved for inclusion in the budget setting process to support the Transformation Fund, to help deliver the MYMC Target, as set out in paragraph 4.8.3.

2.6 That a Making Your Money Count Target of £3.03Million, (of which £1.5Million relates to 2023/24), be approved for the period 2023/24- 2025/26 as set out in section 4.9 of the report.

2.7 That the revised fees and charges as set out in Appendices B for Engineering charges be approved.

2.8 That General Fund growth is only approved for the Council's FTFC priorities and the growth allowance included in the 2023/24 budget is £75,000. Growth above that level will need to be funded by further savings in addition to the £3.03Million target identified.

2.9 That a minimum level of balances for the General Fund of £3.57million be approved for 2023/24 as set out in paragraph 4.10.8.

2.10 That if there is an underspend in 2022/23, £200K is used to 'top up' the regeneration reserve up as set out paragraph 4.11.3.

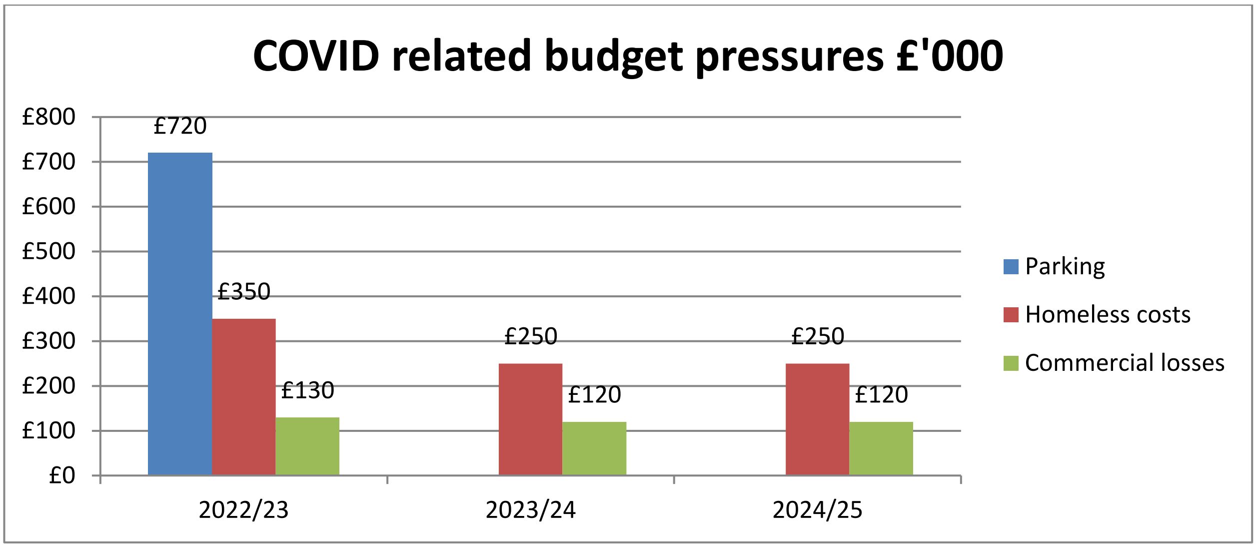
2.11 The MTFS is regularly reviewed and revised to reflect any material financial pressures so forecasts are updated and re-presented to the Executive for approval.

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

3. BACKGROUND

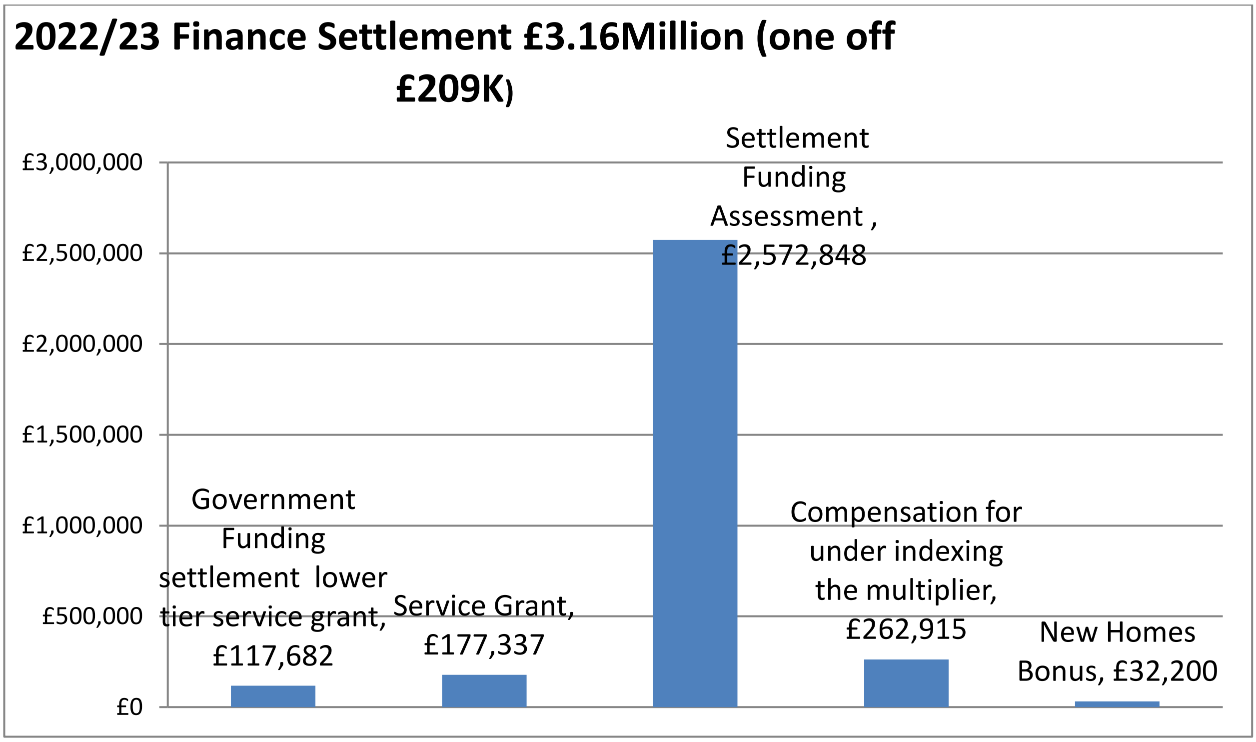
3.1 The MTFS is presented at least annually to the Executive, however as a result of recent heightened financial risks, COVID and more recently the current cost of living crisis this may have to happen more frequently in future.

3.2 This report will provide Members with a projection for the General Fund for the period 2022/23-2026/27, with particular emphasis on the current and next year's budgets. The 2022/23 budget still contains continuing pressures which manifested during the COVID pandemic. These are summarised in the chart below, together with the MTFS assumptions, (prior to this update).



3.3 The overall cost of COVID to the Council, net of government support is estimated to be circa a £4Million reduction in General Fund balances, (2019/20-2022/23) and after measures taken by the Council in the June 2020 MTFS update report.

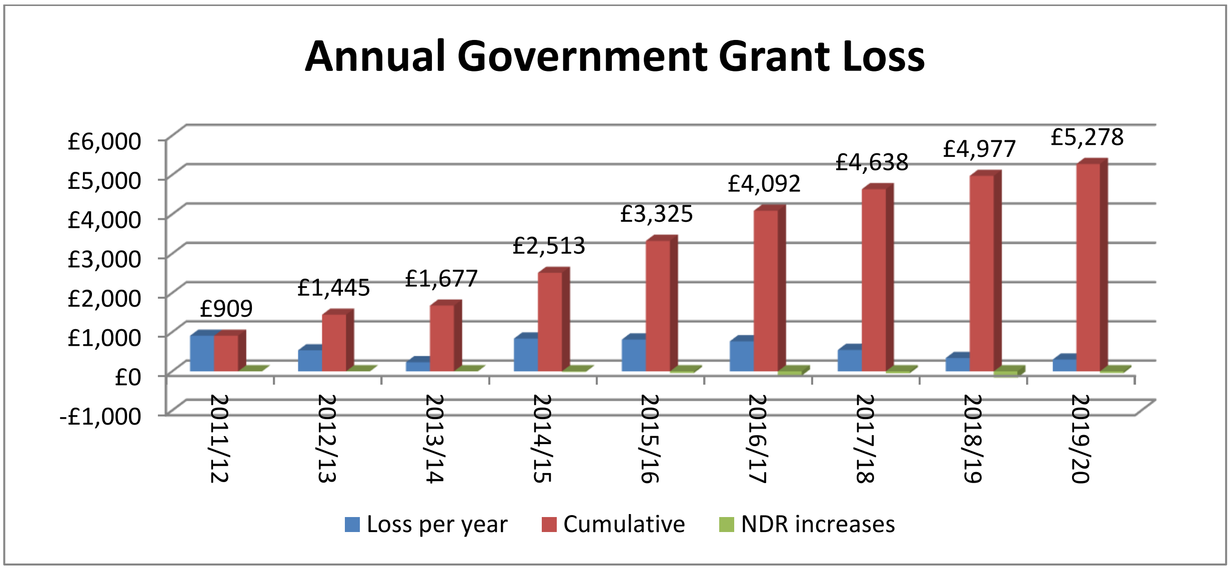
3.4 The 2022/23 Finance settlement did not include government COVID related funding but did include a one off service grant payment of £177,337 to recognise the 'vital services all tiers of local government' provide. The New Homes Bonus payment was for one year only and the future of the scheme still remains unclear.



**compensation for under-indexing was because the incorrect formula for business rate increases included in the funding assessment was applied by the government and has to be uprated each year.*

3.5 The CFO anticipates that some level of grant funding may continue and has assumed an amount in the MTFS for the next two years, based on the cost envelope for Local Government published by the government, however it is not clear whether this will be in line with previous allocations.

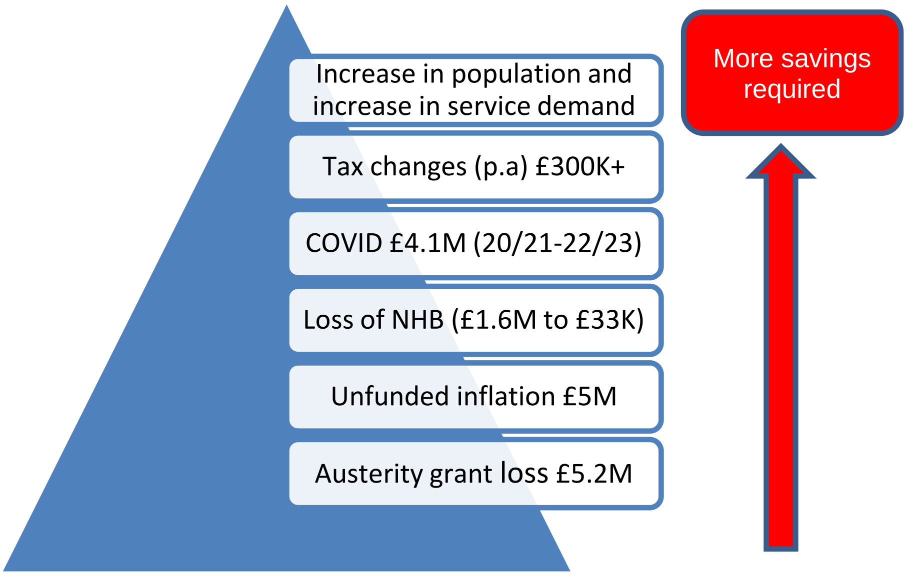
3.6 The impact of more than a decade of funding cuts as well as having to absorb inflationary pressures and taxation changes has meant the General Fund has had to use rather than made a contribution to balances, as well as make significant savings; this is clearly not a sustainable position long term. The MTFS has a number of principles, the first of which is not to have a draw on balances by 2024/25. This is key to ensuring that reserves are not depleted below a minimum level and that any budget gap identified over that medium term is manageable to be met in any one year, without significant disruption to the delivery of Council's services.



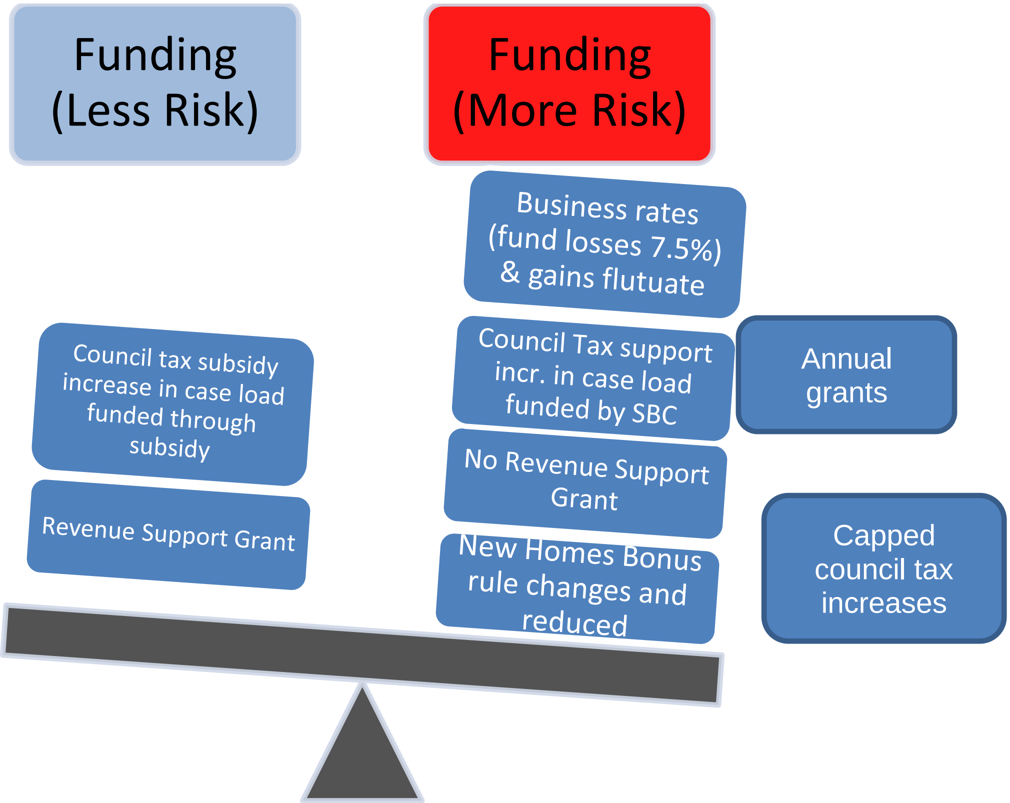
3.7 Looking back to 2010/11, government funding support for SBC was £6.24Million which, when converted to 2021 values, (using the bank of England inflation tool) converts to £7.45Million. This sum is £4.29Million less than the 2022/23 settlement of £3.16Million. The Council is able to further increase funding levels through retaining business rate gains, however these are not guaranteed, fluctuate between years and are subject to government re-setting the amount retained which is now planned to take place every three years. The CFO does not recommend using business rate gains for on-going or base line service provision, due to the risks in securing any given amount in a year.

3.8 The ability to set a balanced budget and retain services has become harder due to the combined financial impacts of government grant reduction, government policy changes and COVID losses. In recent years these impacts have resulted in the Council having to find cumulative savings of £11Million since 2010/11 through what is now called the Making Your Money Count programme.

Pyramid of Pressures for the General Fund



3.9 At the same time there has been a transition towards more inherent risks within local government funding, as illustrated below.



3.10 The MTFS is the mechanism through which the Council assesses the financial impacts of national and local pressures. Any budget challenges are modelled and the impacts on the draw and level of balances are considered, such as:

- National and local government policy on the five year forecast of resources for the General Fund (and Housing Revenue Account);
- Local pressures emerging from service provision, i.e. homeless costs;

- COVID financial impacts that remain due to changes in customer behaviour and the financial impact of COVID on residents.
- Cost of Living inflationary pressures on the Council's finances

3.11 Individually, in year or on-going financial pressures may sometimes be absorbed through a draw on balances or by a small increase to the level of savings, subject to the shortfall in any one year and post considering what is realistically achievable.

3.12 The MTFS principles are set out below.

No	MTFS principles
1	To remove the General Fund's reliance on RSG by 2019/20 when the funding is removed and achieve an on–going balanced budget **by 2024/25** (by ensuring inflationary pressures are matched by increases in fees and income or reductions in expenditure from 2024/25
2	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.
3	To use the Council's reserves in a cost-efficient and planned manner to deliver the Council's priorities.
4	To maximise the Council's income by promptly raising all monies due and minimising the levels of arrears and debt write-offs.
5	To identify alternative means of resourcing the Capital Strategy to minimise the impact of borrowing (GF only).
6	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.
7	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.
8	To propose Council tax increases in line with inflation for modelling purposes with any increase above inflation used to achieve a balanced budget.
9	To ensure that resources are aligned with the Council's Strategic Plan and FTFC priorities and growth limited to the Council's top priorities
10	The Council does not depend upon short term sources of funding such as New Homes Bonus or business rate gains.

3.13 This report makes assumptions about future Local Government spending reviews. For Members information the sector still awaits the outcome of the Fair Funding review (delayed from 2020/21) and the level of business rates to be retained by SBC.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

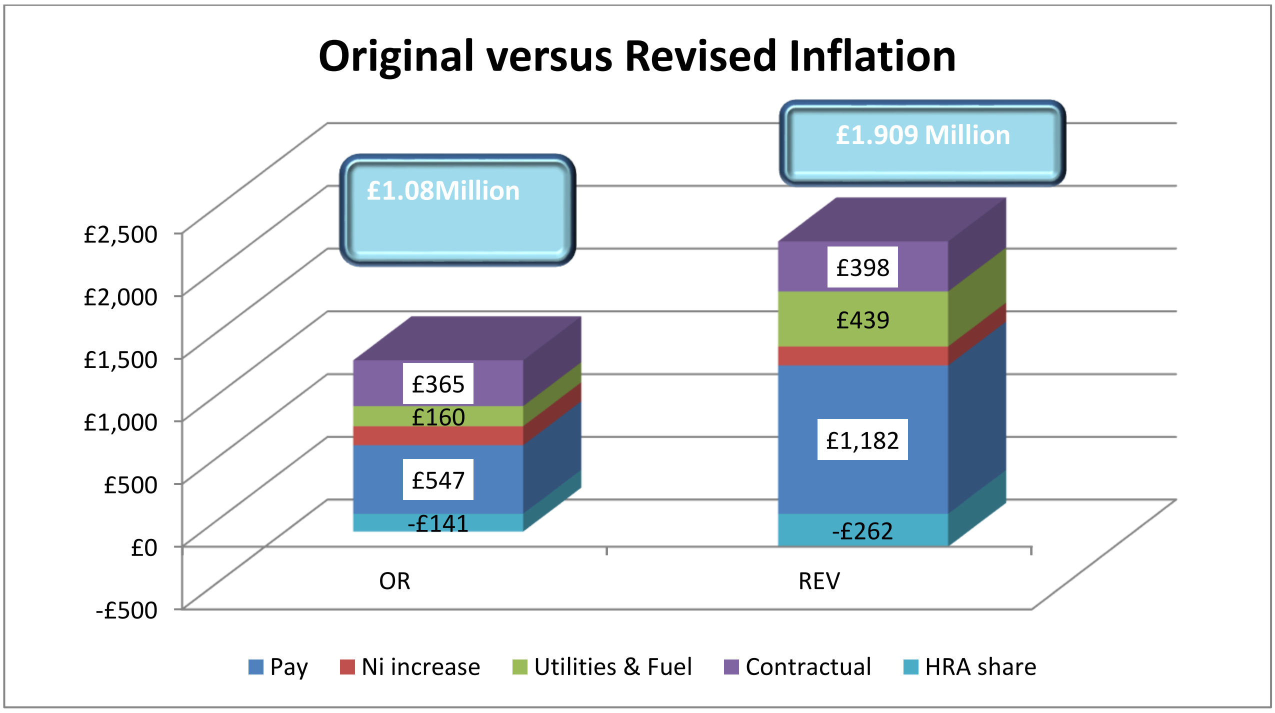
4.1 General Fund pressures

4.1.1 Included within the MTFS modelling are a number of considerations which are:

- Inflationary pressures (section 4.2)
- COVID on-going related fees and charges losses (section 4.3)

4.2 Inflation Pressures

4.2.1 The MTFS inflation update would typically focus on future years projections, however this time the MTFS and 1st quarter monitoring report identifies in-year pressures primarily from pay and fuel increases over that which was originally estimated. The 2022/23 General Fund revised inflation impact is estimated to be £827K higher than the approved budget as summarised below.



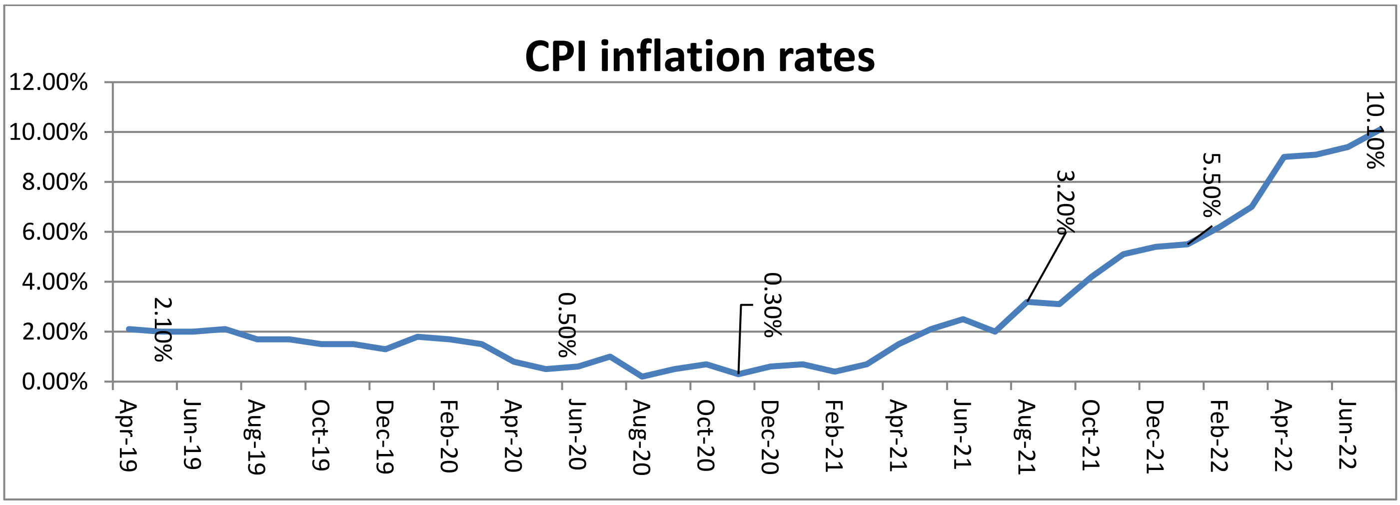
4.2.2 The projected inflation increase is due in part to the 2022/23 Local Government employers side pay offer of £1,925 on each spinal point, equating to a 5.66% average increase, versus the General Fund budgeted increase of 2%. The pay level offered was to mitigate the impact on the pay scales from the increases in the minimum wage. While this is welcome for Local Government employees who face an increased cost of living and have had below inflation pay increases in previous years, it does (if agreed in due course) add an extra £662K to the General Fund pay bill, (with a proportion to be charged to the HRA). Union members are still to be balloted on the pay award and the outcome will not be known until October 2022 at the earliest. This matter is outside the control of Councils and the government has been lobbied to increase financial support to Local Authorities as a result of this.

4.2.3 2022/23 utility increases have also exceeded the budget assumptions due to the Ukraine conflict exacerbating the cost of fuel, electricity and gas. The Council buys these through a contract, some of which is purchased for the 1 April and the rest the 1 October each year. The estimates shown in the MTFS and 1st quarter monitoring are based on current projections but could be even higher for the October renewal. At present the cost is estimated to be £279K in addition to that included in the budget. Again, this is an external national pressure which the Council needs to manage in order to remain financially resilient.

4.2.4 The 2022/23 budget versus 2022/23 projected and 2023/24 onwards are summarised in the table below. There is uncertainty as to when 'normal' levels of inflation will resume and the current predictions assume higher utility costs for 2023/24.

	2022/23	2022/23 Projected	2023/24	2024/25	2024/25	2024/26
Inflation-Applied to:						
September CPI for business rate increases	2.30%	2.30%	2.00%	2.00%	2.00%	2.00%
Salaries - % increase	2.00%	5.66%	2.00%	2.00%	2.00%	2.00%
CPI indices increases	2.50%	10.10%	2.25%	2.00%	2.00%	2.00%
RPI indices increases	4.00%	12.30%	3.75%	3.25%	3.00%	3.00%
Fuel Increases	14.17%	53.08%	5.00%	5.00%	5.00%	5.00%
Gas (unit charge only)	73.70%	138.19%	50.00%	8.00%	8.00%	8.00%
Electricity (unit charge only)	14.33%	39.42%	45.00%	10.00%	10.00%	10.00%

4.2.5 CPI is the tracked measure for inflation used by the government and used for increases to business rates and council housing rents, (September CPI). The historic CPI trend is shown below, September 2019 was 1.7% compared to 10.10% for June 2022. On the 31 August the government published rent capping consultation proposals.

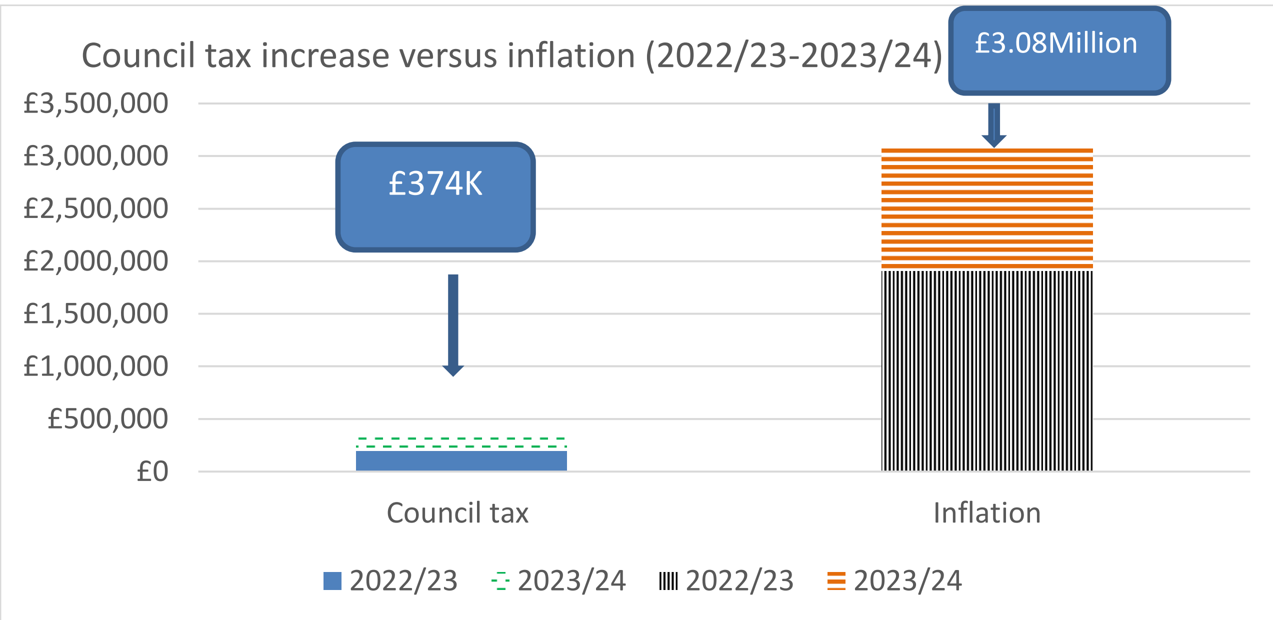


4.2.6 The government has not made any announcements regarding whether the CPI increase will be ameliorated or capped for business rates, but as stated above published rent capping consultation for 2023/24 housing rents. For business rates any reduction in the level set should be compensated by new burdens section 31 grant.

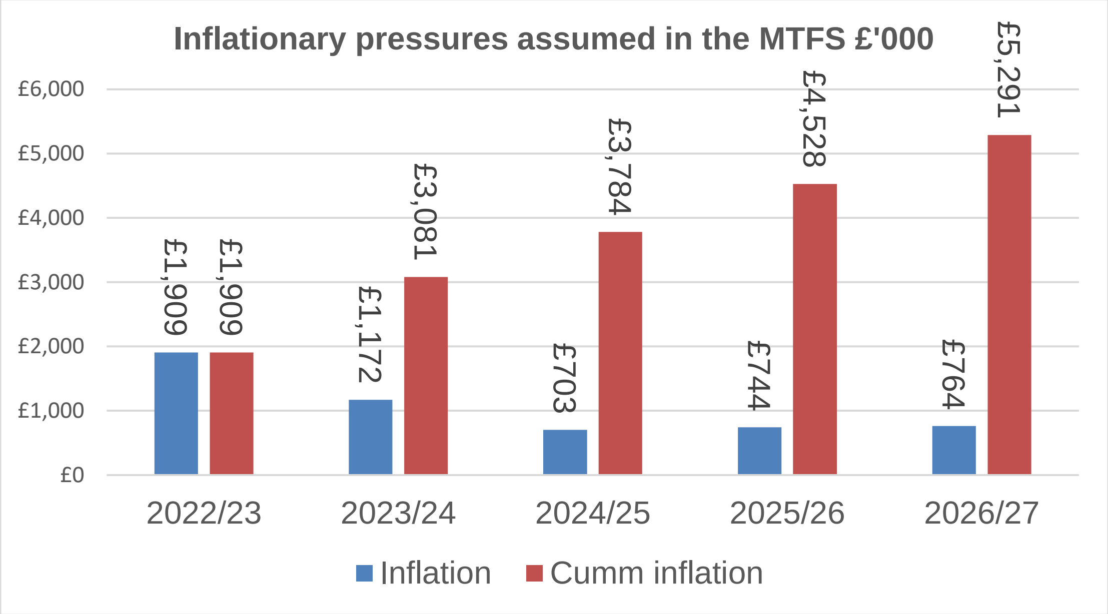
4.2.7 It is difficult to predict how high inflation will go and for how long, but the MTFS rationale and alternative scenarios are set out below.

Rationale for inflation assumption	
Salaries - % increase	Salary inflation is estimated at 3% for the period 2023/24 and then 2% thereafter. Councils already face the financial challenge of dealing with the 2022/23 increase with many having had typically a 2% increase built into their budgets. An additional 1% in 2023/24 would add circa a £200K pressure to the General Fund.
Pension Increase	The previous MTFS included an assumption that there would be a 1% increase as a result of the impact of COVID and BREXIT within the next actuary's projection in 2023/24. However, the current actuarial advice shows a 1% reduction in employers percentage (from 18.5% to 17.5%) which partly offsets the 2022/23 pay award. The difference for 2023/24 when comparing a 1% decrease versus 1% increase is a £320K reduction in cost.
Consumer Price Index (CPI) indices increases	The June CPI is 10.1% and has been modelled to reduce to more normal levels for 2023/24 but still remain higher for fuel related costs. For Business Rates the modelling includes an assumption that the Government will supress a CPI increase to circa 2% however this is not known and each additional 1% adds circa £8.5K to the Councils costs.

4.2.8 There is a stark difference between the 2022/23-2023-24 inflation pressures compared to any increase in council tax for the same period), which further illustrates the challenge the Council faces in absorbing inflationary pressures.



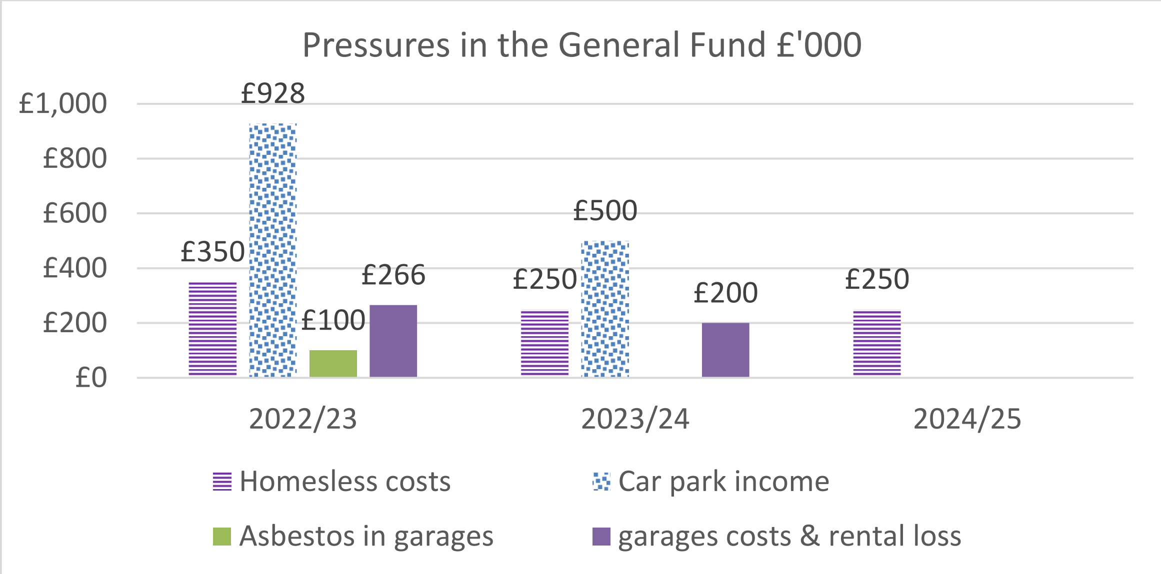
4.2.9 The amount of inflation projected in the current year and MTFS period is a total of £5.291Million as shown in the chart below, versus an increase in council tax of £925K over the same period (based on a 1.99% annual increase). This illustrates the funding gap that needs to be addressed which is exacerbated during periods of high inflation.



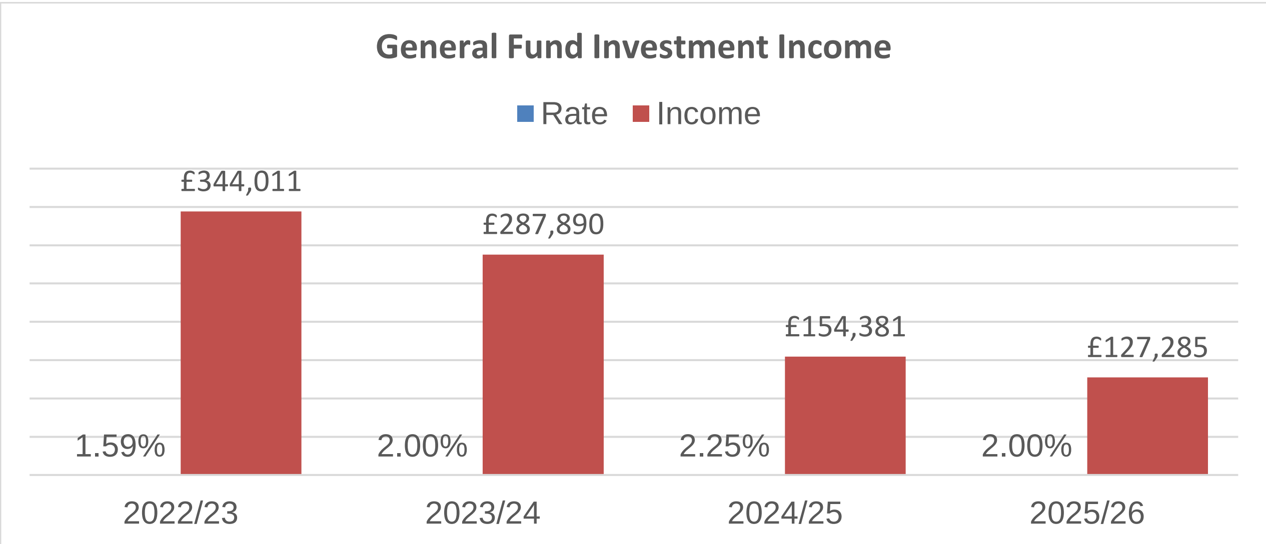
4.3 Other General Fund Pressures and Savings

4.3.1 In addition to the inflation challenge, the MTFS makes some assumptions about other pressures for the General Fund which include:

- **Homeless costs** are projected to increase up to and including 2024/25 as a result of the pressures which are already being experienced. A reduction in cost is anticipated as new accommodation comes in to use and it is hoped that homelessness will reduce beyond 2024/25 as a result of the action the Council is taking.
- **Car park income** continues to be lower than pre-COVID levels, (2020/21 £2Million lower, 2021/22 £1.5Million lower and 2022/23 £928K lower). The income reduction has been into 2023/24 where it is expected to be £500K lower than originally forecasted). However, this will need to be monitored and if the income level doesn't improve, then a permanent reduction for the General Fund will need to be factored in and/or alternative user groups targeted. For note, the new railway station multi storey car park is due to be operational by March 2023.
- **Garage costs and income losses** have been updated in the MTFS to reflect the cost of dealing with the Asbestos issues and the return of void garages back into use. This does not include any additional costs associated with the garage business plan report on this agenda.

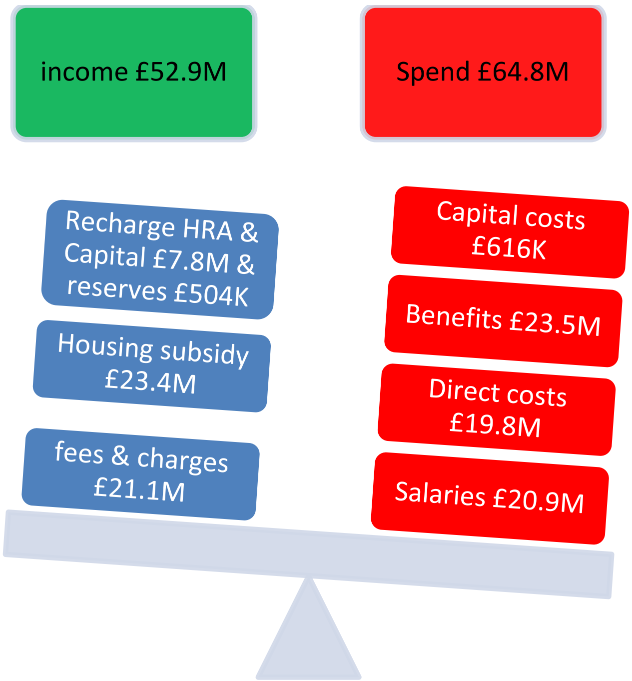


4.3.2 **Investment income** increases with the rise in the Bank of England base rate, partly offsetting some the pressures for the General Fund in 2022/23 as reported in the 1st quarter monitoring report to this Executive. This is due to higher balances and the increase in the base rate which results in an additional £252K being realised). However, investment balances are predicted to reduce by circa £35Million if all the Council's capital and revenue plans are realised for the current year. The investment income interest has been re-calculated based on level of balances (assuming a level of slippage in spend) and advice from the Council's Treasury Management advisors.



4.4 General Fund Income and Expenditure and Resources available to fund net cost pressures

4.4.1 The original 2022/23 General Fund net budget was £11.2Million. Adding in the additional inflationary pressures (£827K) results in a revised base budget of £11.9Million. This includes gross costs of circa £64.8Million and grants and fees and other income of £52.9Million.



4.4.2 The cost of General Fund services is not fully funded through fees and charges, grants from central government and other income (i.e. flexible homeless grant and NDR and Council tax admin and housing subsidy grants), hence why the Council sets a net expenditure budget annually for the General Fund.

4.4.3 The General Fund only has three ‘core resources’ to meet that annual cost of providing services for local people and businesses, namely council tax, retained business rates and any support grants such as the Lower Tier Grant, the latter of which cannot be guaranteed. But the reduction in funding and the gap between inflation and council tax income raised was highlighted in paragraphs 3.6-3.8 of this report.

4.5 Business Rates

4.5.1 Retained business rates are the amount above which the government allows Councils to keep business rates generated in their boundary. This is calculated by:

Step one - The government sets a baseline need value - this is assessed as the amount needed based on the funding formula.

Step two – The Council collects business rates in Stevenage, net of reliefs, and keeps a notional 40%, (50% is sent to the government and 10% to Hertfordshire County Council).

Step three- Calculate the amount of section 31 grant due to the Council based on reliefs the government has legislated (post the business rate methodology was introduced), given to reduce the amount of collectable business rates (i.e. COVID reliefs, extended small business rate relief, zero rating increases in business rates).

Step four -The government applies a tariff which then reduces the collected 40% share of business rates and reliefs (based on the last revaluation on rates), so that it is closer to the baseline need (as identified in step 1).

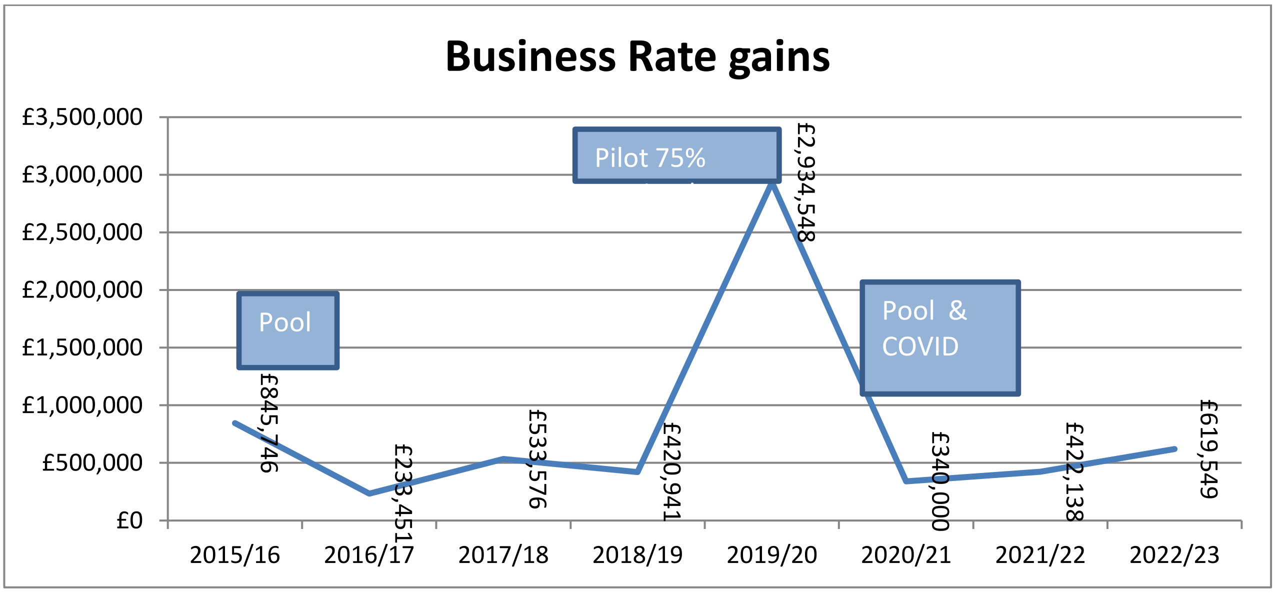
Step five - If there are still gains after step 4, a further levy is applied at 50% so effectively any gains above baseline need are split 50:50 with the government

Or In the event that there are in fact losses (i.e. less business rate income was received than the baseline) SBC must fund the first 7.5% below the base line need (approximately £180,000). The rest of the losses are funded by the government via the 'safety net'

Step six - The levy, safety net and section 31 grants are paid based on the amount due in year, all other payments are paid based on estimate with gains and losses due/paid in future years.

4.5.2 Stevenage has benefited historically from business rate gains, which have been influenced by a number of factors such as opportunities to pool gains among councils or the pilot where Hertfordshire Councils kept 75% of all business rates. However, SBC has only been in the 'Hertfordshire pool' twice and the government has only allowed Hertfordshire Councils to be in one pilot scheme. This adds complexity to projecting income and, in addition to this complexity, gains are not realised in the year they were achieved but are based on the prior year estimates.

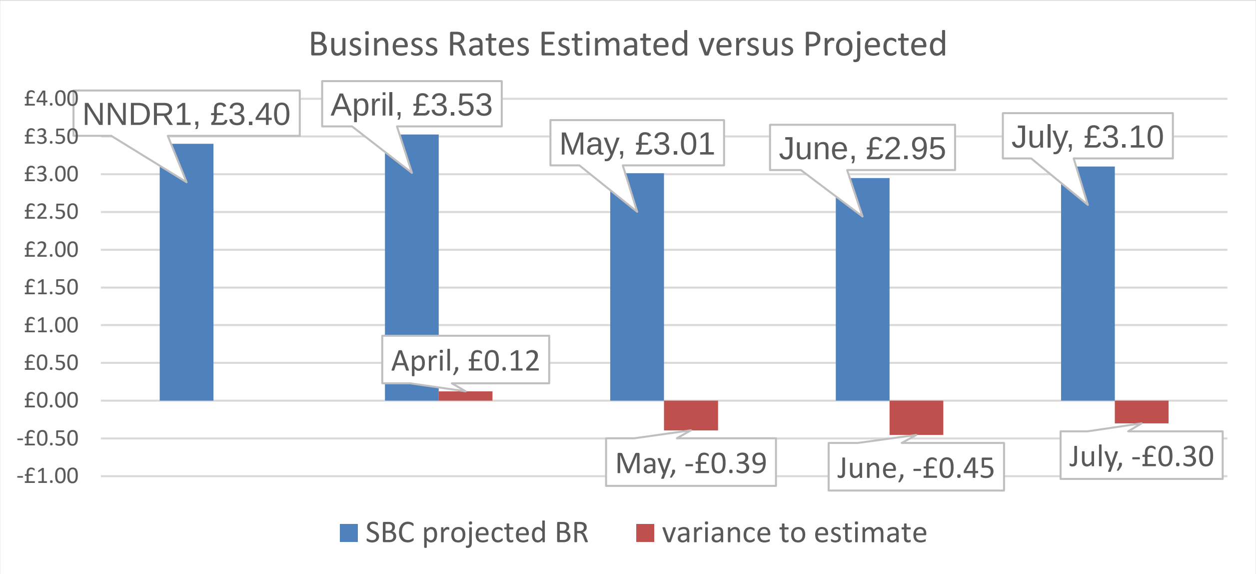
4.5.3 The government also plans a business rate reset every three years, (as per recent consultation) which would effectively reset the Tariff, which in Stevenage's case would increase to match the business rates retained in line with the funding assessment thus 'eliminating' the current recognised gains. In addition, the government plans a 2023 revaluation of business rates based on the 2021 year which could result in a reduction in collectable business rates in Stevenage, which happened at the last revaluation.



4.5.4 This business rate system, whilst allowing SBC to benefit from gains, is hard to predict as income fluctuates between years and can be reset to reduce the net annual amount retained as stated above. This makes it difficult to 'bank' on and use as a source to fund on-going services. Accordingly, such gains have been used to increase financial resilience or fund priority one off growth pressures.

4.5.6 In terms of the future of business rates, the Government has delayed the fair funding review for the last few years. This relates to the amount of business rates the Council is 'allowed' to keep or the base line assessment. It is unclear whether any review will adversely impact on Stevenage or not, likewise with regards to the 2023 revaluation, but the former is almost certainly going to eliminate/reduce the gains shown above.

4.5.7 The Business rate yield for 2022/23 is currently lower than originally budgeted and this relates to prior year adjustments of £1.5Million which are currently being investigated. This may relate to appeals which the Council has a provision for, however this highlights the need to only spend business rate gains when there is certainty around the level which is achievable. Members will be updated as part of the November MYMC report on the projected level of 2022/23 business rates. No assumption has been made about 2023/24 gains in the MTFS.

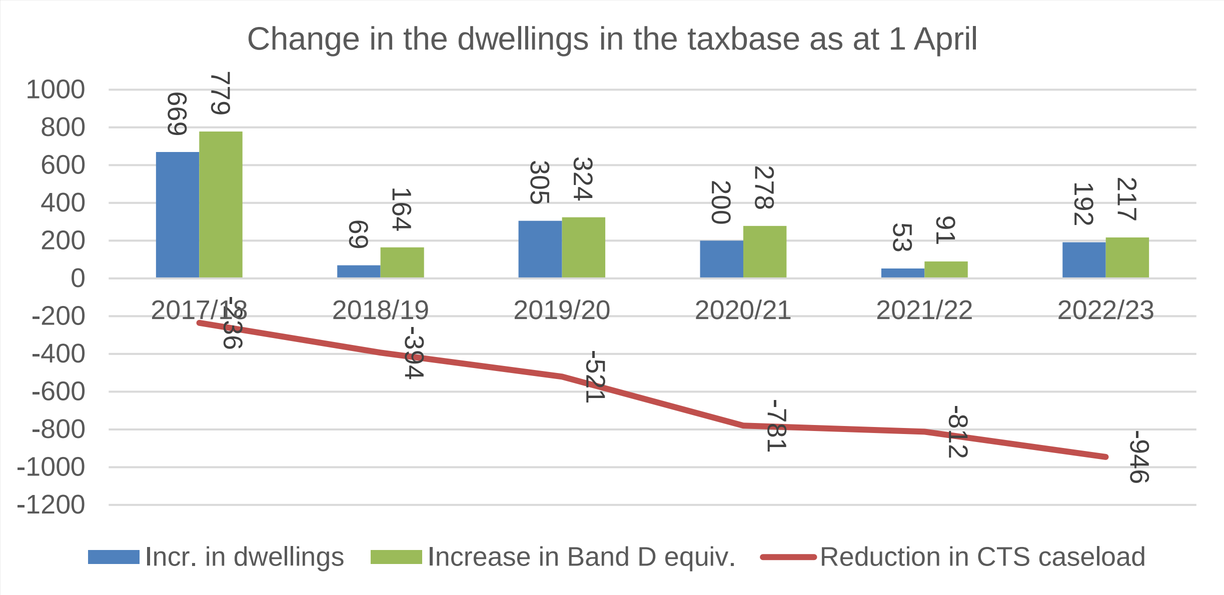


4.5.8 The business rate inflation projection built into the MTFS, are 10% for 2023/24 and 2% thereafter, although the government may supress the increase by applying section 31 grant new burdens for Councils.

4.6 Council Tax

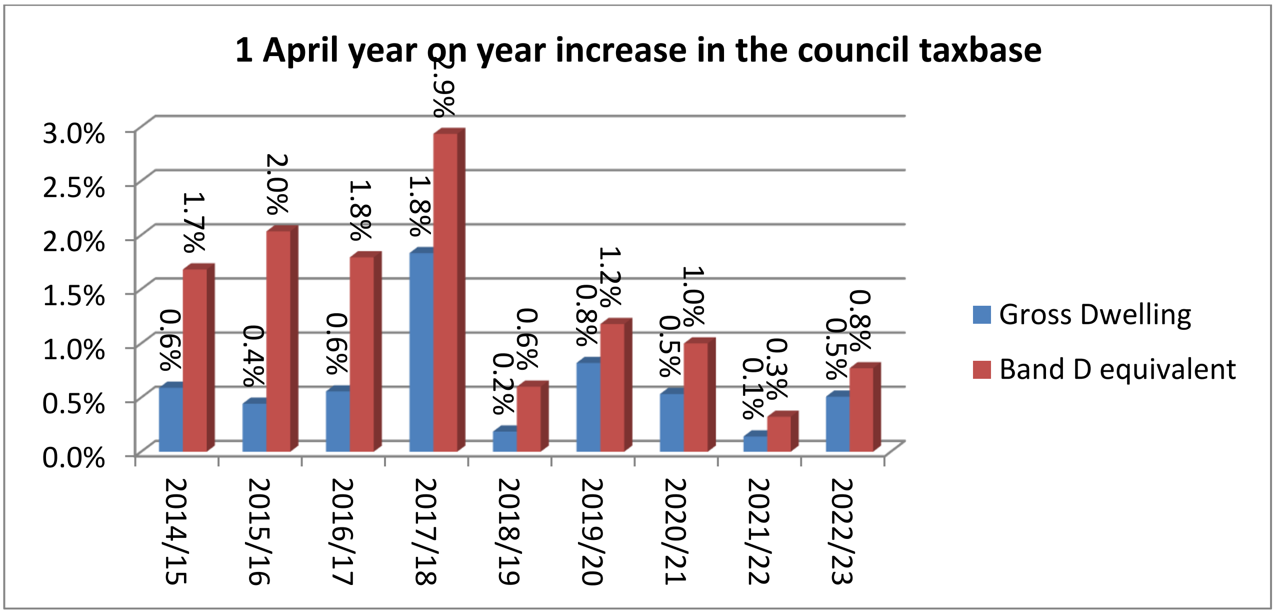
4.6.1 The amount of council tax that can be raised annually is influenced by two factors, firstly the growth in the tax base and secondly the inflationary increase applied each year. The tax base estimates when new properties will be brought into use and converts this to Band D equivalents for the year, together with all the existing properties and discounts given.

4.6.2 The tax base is calculated based on an estimate of the gross dwellings in Stevenage, reduced by the amount of discounts, (single person discount, council tax support and other exemptions).

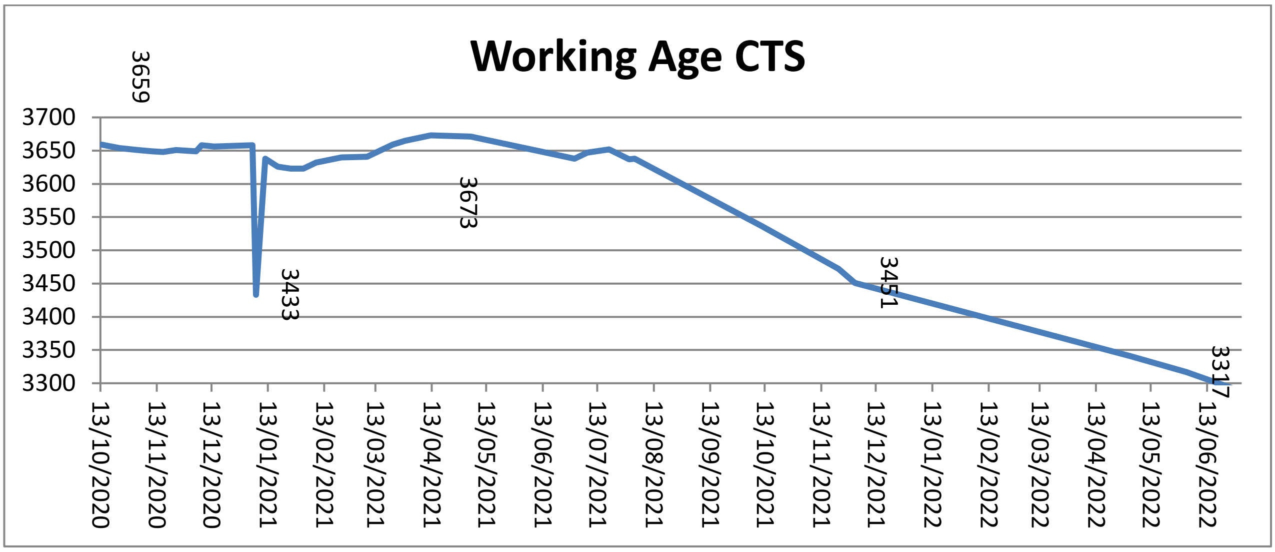


4.6.3 Looking at the growth in the taxbase, the Band D equivalent number of properties, (which should be less as there are more properties banded A to C) has exceeded the gross number of new dwellings on the valuation list, predominately due to the reduction year on year in the number of households claiming Council Tax Support (CTS), (see graph above).

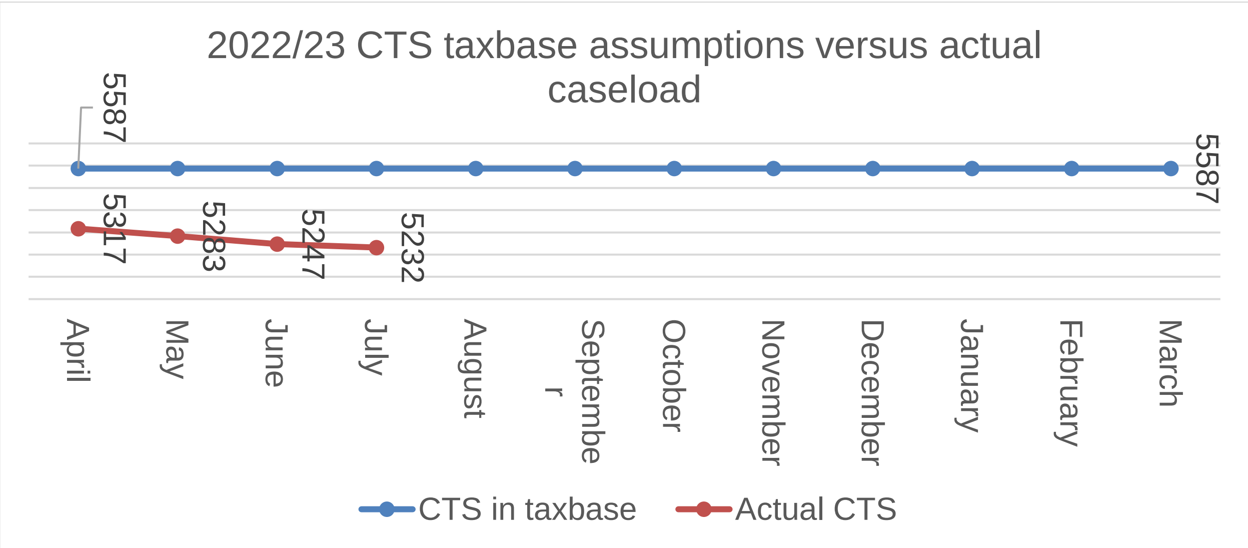
4.6.4 The increase in the taxbase does fluctuates from year to year depending on new properties, CTS and discounts applied, as shown below, this is the amount preceptors will be able to levy council tax on. The MTFS assumes an annual increase of 0.75% per year. For 2022/23 there was an assumption of gross property numbers of 38,060 and as at the 1 August there were 54 properties lower, with a further eight months to go.



4.6.5 Predicting the taxbase for 2023/24 is difficult as there could be an increase in the council tax support (CTS) caseload, as a result of the current cost of living crisis. A spike was seen temporarily during the COVID pandemic but the caseload subsequently reduced. The shared revenue and benefits service has been promoting the CTS scheme and information has also been sent to all Members to highlight how residents can see if they are eligible to claim.



4.6.6 in terms of modelling, the 2022/23 taxbase assumes 5,587 CTS claimants (which equated to the November 2021 caseload plus an allowance for new properties). The actual number of claimants is 355 (6.3%) less. Using the current taxbase to scenario plan for 2023/24 plus 0.75% of growth, means there is headroom to absorb additional CTS cases if they arise as a result of the current economic conditions. This will be monitored up to when the taxbase is approved in January for 2023/24. The current net tax base is 28,128.97 as at 1 August 2022, compared to the yearend target of 28,003.7, which is 125.27 band D equivalents higher (mainly due to the reduction in the CTS caseload), equating to an additional £28,257 for Stevenage for a full year.



4.6.7 The MTFS assumes the CTS scheme will remain unchanged at a maximum discount for working aged claimants of 91.5%, until such time there is a significant roll out of Universal Credit as recommended by the Portfolio Holder Advisory Group in 2021/22.

4.6.8 The MTFS currently includes **a 1.99% increase in council tax for modelling purposes**. It is not clear whether, as part of the 2023/24 settlement, the government will allow, (as in previous years) an increase of £5 on a band D. This would equate to an increase of 2.21%, or £14,421extra based on the current tax base projections. This should be announced as part of the 2022 Spending Review, but in any event an increase of 2.21% does not significantly increase income for SBC when compared to 1.99%. The increase allowed above 1.99% should be considered as part of the overall strategy to meet the 2023/24 funding gap.

4.6.9 Members should note that SBC only retains a relatively small part of the overall Council Tax raised for the year. To illustrate this, taking a Band C property, (the biggest proportion of properties in Stevenage are a band C), the relative shares of council tax for a band C property are shown below.

Authority	2021/22	2022/23	Cost per week	Increase	Share
Hertfordshire County Council	£1,307.22	£1,359.38	£26.14	**3.99%**	**77.32%**
Stevenage Borough Council	£196.06	£200.51	£3.86	**2.26%**	**11.40%**
Police Crime Commissioner	£189.33	£198.22	£3.81	**4.70%**	**11.27%**
Total	**£1,692.61**	**£1,758.11**	**£33.81**	**3.86%**	**100.00%**

4.7 New Homes Bonus (NHB) and Support Grants

4.7.1 **NHB** was introduced in 2011/12 and money is paid to Council's based on the increase in properties in the tax base, (top sliced from nationally business rate revenues). The scheme has been amended over the last few years which has made it less financially beneficial to Council's, by:

- Reducing the number of years a payment is made for, from six to four years;
- Introducing a threshold of 0.4% of the tax base before any new payment is made.
- Gains for 2021/22 and 2022/23 to be retained for one year only

4.7.2 The Council received £32,200 in 2022/23, relating to a legacy payment (now finished) of £8,400 and a further amount of £23,800 for new affordable homes in Stevenage. The government hasn't indicated if they will continue with the scheme, but as at 1 August 2022 the NHB calculation showed that SBC was 2.27 properties below the threshold to qualify for a payment. With the calculation for NHB based on the number of new properties (Council Tax base, taken mid-September, CTB1), It is unlikely the threshold would be reached hence why accordingly no future income has been included in the MTFS

4.7.3 **Lower Tier Support Grant-** 2022/23 was the second year for this grant and the amount SBC received was £117,682 and £140,043 for 2022/23 and 2021/22 respectively.

4.7.4 **Service Grant** -has been distributed via 2013/14 Settlement Funding Assessment (SFA) shares. It would appear that this means of distribution is for one year only and that (a) whilst the funding will remain in future years, it will be distributed differently and (b) the government has confirmed there will be no transition arrangements for changes to this aspect of the CSP in future years, ***(***SBC received £177,377 in 2022/23).

4.7.5 The MTFS therefore assumes a further £120,000 grant for 2023/24-2024/25. Based on funding within the Core Spending Power (CSP) there is a risk the amount could be lower or the grant could be removed entirely. However, there are indications that this grant may continue for the next two years.

4.8 Making Your Money Count

4.8 1 The 'Making Your Money Count' (MYMC) Cooperative Corporate Plan priority is the programme used to ensure that the Council remains financially resilient whilst striving to deliver against its service and high-level ambitions across both the General Fund and the HRA. MYMC consists of four, streams. The graphic below sets out the process for 2022/23 onwards.

4.8.2 **Transformation (including digital)** –Members approved a set of principles to be applied to securing improvements to customer access to services, through the use of digital design at the August 2021 Executive meeting. Customers are at the heart of the Council's services, so the aim of the programme is to ensure that they will be served in a straightforward way, with resolution at the first point of contact and through the provision of easy to access online services that are so good, people choose to use them. This will be achieved working cooperatively with residents to make sure services are designed with their support.

4.8.3 A report will be presented at the October 2022 Executive meeting setting out the potential opportunities and savings which could be realised. Further work will be required to consider the detailed changes necessary and the resulting profile of the possible savings; this will require investment and some changes to the delivery of services to help realise the identified benefits. It is proposed that a rolling programme will be established which will start delivering savings during 2023/24. The MTFS assumes a fund of £300K for the period 2023/24-2026/27 and Members are asked in principle to approve the 2023/24 allocation.

4.8.4 **Commercialisation**-The Council approved its Co-operative Commercial and Insourcing Strategy at the 12 August 2020 Executive. This strategy set out a number of work streams which are overseen by an Executive working group. This work has already contributed to MYMC budget savings and new opportunities are considered throughout the year.

4.8.5 The Co-operative Commercial and Insourcing Strategy includes:

- Short term commercial options to be delivered – commercial property, private sector housing
- Review of current charging levels and readiness for complementary or additional services
- Setting a three year fees and charges schedule
- Longer term and level of commercialisation of services
- Insourcing options to be considered and a roadmap has been developed together with a schedule of procurements which are due in the next 12-24 months
- Developing the commercial culture for managers

4.8.6 This workstream has been reviewing fee charging activities to date and Members as asked to approve the revised charging as shown in the Appendix B, (Engineering charges). The fees have been previously been presented to the Commercial and Insourcing Committee. A further update on the work arising from the Co-operative Commercial and Insourcing Strategy will be included in the November Financial Security Report to the Executive.

4.8.7 **Efficiency savings** are reported and removed from the General Fund as part of the formal quarterly monitoring process. However, there may be some savings generated from changing the way we work, as a result of COVID albeit they have become increasingly more difficult to extract with the main cost pressures having already been reported. This places more emphasis on the two strands identified above to deliver budget reductions.

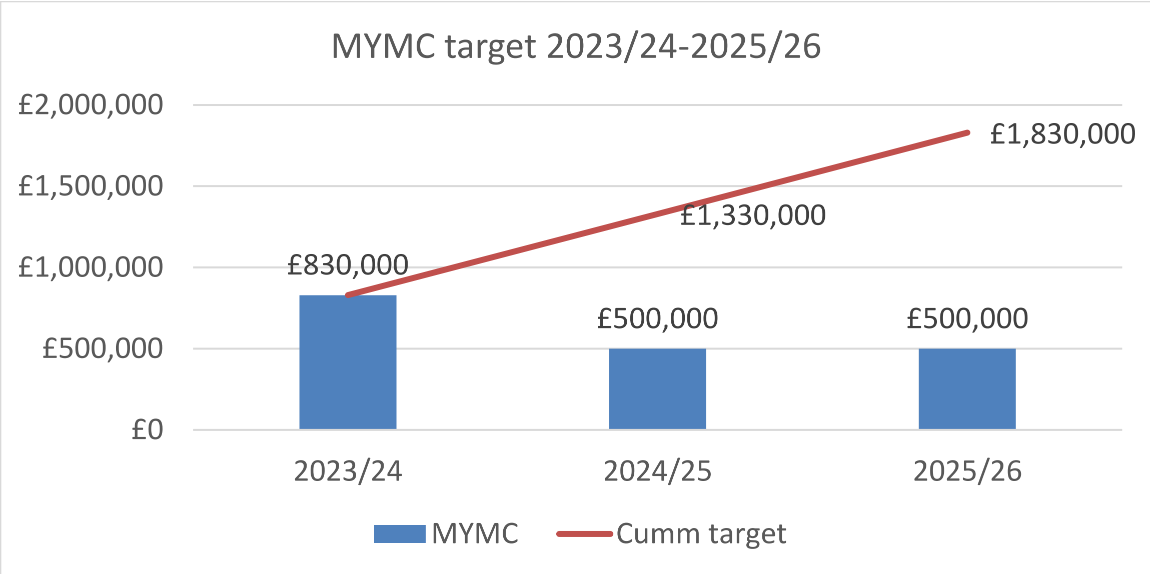
4.8.8 The last strand of Financial Security is to **prioritise services**. If a funding gap remains for the General Fund post taking action in relation to the previous MYMC activities, then the final option is to reduce the level of service provision after giving due regard to the Council’s stated priorities. The financial pressures experienced by Councils over the last three years have been exacerbated by COVID with the cost of living crisis adding further pressure. As set out in section 4.2, £827K of additional on-going inflation which reflect costs outside the Council’s control, have been added to the General Fund for 2022/23.

4.8.9 The CFO does not consider it prudent to set an undefined savings target for any of the MYMC workstreams, as any interventions need to be identified, scoped, discussed with and ultimately agreed by Members. Furthermore, setting an undefined target would compound risks to the budget and the Council’s financial resilience such as:

- The scale on-going income losses exacerbated by COVID and the impact in 2023/24
- Higher inflationary pressures currently identified
- The need to draw on General Fund reserves

4.9 Making Your Money Count Target (MYMC)

4.9.1 The General Fund MTFS has had to set an annual MYMC savings target due to the level of funding reductions and increased financial pressures as set out in this and previous reports. The previous target for 2023/24-2025/26 was £1.8Million as summarised below.



4.9.2 Since approving the 2022/23 budget in February 2022, a number of factors have affected the level of savings which are required. These are:

- Increase in 2022/23 utility cost of living inflationary pressures leading to a £278K pressure in 2022/23, full year impact 2023/24 of £457K
- Increase in 2022/23 pay inflation, as a result of the rise in the living wage levels leading to an on-going pressure of £661K.
- An increase in the estimate for pay in 2023/24 from 2% to 3% based on the levels of inflation, which has increased costs in 2023/24 by a further £200K than previously estimated.
- On-going impact of lower parking income, with an estimated loss of £928K in 2022/23 and a projected £500K loss in 2023/24.
- 2023/24 loss of garage income of £200K one year only

4.9.3 There are a number of mitigations that have dampened the impact of the financial pressures identified above and these are:

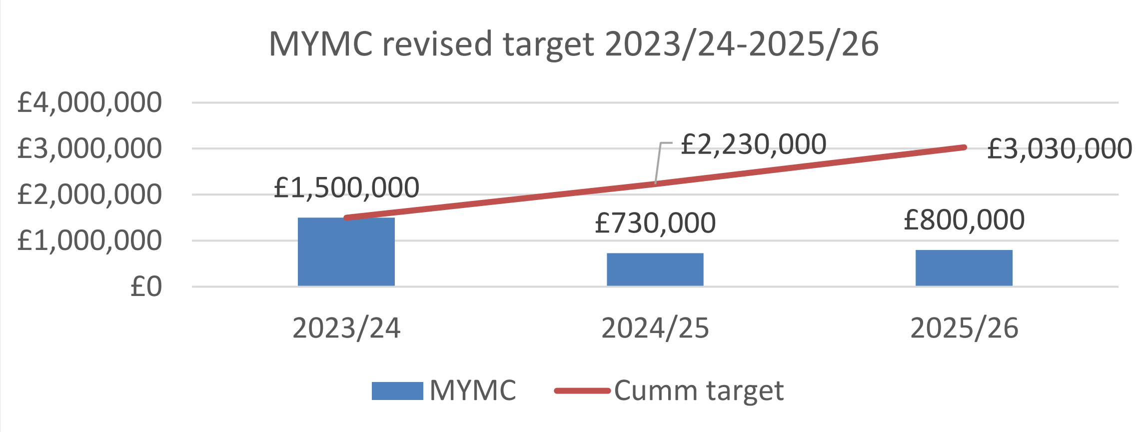
- The February MTFS had assumed a 1% increase in superannuation at the 2023/24 triennial review, however the actuaries have advised that this will be a 1% reduction based on how funded the pension scheme is. This means instead of a cost of £138K, there is a reduction of £138K which decreases spend by £276K.
- The 2021/22 outturn position was an underspend of £1.3Million after carry forwards, which the Executive approved should be used to help maintain financial resilience.
- The Council has approved a wholly owned company business plan which in the short term for 2022/23 and 2023/24, increases General Fund balances by £403K and £313K respectively, before reducing to return a net on-going saving of £33.6K per year.

4.9.4 The mitigations outlined above mean the 2022/23 inflation increases do not require additional savings to be found in this year to ensure the General Fund has sufficient balances, but the 2023/24 target has had to be increased. Further resilient measures taken by Members include the setting aside of:

- Business rate gains in an allocated reserve totalling an estimated £1.16Million as at 31 March 2023, earmarked for financial resilience if the financial position worsens.
- Income equalisation reserve of £458K as at 31 March 2023 to address fluctuations in fees and charges.
- Improvement in investment due to projected higher interest rates

4.9.5 In setting the MYMC target, consideration needs to be given as to whether the target sum is achievable in any given year versus setting an amount which delivers no draw on balances. While at the same time, ensuring the Council is still able to deliver on its priorities and that a budget can be set with a prudent level of balances.

4.9.6 The projected budget gap for 2023/24 is £2Million (before savings). Accordingly, the CFO recommends that a level of savings over the next three years of £3.03Million be approved as set out below.

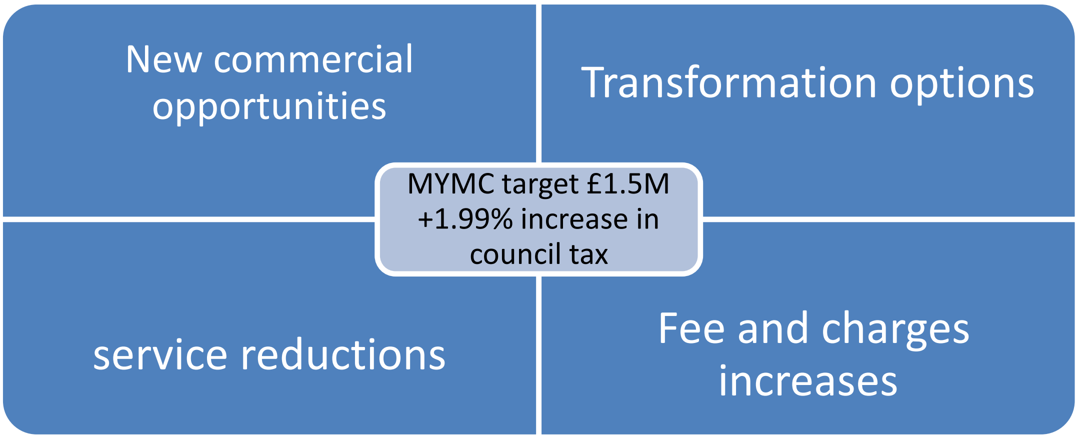


4.9.7 The 2023/24 target has had to increase from £830K to £1.5Million but is less than the 2023/24 identified gap of £2Million, based on the rationale set out in paragraph 4.9.5. In reaching that conclusion the following factors were taken into consideration:

- The 2023/24 MTFS assumptions include a further £500K of car parking losses, however with the new railway MSCP coming on stream March 2023, parking may improve to nearer normal levels and the losses are reducing;
- A further £200K of garage rental losses has been assumed in 2023/24 while the backlog of repairs is carried out, returning to normal levels in 2024/25
- The level of General Fund and allocated reserves available to absorb higher financial risks are sufficient and exceed minimum levels. (General Fund balances £798K above a higher minimum level, plus an additional £1.77Million of allocated reserves 2023/24).

The planned approach will enable the Council to achieve a level of savings in any one year whilst continuing to deliver on priorities. Crucially this approach also enables the Transformation programme to unlock future savings with a view to reducing the need to make service cuts. However, if car parking and garage rental losses do not return to pre-pandemic or near normal levels, then the savings target will need to be increased.

4.9.8 A £1.5Million MYMC target is above the level that has been realised in the last few years and undoubtably will necessitate the Council taking a blended approach. The Senior Leadership Team has instigated a 'star chamber' approach to reviewing current expenditure and income to identify a range of options for Members to consider during September and for inclusion in the November MYMC report.



4.9.9 The current MTFS principles require a contribution to balances by 2024/25 and the MTFS now predicts this to be 2025/26, however this assumption pre-dated the current financial climate. Accordingly, Members are asked to approve the revised target date.

4.9.10 A report will be presented to the November 2022 Executive and Scrutiny Committees and will include the options to meet the MYMC target. This will include options from the four MYMC strands identified in this report. As previously noted, whilst the focus will remain on looking for options such as increasing surplus income and transforming how the Council works, it is unlikely that the target will be achieved without changes being made to the frontline services. This means a combination of service improvements, council tax and fees and charges increases are necessary in order to reduce the impact on the front line services.

4.10 General Fund Balances and Reserves in the MTFS

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

4.10.2 The Council's General Fund balances projected in the MTFS are summarised in the table below.

General Fund balances	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Opening Balance	(£6,401)	(£6,908)	(£4,931)	(£4,368)	(£4,248)
In Year	(£507)	£1,976	£563	£120	(£4)
Closing Balance	(£6,908)	(£4,931)	(£4,368)	(£4,248)	(£4,252)
February Council report 2022	(£4,942)	(£3,886)	(£3,395)	(£3,404)	(£3,605)
Variance	(£1,966)	(£1,045)	(£973)	(£844)	(£647)

() equals surplus

4.10.3 The improvement in General Fund resources is largely due to the 2021/22 yearend underspend. This means the General Fund has increased its financial resilience despite the financial challenges faced and has a bigger financial cushion to absorb unforeseen pressures.

4.10.4 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.

4.10.5 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.

4.10.6 Reserves can be held for three main purposes:

- 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).

4.10.7 In order to assess the adequacy of unallocated general reserves when setting the budget, the CFO must take account of the strategic, operational and financial risks facing the authority.

4.10.8 In terms of determining the level of general balances, the CFO has based her advice on consideration of the factors included in the table below which projects a £3.57Million (2022/23 £3.47Million) minimum level. This is higher than in previous years due to the legacy impacts of COVID combined with the risk of further inflationary pressures. This assessment is indicative at the current time and will be further reviewed as part of the budget setting process.

General Fund balances Minimum Level Assessment	2023/24 £Million
Amount to cover a 1.5% overrun in gross expenditure	£0.97
Amount to cover a 1.5% overrun in gross income	£0.79
Amount to cover fee and charges losses through price fluctuation (garages, recycling)	£0.30
Amount to cover higher prices with higher than forcast inflation	£0.60
Amount to increased COVID losses from parking fees	£0.50
Amount to increased homeless costs	£0.10
Amount to cover risk to Financial Security savings	£0.30
Total Estimated General Fund Reserves	**£3.57**

4.11 Allocated Reserves

4.11.1 The Council's Allocated revenue reserve projections are summarised in the table below. The reserves have been categorised as being allocated for a specific use or available to support the General Fund.

Reserves	Opening 2022/23	Use	Closing 2022/23	Use	Closing 2023/24
NHB reserve	(£479)	£474	(£5)	£0	(£5)
Transformation Reserve	(£506)	£230	(£276)	£276	£0
Homeless reserve	(£544)	£0	(£544)	£544	£0
Planning Delivery	(£62)	£0	(£62)	£0	(£62)
Queensway Car Park monies	(£39)	£0	(£39)	(£40)	(£79)
Town square reserve	(£649)	£40	(£609)	(£376)	(£985)
Regeneration Reserve	(£380)	£166	(£214)	£0	(£214)
Insurance reserve	(£65)	£54	(£11)	£0	(£11)
ICT reserve	(£316)	£151	(£165)	£165	£0
Town centre	(£42)	£14	(£28)	£0	(£28)
New Leisure	(£363)	£363	£0	£0	£0
New Commercial Property repair	(£41)	£0	(£41)	£0	(£41)
Capital reserve	(£44)	£44	£0	£0	£0
Total Allocated for use	**(£3,532)**	**£1,537**	**(£1,996)**	**£571**	**(£1,425)**
Income equalisation Reserve	(£258)	(£200)	(£458)	(£150)	(£608)
Gains (NNDR)	(£1,017)	(£145)	(£1,162)	£0	(£1,162)
Total Available to support the GF	**(£1,275)**	**(£345)**	**(£1,620)**	**(£150)**	**(£1,770)**
Total allocated reserves	**(£4,808)**	**£1,192**	**(£3,616)**	**£421**	**(£3,195)**

4.11.2 There are balances of £1.770Million estimated at the end of 2023/24 that would be available to support the financial resilience of the General Fund if inflationary pressures continue to increase and if fees and charge are impacted. This includes balances relating to 2022/23 business rate gains transferred to the NNDR reserve (in this year), which could be returned to the General Fund if they are realised. The CFO does not recommend returning those balances until they are achieved.

4.11.3 The Regeneration reserve will require reviewing to determine whether additional funds need to be added to support the SG1 regeneration priority. The CFO recommends that if 2022/23 yearend underspends occur, the reserve should be increased by £200K.

4.12 CFO commentary

4.12.1 The MTFS projects that 2023/24 general balances will be above minimum levels - based on the revised calculation in paragraph 4.10.8, with an additional £1.770Million of allocated reserves. However, the General Fund faces some financial uncertainty for the reasons previously stated and those set out below:

- There is still a draw on balances projected until 2025/26.
- There is a potential on-going risk to income streams from COVID such as parking and commercial.
- There is a risk of higher costs due to homelessness and higher cost of materials and contracts as a result of supply issues.
- There is a risk to higher inflationary pressures from utilities, contracts and pay negotiations
- There is considerable uncertainty around future funding and whether the fair funding review will reduce government funding further.

4.12.2 It is critical that General Fund reserve resilience measures, such as the Locality Review receipts, meet the in-year target required and the MYMC targets are achieved as set out in the Strategy. This means that options, identified and presented to the November Executive, must meet the target for 2023/24 and that the October Executive Transformation report sets out future year savings opportunities.

4.12.3 Growth should be limited to that which is necessary to deliver the Council's top priorities only, based on the ability to deliver the existing Corporate Plan commitments and should be met by increasing the MYMC target. The growth allowance for 2022/23 is modelled at £75,000. There is a need to increase resources to enable the Council to meet its 2030 net zero pledge including maximising grant funding opportunities and the ongoing development of the strategy and implementation of the related action plan which will be necessary to meet the deadline and mitigate costs to both the General Fund and the HRA. It should be noted though that further support from the Government with regards to elements such as social housing decarbonisation will also be needed in order for that target to be met.

4.12.5 The cost of living crisis and COVID legacy impacts are outside the control of the Council but this report sets out a roadmap to address the potential impacts. The Council cannot just rely on unplanned underspends to improve balances, which are one off in nature and may not always happen.

4.13 Approach to Consultation

4.13.1 Previously the Council has sought the views of residents and stakeholders through consultation, finding out their preferences for reducing services, increasing fees and charges and increasing Council Tax. The recent residents' survey results showed what priority the Council should make savings.

4.13.2 The 2021/22 Residents survey shows that resident's preferences are firstly to reduce costs through the provision of more on line services. Moving services on line was ranked the highest (out of five options in 2021 and 2017) with 41% of those responding to the survey indicating that this was their preferred option; this ranking has increased from 2017 and supports proposals being developed via the Transformation programme as a method to reduce costs and improve customer satisfaction / response times.

Please tell us your order of preference for each of the following options by ordering them 1 to 5	**2021 rank**	**2017 rank**	**1st**
Reduce time and money spent on paperwork by interacting with more residents and customers online	1	1	41%
Increase income from fees and chargeable services, to keep the council's element of Council Tax as low as possible	2	3	24%
Spend less by reducing or cutting the services that you tell us are not a priority	3	2	16%
Make money by selling more of our services to residents and customers	4	5	9%
Increase our element of Council Tax (for example from 51p per day to 55p per day)	5	4	10%

4.13.3 In addition, the CFO is reviewing what additional consultation with residents could be developed for the 2023/24 MYMC budget options. These options will be discussed with Members and through the a Member Led cross party group.

4.14 Decision Making Process

4.14.1 It is currently planned that the following approval process will be followed:

Date	Meeting	Report
Nov-22	Executive	Financial Security Report with the three year savings proposals for the General Fund and HRA
	Overview and Scrutiny	Financial Security Report with the three year savings proposals for the General Fund and HRA
Dec-22	Executive	Draft 2022/23 HRA budget and rent setting report
	Overview and Scrutiny	Draft 2022/23 HRA budget and rent setting report
Jan-23	Executive	Final 2022/23 HRA budget and rent setting report Draft 2022/23 General Fund budget, Council Tax and Council Tax Support

Date	Meeting	Report
	Overview and Scrutiny	Draft 2022/23 General Fund budget, Council Tax and Council Tax Support
	Council	Final 2022/23 HRA budget and rent setting report
Feb-23	Executive	Final 2022/23 General Fund budget, Council Tax and Council Tax Support
	Overview and Scrutiny	Final 2022/23 General Fund budget, Council Tax and Council Tax Support
	Council	Final 2022/23 General Fund budget, Council Tax and Council Tax Support

4.14.2 Following the approval of the proposed MYMC options for 2023/24, the Council will have an obligation to begin consultation with staff and partners.

5. IMPLICATIONS

5.1. Financial Implications

5.1.1 The CFO view is set out within this report. There is still a draw on balances which increases the necessity to adhere to the spending and saving plans.

5.1.2 There may also be pressure on fees and charges targets as increases in fees or new commercial options may conflict with other business objectives and COVID and the cost of living crisis have diminished the ability to achieve previous levels of rents and charges.

5.2. Legal Implications

5.2.1 The objective of this report is to outline a MTFS 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.

5.2.2 MYMC savings options considered will have due regard to any consultation carried out, if consultation is required.

5.5.3 The Borough Solicitor has considered and confirmed that the Council has the necessary statutory powers to provide & charge for services as detailed under this report (Appendix B) and will keep this under review, working closely with the officers concerned

5.3. Risk Implications

5.3.1 A review of the risks facing the General Fund budgets has been listed in the table below, not all the impacts are known at the present time. The current MTFS projections are based on prudent assumptions, and include the CFO's 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
Anticipated MYMC options not achieved (Negative Risk) –agreed options do not deliver expected level of savings either on a one-off basis or On-going.	Regular monitoring and reporting takes place, but the size of the net budget reductions increases the risk into the future. Non achievement of options would require other options to be brought forward. General Fund reserves should be held to ensure that decisions to reduce net costs are taken in a considered manner. This may become more of a risk as options around commercialisation are explored.	Medium	Medium
REVISED: Council Tax Support (CTS) (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. However the modelling in the MTFS leaves the higher level of CTS caseload as set out in para 4.6.6	High	Medium
Localisation of Business Rates (Potential Negative) – 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 £190K which the council has included in an allocated reserve. On-going this would impact on the savings target and ultimately services.	Medium	High
Loss of Business Rates due to Companies going into administration	As above.	High	High
The NDR Check Challenge Appeal process impacts on the council's baseline assessment and increases the level of successful appeals and reduces the yield (Negative risk)	Officers will be monitoring changes to the NDR system and will be talking to the Valuation office. However since the system has been introduced, little has been completed in Stevenage and there are appeals from the 2010 list remaining.	Medium	Medium
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	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 a very slow pace and the current case load is reducing.	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
impact on residents' ability to pay council bills.			
NEW: pay inflation pressures increase	General balances are risk assessed to ensure overall levels are maintained that can meet higher than expected inflation rates. The inflation projections include a 3% pay award for 2023/24 (was 2%), however this remains a significant risk for the Council as a insourcing Council. However it reduces the risk to inflationary pressures on external contracts	Medium	High
NEW: Utility inflation pressures increase	General balances are risk assessed to ensure overall levels are maintained that can meet higher than expected inflation rates. The inflation projections include a higher increase for 2023/24 while inflation remains higher. However this remains a significant risk for the Council.	High	High
New: Recession risk due to high inflation	General balances are risk assessed to ensure overall levels are maintained that meet an in-year short fall in income and higher costs. In addition the Council is building an income equalisation reserve to mitigate against fluctuating income levels	High	High
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.	Council's risk management framework ensures operational and strategic risks are identified as part of the annual service and MTFS planning process.	Low	High

Risk Area	Risk Mitigation	Likelihood	Impact
NEW: The impact of Ukraine war (negative risk) causes supply chain issues increasing costs such as steel	An amount has been included in the minimum level of balances and the inflation increases for contracts and utilities has been included in the MTFS modelling.	Medium	Medium
Impact of future years capital programme (Negative) There could be increased pressure from the capital programme on the General Fund.	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. The Locality reviews should identify capital receipt opportunities.	Medium	High
The Council's regeneration of SG1 increases the financial resources the Council must find.	The Council has already approved the use of ring fenced NDR gains for this purpose and the MTFS recommends this continues. However a full reset of business rate gains could see this reduce and put a pressure on the General Fund.	High	High
Fees and Charges target may not be reached (negative risk)	Non achievement of the target may require other options to be brought forward, for future years. But the Council has an income equalisation reserve to meet in year losses and an assumption is also contained within the minimum level of balances to meet an in year loss.	High	High
Homeless Bed and Breakfast costs increase over that budgeted	An allocation of £250,000 has been included in the MTFS for 2023/24. However the cost of living crisis could see more residents presenting as homeless.	High	High

5.4. Equalities and Diversity Implications

5.4.1 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.

5.4.2 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.

5.5. Policy Implications

5.5.1 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.

5.6 **Staffing and Accommodation Implications**

5.6.1 It will be evident that there are potentially staffing implications in this report. The associated matters will be discussed with the Trade Unions at the earliest opportunity.

5.7 Climate Change Implications

5.7.1 The Budget and Policy setting process prioritised growth for climate change as part of the 2022/23 budget setting process. However as set out in the report, there will be a need to provide more resource than what is currently included in the budget to meet the 2030 deadline. The 2023/24 process should have due regard for climate change implications based on the Council's approved Climate Change Strategy.

BACKGROUND DOCUMENTS

BD1 - 2021 September MTFS Strategy

APPENDICES

Appendix A MTFS

Appendix B Engineering fees and charges