Stevenage BOROUGH COUNCIL

Part I – Release to Press

Meeting: **EXECUTIVE**

Portfolio Area: RESOURCES

Agenda Item: **6**

Date: **19 SEPTEMBER 2017**

Financial security

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY (2017/18 – 2021/22)

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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 update Financial Security targets for the period 2018/19 – 2021/22.

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 4.1.4 to this report, be approved.

2.2 That, for modelling purposes, Council tax increases be set at the threshold of 1.99%, subject to any change in government rules to achieve a balanced budget (section 4.6 refers).

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

2.4 That the updated inflation assumptions used in the Medium Term Financial Strategy (section 4.4.5 refers) be approved.

2.5 That a General Fund Financial Security Target of £1.46million be approved for the period 2018/19- 2020/21, of which £893K has not been implemented, (paragraph 4.10.8 refers).

2.6 That an amount of £150,000 per year for the period 2018/19-2020/21 be approved for inclusion in the budget setting process as a Transformation Fund, to help deliver the Future Town Future Council programme (paragraph 4.9.2 refers).

2.7 That all other General Fund growth approved for priority schemes be funded from within the existing baseline budgets or further savings in addition to the target identified, (section 4.9 refers).

2.8 That approval to enter the Business Rates Hertfordshire pilot for 2018/19 is delegated to the Assistant Director Finance and Estates after consultation with the Resources Portfolio holder, (paragraph 4.7.3 refers).

2.9 That the bid of £45,000 is approved to fund the towards a new ICT system and implementation, which will support the Union's to reach more savers and borrowers and help future proof the Union, (paragraph 4.8.2 refers)..

2.10 That the Leader's Financial Security Group oversee the development of the 2018/19 – 2020/21 savings package.

2.11 That a minimum level of balances for the General Fund of £2.952million be approved for 2018/19 (section 4.11 refers).

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

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

2.14 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 report is an update on the full revision of the 2016 MTFS published in September 2016. This document provides an update on the assumptions contained within the 2016 MTFS, such as inflation and income projections.

3.2 This report will update financial assumptions for the impact of government initiatives where they are known and flag as risks those that cannot be quantified at the current time, such as BREXIT and the localisation of business rates which had been projected to come in 2019/20, but does not appear to be currently on the Government's agenda.

3.3 In addition there is likely to be a financial impact on the General Fund to deliver the Council's ambitions around its Future Town Future Council priorities and in particular town centre regeneration. This report recommends funding stream options to help deliver these ambitions and identify risks where known.

3.4 Since the last MTFS update the Chief Executive has delivered a senior management restructure which is now implemented at the tier three level (Assistant Director and above). Assistant Directors are now working on their business plan reviews and the impact of these was not identified at the time of writing this report, however any cost base changes will have due regard to the financial envelope the General Fund operates within.

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, setting out the Council's strategic approach to the management of the General Fund. This includes:

- Council tax projections
- Business Rate projections
- Treasury Management
- Funding of Capital from the General Fund
- Projections of Financial Security targets
- Future pressures and risks
- Inflation projections

4.1.2 The MTFS 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. The need to set annual financial security targets is not a Council priority in itself, it is rather a tool to facilitate the Council in achieving its Future Town Future Council priorities and maintain adequate funding for the services the council provides, while maintaining prudent level of reserves.

4.1.3 The Council's 'Financial Security' methodology is a five strand approach for achieving a lower net cost base for the General Fund (see also paragraph 4.3.9 below). The MTFS identifies the level of financial reduction required and the Financial Security priority helps deliver this. The MTFS was fully reviewed in September 2015 and 2016 and this report is a refresh of those assumptions.

4.1.4 The MTFS principles for financial planning purposes are summarised as follows:

MTFS principles
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 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.

MTFS principles
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
The Council does not depend upon short term sources of funding such as New Homes Bonus

4.2 The Economy

4.2.1 Since the last 2016 Strategy update there has been an election (8 June 2017) and a change in Prime Minister and a new Government agenda was announced in the Queen's Speech 21 June 2017. The Election announcement cut short parliamentary time to get legislation passed for initiatives planned July 2017 such as an increase in planning fees and some of the previous Conservative Government pledges were not even mentioned in the speech, such as 100% localisation of business rates by 2020, (see also section 4.7) . The Government focus is on the BREXIT negotiations for the UK, the impact of which for local government and the economy is still not clear. In the intervening period the pound is weak against the dollar and euro, so pushing up the cost of imports and inflation.

4.2.2 The Bank of England has lowered its growth forecast for the UK economy in 2017, and now expects GDP to expand by 1.7%, down from a May estimate of 1.9%. CPI inflation is expected to be up by 2.7% this year, before falling back to 2.6% in 2018 and 2.2% in 2019. Separately, the Bank's rate-setting committee voted 6-2 in favour of leaving interest rates at 0.25% (August) according to minutes from its most recent meeting. The minutes note that, should the economy evolve as the Bank is expecting, interest rates could be lifted by more than financial markets are currently pricing in. Those market expectations are for two rises to 0.5% and then to 0.75% over the next three years.

4.2.3 Although the Council signed up to the four year funding deal for the period 2016/17-2019/20 It is not clear whether the new Chancellor will introduce further local government funding cuts.

4.2.4 In addition the pace of benefit change in the form of Universal Credit continues to be introduced at a slow pace with all new claims now estimated to have migrated by June 2018, with only an estimated 201 cases transferred to UC as a result of new claims. There is no timetable known for the migration of existing benefit claims. 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. An article in "Inside Housing" identified that there were 68,000 households nationwide who had their benefits capped by May this year, the first time the full effect of the lower benefit cap has been revealed. In Stevenage there were an estimated 153 live cases at the 3 August 2017 (101 SBC tenants).

4.2.5 Legislation that has been enacted has seen the 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. This is estimated to cost the Council £80,000 in 2017/18 and onward per year, (General Fund £57,000). A total of £24,253 has been paid over April to July payrolls inclusive for the General Fund and HRA employees.

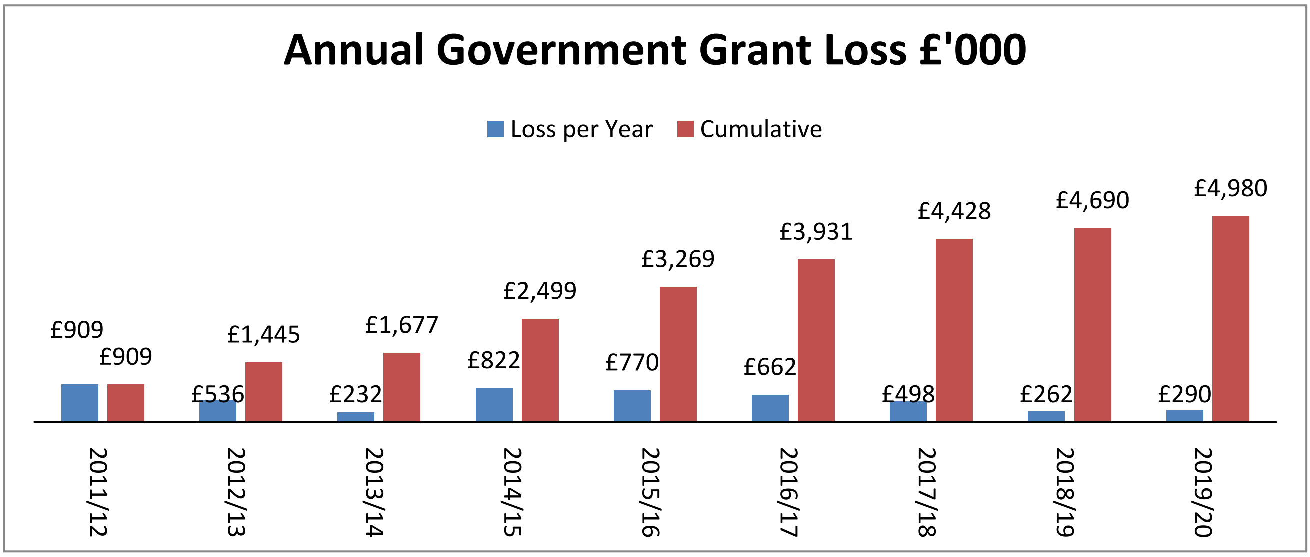
4.2.6 Local Government has faced considerable financial challenges since 2010/11 with significant reduction of government grant. This has meant that local authorities have had to become innovative and resourceful in the ways to meet these challenges. There is a stark choice, reduce services which could dis-proportionately impact on the poor or become more commercially minded and innovative in order that budgets are not systematically reduced and front line services diminished. However with the latter comes an element more risk, which is identified in paragraph 4.10.2 below.

4.2.7 The impact of public sector cuts and tax changes have been assessed/estimated over the next five years for the General Fund and total £9.4Million for the General Fund and for the Council as a whole an estimated £46Million.

Projected Impact of Public Sector funding reductions/tax and legislative changes £'000						
	2017/18	2018/19	2019/20	2020/21	2021/22	Total
General Fund:	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
RSG reductions	546	885	1236	0	0	2,667
Increased demand for services/impact on arrears - due to welfare reforms	Not yet fully known					
increased national insurance contributions	260	260	260	260	260	1,300
Introduction of Apprentice levy	57	58	60	61	62	297
Reduction in New Homes Bonus	689	829	1,007	1,224	1,435	5,183
Impact of BREXIT	Not yet known					
Total General Fund	**£1,552**	**£2,032**	**£2,562**	**£1,545**	**£1,757**	**£9,448**

4.3 Stevenage Financial Position

4.3.1 Since the last economic downturn and resultant reduction in central government funding for local government (2010/11 onwards), Stevenage, like so many councils, has had to plug the funding gap by finding annual savings to avoid running out of reserves while continuing to fund inflationary pressures and address the community's needs while being constrained in terms of income raised via council tax. The amount of grant lost since 2011/12 is estimated at £4.98Million or 80% of the central funding given in 2010/11.

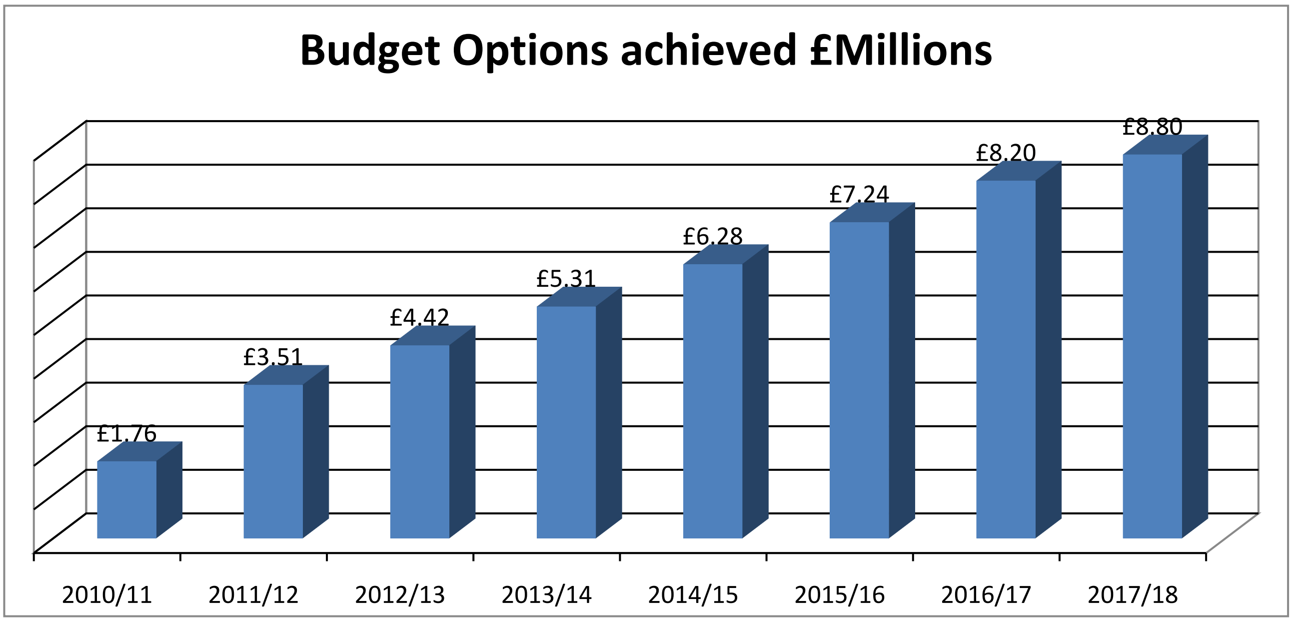


Note: net of NDR increases and excluding council tax freeze grants

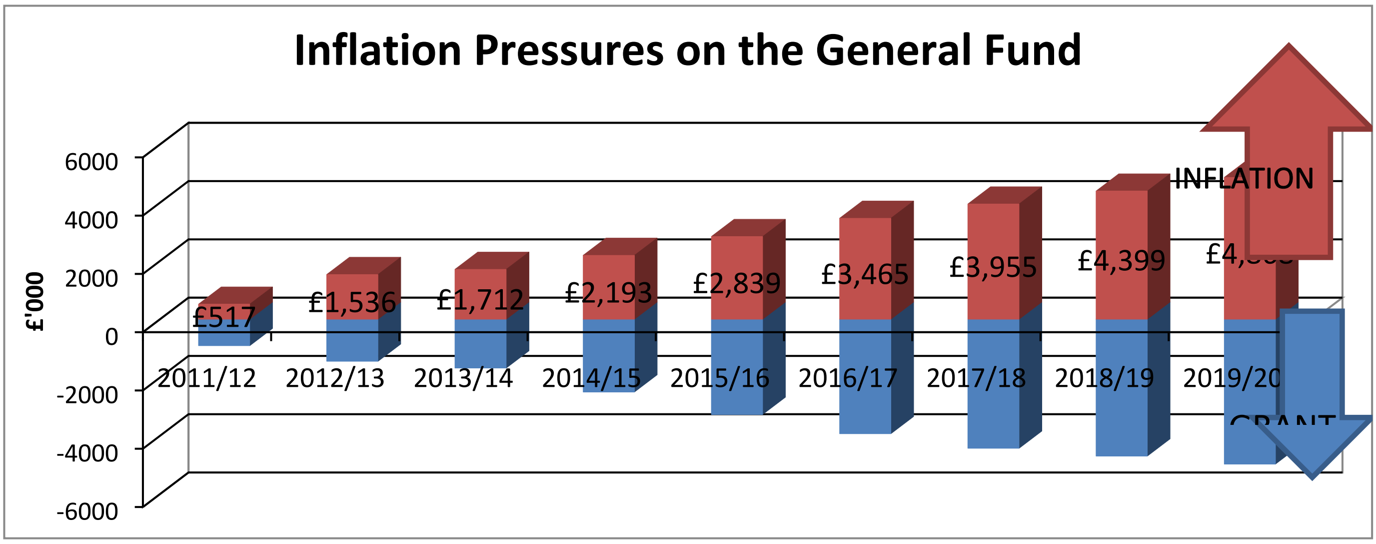
4.3.2 Tracking the decline of central government for local government since 2010/11 has been made difficult because the funding of some services have been included in the RSG/NDR calculation, £1.2Million of grants for services have been added into RSG/NDR , (Council Tax Support, Homeless and council tax freeze grant) between 2013/14-2015/16.

4.3.3 By 2019/20 central government funding from RSG will be zero and the core funding allocation from the Government will be 100% reliant on business rates. The Council retains 40% of business rates collected, but after a tariff is applied that amount equates to in the region of 5% of total collectable rates.

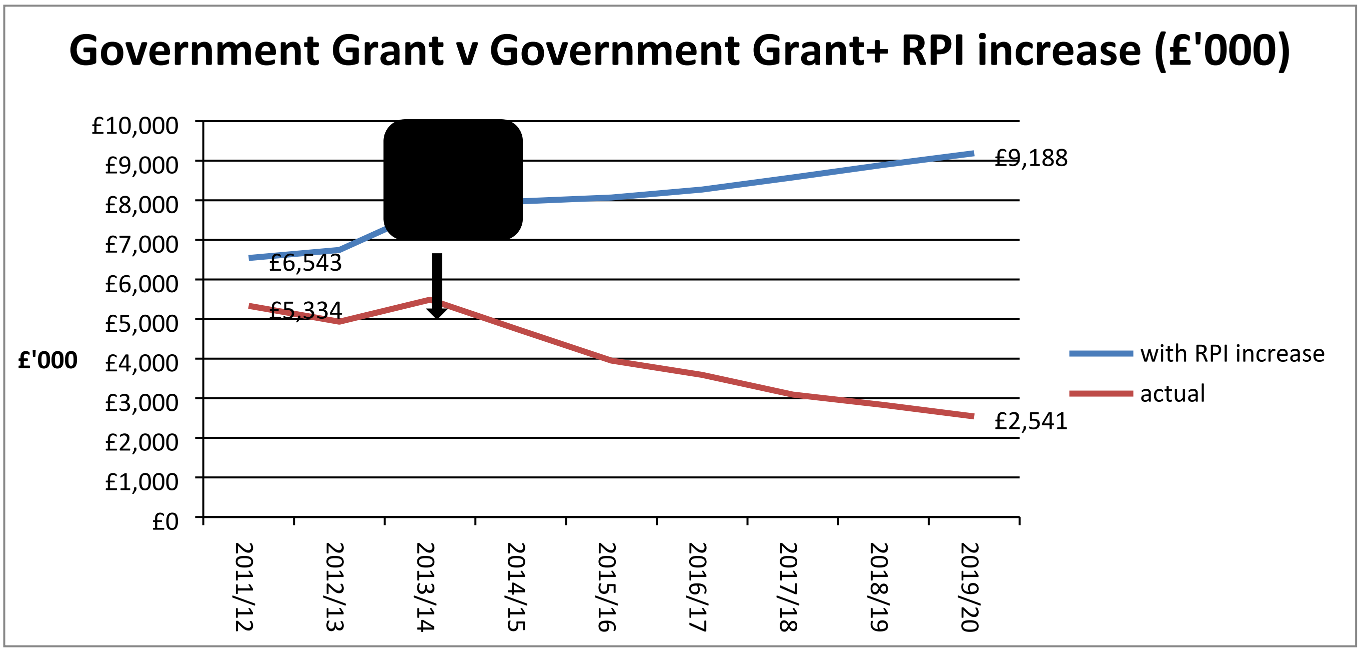
4.3.4 Over the last seven years a cumulative £8Million+ budget reductions have been achieved, the Council has been able to set balanced budgets and indeed made some contribution back to reserves. The level of budget reductions achieved from initiatives such as ‘Priority Based Budgeting’ and from 2017/18 the ‘Financial Security’ priority are shown in the chart below.



4.3.5 The cumulative budget reductions between 2010/11-2017/18 exceed the central grant reductions because in addition to meeting the challenge of reducing central funding, councils also have had to fund inflationary pressures for pay and services. The graph below illustrates the total gap between government funding losses and inflationary pressures that the Council has needed to fund just to meet the cost of existing services. This effectively has doubled the funding gap required to be found for the period 2011/12-2019/20



4.3.6 If Government funding had increased from 2011/12 in line with RPI, then the amount of funding Stevenage would receive in grant by 2019/20 (excluding council tax freeze grant) is estimated to have been £9.2Million, compared to the £2.5Million (retained business rates), as shown in the chart below.

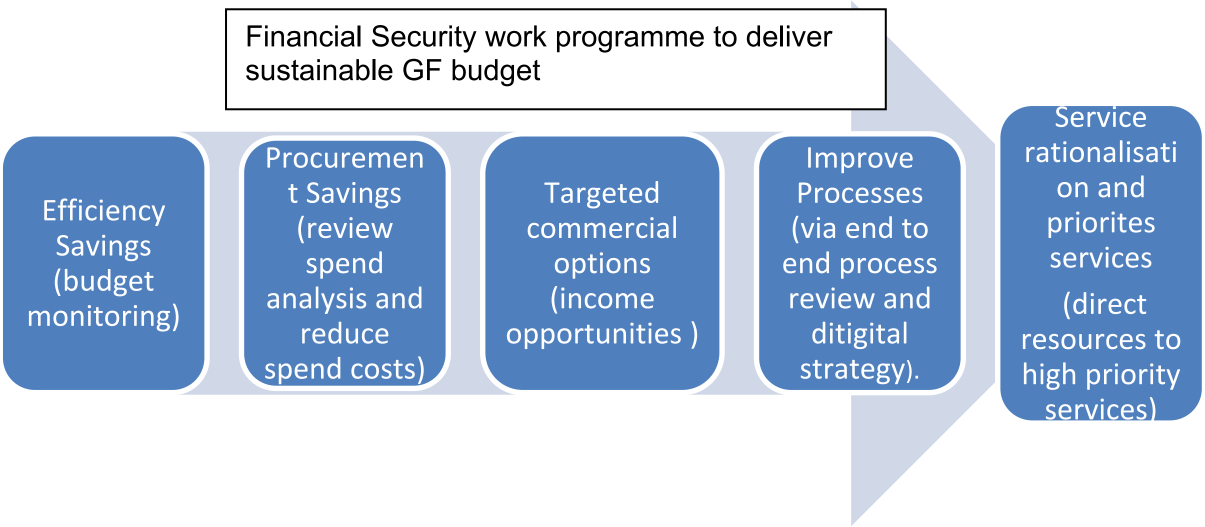


**Council Tax Support funding was added to central government grant and removed from subsidy payments*

4.3.7 Despite funding pressures the Council has still been able to reduce its net budget, while in the main still protecting front line services. With budget reductions or savings coming from efficiencies and changes to the way the council works, e.g. shared services Audit, ICT, Revenue and Benefits. As stated in paragraph 4.3.4 this has been done with a number of initiatives aided by a cross party Members group the Leaders Financial Security Group (LSFG).

4.3.8 The approach since 2014/14 using Priority Based Budgeting (PBB) meant Members were not just concerned with the immediate coming years funding shortfall to set a balanced budget, but were looking at the General Fund over a three year period. This meant Members were able to review a whole suite of savings options, leading to a more effective prioritisation process and allowing both Members and officers to plan ahead.

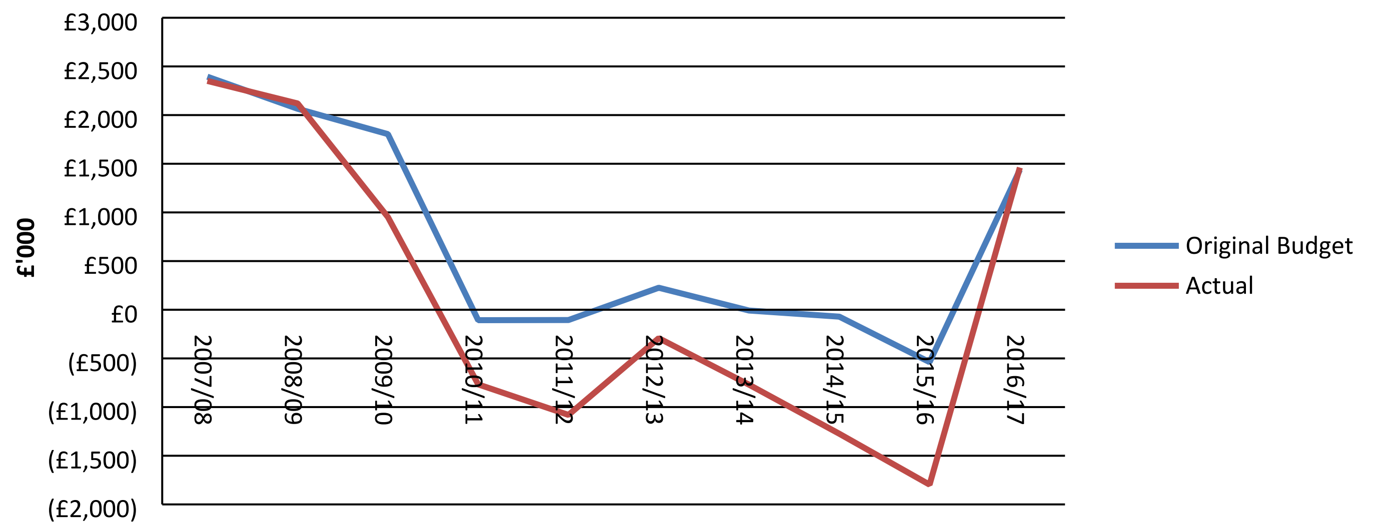
4.3.9. The introduction of Financial Security priority from 2016/17 has mean the process is now not an annual (September-November) look at three year savings but rather an all year round process with the aim of delivering options to reduce net spend based on five strands which are summarised below.



4.3.10 An officer group led by the Assistant Director (Finance and Estates) meets to discuss and monitor options brought forward under the five strands. This group meets with LFSG on a regular basis to look at these options. 'Financial Security' is dealt with in more detail in section 4.10.

4.3.11 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 MTFS objective, 'projected future budget gap is managed and closed by 2021/22', allows for a draw on balances up to 2011/22. This is to allow the impact of funding reductions which were front loaded, as shown in the chart in paragraph 4.3.1. The draw on balances to date is shown in the chart below.

General Fund Budgeted and Actual Draw on Balances



**the gap between original and actual is due to carry forward budgets into the following financial year and underspends*

4.4 Inflation

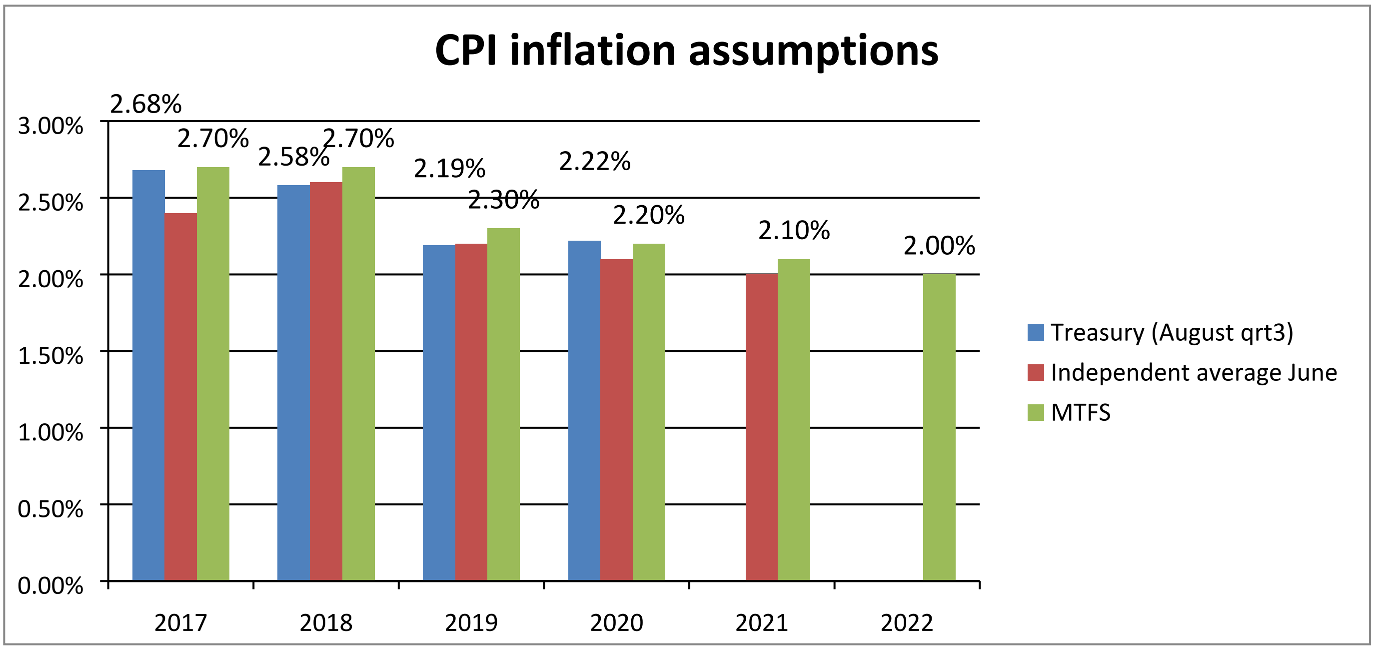
4.4.1 The assumptions made in the report together with other known budget adjustments are detailed in Appendix A. Further detail regarding the rational for the inflation assumptions made in the MTFS are in the following paragraphs.

	2017/18	2018/19	2019/20	2020/21	2021/22
Inflation-Applied to:					
Salaries - % increase	1.00%	2.00%	2.00%	2.00%	2.00%
Pension Increase				0.70%	
CPI indices increases	2.70%	2.70%	2.30%	2.20%	2.10%
RPI indices increases	3.70%	3.70%	3.30%	3.20%	3.10%
Fuel Increases	0.00%	4.00%	4.39%	4.64%	4.99%
Gas (unit charge only)	-7.30%	10.53%	14.53%	14.53%	14.53%
Electricity (unit charge only)	10.03%	10.16%	11.11%	11.11%	11.11%

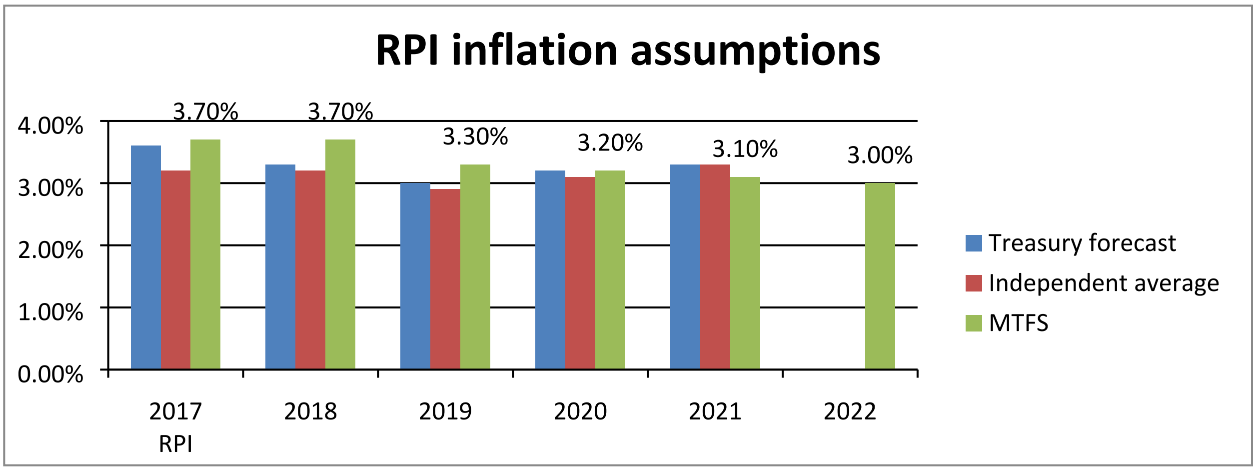
4.4.2 The inflation assumptions shown in table above have been calculated using a range of information sources which are:

	Rationale for inflation assumption
Salaries - % increase	No pay deal has been agreed for future years however the union have submitted a 5% pay deal. Employers side have acknowledged the pay spinal points need to be reviewed and there have been below inflation pay increases for a number of years. The 2% is for modelling purposes only.
Pension Increase	The increase for 2017/18 at the triennial review was an increase from 16.8% to 18.5%. Previously the lump sum payable had increased. At the next review it is anticipated that there will be a further increase to the percentage of pay of 0.7% to 19.2%.
Consumer Price Index (CPI) indices increases	Based on the Bank of England and independent forecasts as outlined in the August quarterly update. But with higher inflation in 2018/19-2019/20 to factor in any impact from BREXIT and based on 2017/18.
Retail Price Index (RPI) indices increases	This is based on a 1% differential between the CPI forecast.
Fuel Increases	Based on estimate for 2018/19 0.5%-2% above RPI inflation
Gas/Electricity (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

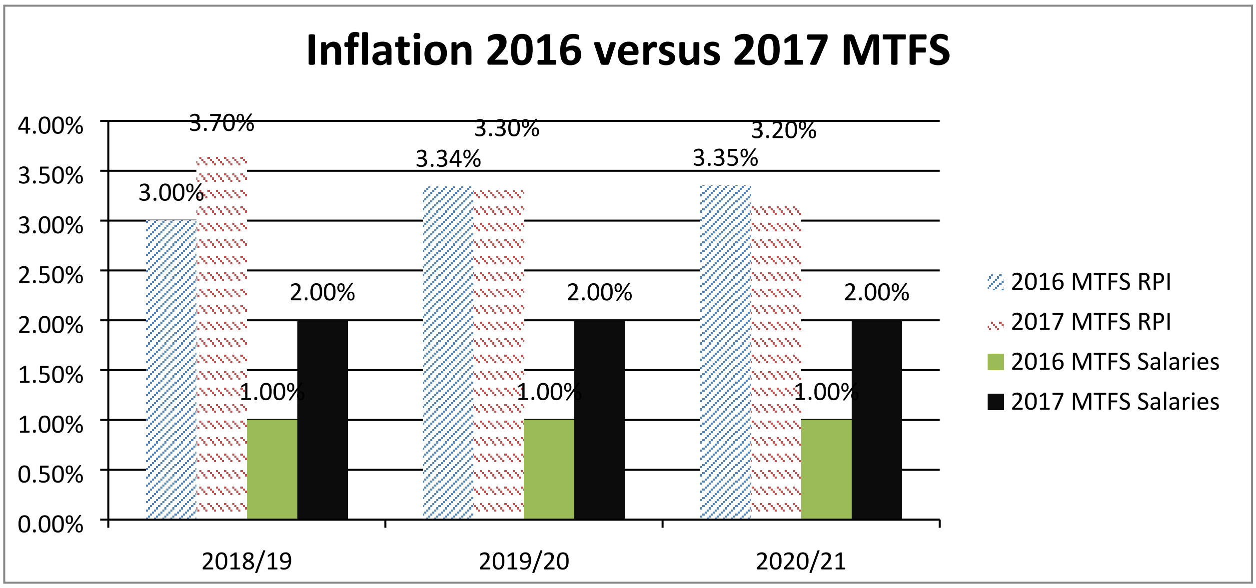
4.4.3 The summary in the following chart is based on the Monetary Panel Committee (MPC) best collective judgement of the most likely path for inflation as published August 2017, Independent analyst published June 2017, compared to the increases included in the MTFS.



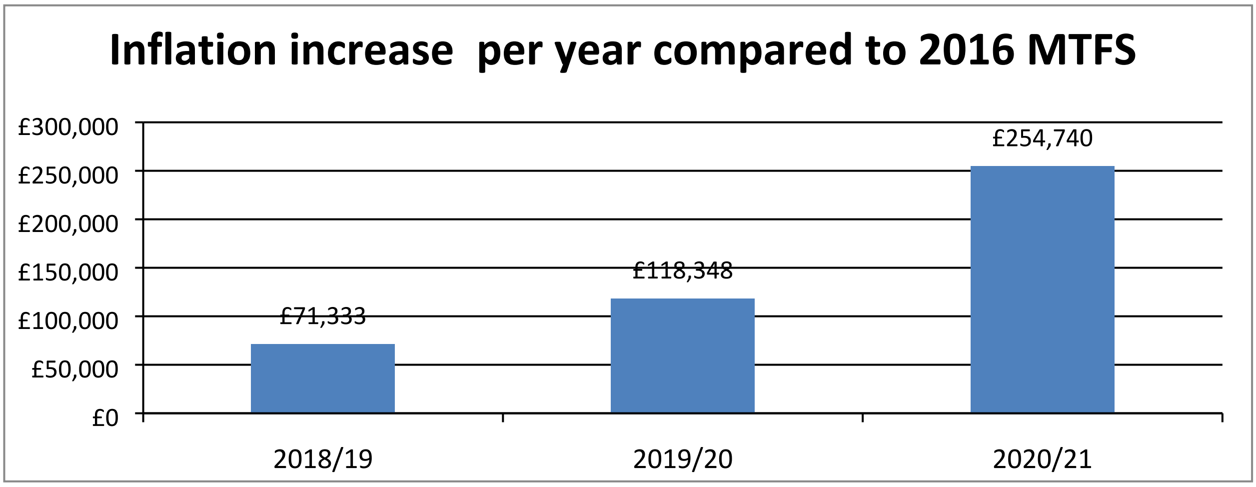
4.4.4 The MTFS RPI assumptions compared to the Bank of England and other independent analysts is shown below. The Government prefers to use the CPI indices to measure inflation, however a number of the Council's contracts and income streams (Business Rates) are linked to the September RPI. There is a differential between the two indices which tends to be about 1% higher than CPI .



4.4.5 The updated assumptions are slightly higher in the next two years than estimated in 2016.



4.4.6 The significant impact on revenue expenditure is increasing the salary inflation from 1% to 2%, (inflation totals also include impacts of increments). The 2016 and the revised inflation (all) for the General Fund is summarised in the chart below. This adds £444K of additional expenditure over the period 2018/19-2020/2.



4.5 Income and Charging Policy

4.5.1 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. It is essential that statutory as well as discretionary services should be reviewed. This is part of the targeted commercialisation (Financial Security) strand in terms of understanding the unit cost of services

4.5.2 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.

4.5.3 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.

4.5.4 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.

4.5.5 The Council has a Corporate Fees and Charges group, this working group will develop proposals for fees and charges increases and concession income for the 2018/19 budget. The impact of any Strategies such as the Parking Strategy (to be presented at a later Executive) may impact on the level of fees achieved compared to the MTFS assumptions.

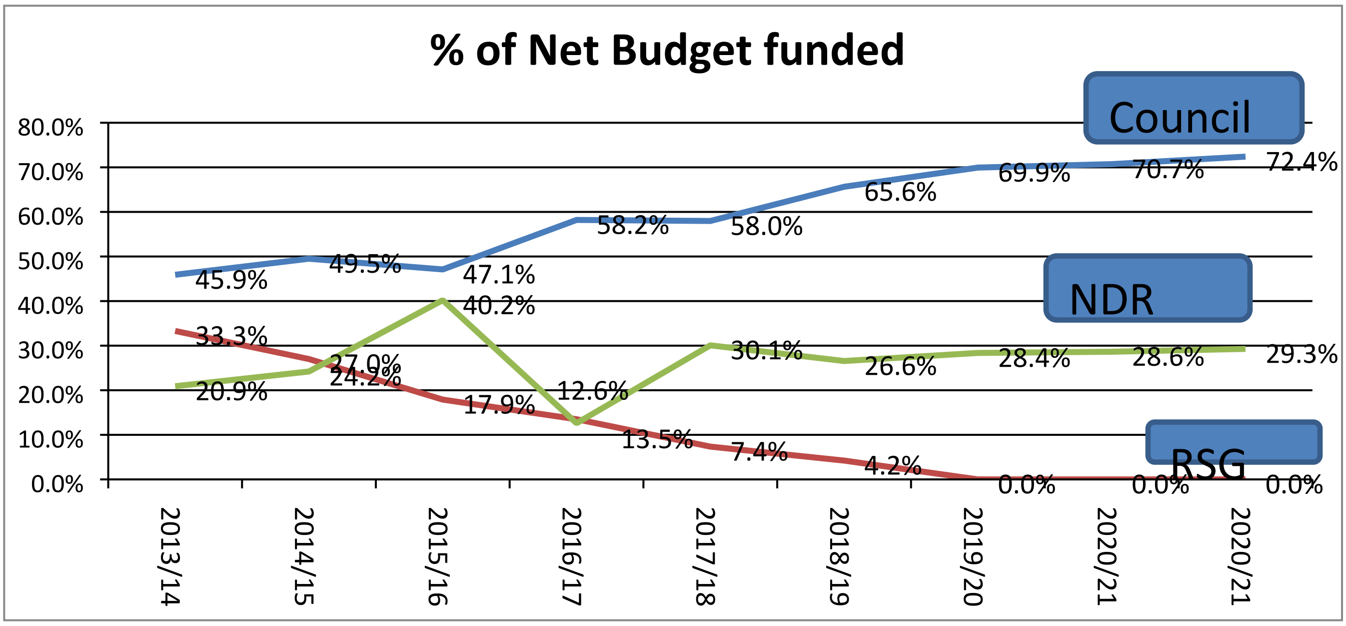
4.5.6 The MTFS assumes a minimum RPI inflation increase for fees and charges where the council has discretion over charging. The 2017 MTFS fee increase assumptions compared to 2016 as higher as inflation is predicted to be higher, leading to more cost pressures within the MTFS.

	2018/19	2019/20	2020/21	2021/22
RPI indices increases	3.70%	3.30%	3.20%	3.10%
Fees and charges income	£296,594	£272,460	£272,415	£281,043

4.5.7 The fee increase projected in the MTFS is a target for modelling purposes based on the RPI increase, if the amount assumed within the Financial Security is not achieved, future years Financial Security Target will need to be increased.

4.6 Council Tax

4.6.1 Council Tax has become more important as a core resource to fund General Fund services as the amount of RSG has diminished. By 2020/21 council tax is projected to fund over 72% of the Council's core resources.



**NDR has fluctuated due to prior year adjustments which are realised up to two years later.*

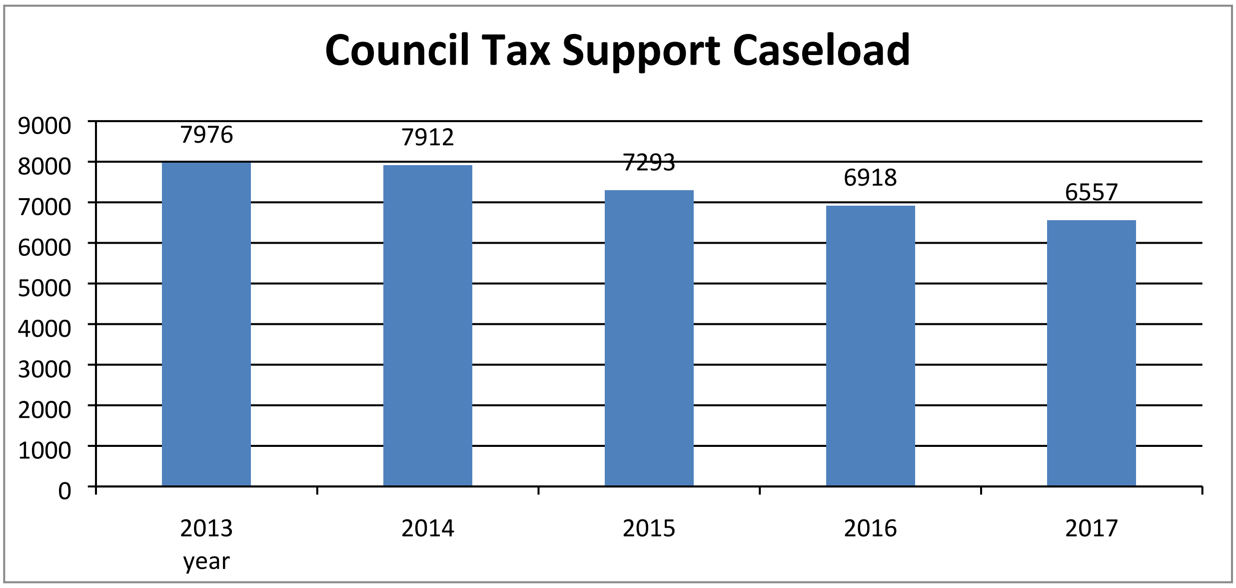
4.6.2 The amount of council tax that can be raised annually is influenced by mainly two factors, firstly the growth in the tax base and then secondly the increase applied each year.

4.6.3 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). To calculate the new properties and the increase in the tax base for future years, information from the planning department has been used. It has been assumed that

- a delay factor in build time of 3 months so properties are in the tax base for 9 months
- new properties are based on a Band C.as the majority of properties in Stevenage are categorised as Band C

Property increases assumed	2018/19	2019/20	2020/21	2021/22
New Properties projected by planning	217	249	395	301
Reduced for 3 month delay in build	-54	-62	-99	-75
Band C equivalent	145	166	263	201
Add 3 month delay into following year	0	48	55	88
Total additional properties in tax base	**145**	**214**	**319**	**288**

4.6.3 It has been assumed for modelling purposes that discounts remain in line with current levels, this includes council tax support (CTS). CTS numbers have reduced annually over the last few years, however it is anticipated that this trend will not continue. In addition there are new properties in the tax base which in theory could increase the number of claimants. It is assumed for modelling purposes that the CTS scheme remains unchanged from the current scheme, however this decision still needs to be made by the Executive. The reducing caseload trend for CTS is shown in the chart below.



4.6.4 The 2018/19 base has been calculated using the June position adding an additional estimated new 46 band C properties for 2017/18. Based on the data above the increase in the tax base each year is projected to be as follows.

Tax base Assumptions	2017/18	2018/19	2019/20	2020/21	2021/22
Tax base assumed per year	26,695	27,583	27,797	28,116	28,404
Assumed reduction for bad debt		552	556	562	568
Projected taxbase for year	26,890	27,031	27,241	27,553	27,836
Increase per year		1.26%	0.78%	1.15%	1.03%

4.6.5 The Revenue and Benefits shared service in conjunction with the Shared Anti-Fraud Service regularly review discounts and in particular single person discount. A 100% review of SPD is being carried out this year and where residents do not notify that they are still eligible for SPD a penalty can be raised. In 2017/18 a total of 187 penalties have been issued for nonresponding (as at 1 August 2017).

4.6.6 If the tax base increases higher than that projected then a surplus will be generated in the Collection Fund and will be repaid to the General Fund in the following year. The projected tax base for 2018/19 would generate additional council tax income of £59,500 before any increase in a Band D property is applied

4.6.7 For modelling purposes the MTFS assumes that council tax will be increased by the maximum amount of 1.99%, this being the increase allowed before a referendum must be held, balloting the electorate to approve on the level of council tax increase for the year.

4.6.8 A 1% increase in council tax is approximately £66,647 additional council tax per annum and for 2018/19 a 1.99% increase equates to £106,788. When this is added to the income generated by new properties a total increase of £173,435 is estimated for 2018/19.

4.6.9 For the last two years district councils have been able to increase council tax by the equivalent of £5.00 on an Band D, which for 2017/18 gave a 2.58% increase. If the government allowed SBC to increase its 2018/19 Band D council tax by £5.00 this would generate an additional £28,368 in that year, but this increases to £118,595 by 2021/22. Members will consider the level of council tax increase at the February 2018 Council meeting.

Council Tax Increases	2017/18	2018/19	2019/20	2020/21	2021/22
MTFS Council Tax	5,299,586	5,473,100	5,625,380	5,803,099	5,979,284
increase %	2.58%	1.99%	1.99%	1.99%	1.99%
Year on year increase		173,513	152,280	177,719	176,185
Increase if £5 band D in 2018/19		28,368	29,157	30,078	30,992
Cumm. increased income		28,368	57,525	87,604	118,595

4.7 Business Rates

4.7.1 Future business rate increases beyond 2020/21 will be increased by CPI and not RPI, the current inflator. Generally RPI is 1% higher than CPI so this would reduce the amount of collectable business rates (previous government consultation). Local authorities highlighted this would have to be considered in the context of local government financing. The Government 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.

4.7.2 The Government has previously consulted on the 100% retention of business rates (from 2019/20, the Government currently takes a 50% share). The previous Conservative Government had stated that this change will be fiscally neutral, leading to a transfer of financial responsibilities from central to local government. However the new conservative leadership does not appear to have this feature on the Government's new agenda and work had stopped post the June General election.

4.7.3 However on 1 September the Government published an 'Invitation to Local Authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models'. The invitation was accompanied by 'Supplementary information to invitation to local authorities prospectus'. This would be a pilot for one year only and has to include all authorities in a particular area. This means that if Hertfordshire were to be involved in the pilot all Hertfordshire Authorities must be in agreement. The pilot looks attractive in that no levy would be paid on gains and the government 50% share would be retained, (HCC is a top up authority and not a tariff authority). However the 'no detriment' clause applied to 2017/18 Pilots may or may not apply for 2018/19 Pilots, and the Government has asked authorities to identify if they would proceed with an application in the absence of the 'no detriment' clause. In addition there are changes to the safety net for the scheme. Hertfordshire CFO's are currently looking at the viability of submitting a Hertfordshire wide bid. Bids must be submitted by 27 October 2017. Hertfordshire CFO's are investigating whether this would be beneficial to Hertfordshire Authorities. In order to meet the submission deadline, **the CFO recommends that approval to enter the pilot for 2018/19 is delegated to the Assistant Director Finance and Estates after consultation with the Resources Portfolio holder**.

4.7.4 In 2017/18 a valuation review took place which changed business rates for businesses across the country, in Stevenage there was a net reduction in the collectable yield. In addition to this a new appeal process was introduced 1 April 2017, called ‘Check Challenge Appeal’. There has been very little information about any new appeals from the Valuation Office and officers have concern about how this process is actually working, information was due to be released in July 2017. This has the potential to make any modelling assumptions for appeals even more difficult as any appeals will not been known at the point of register, but rather when they have been through the first two stages of the process.

4.7.5 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. It is very difficult to project future gains with the level of outstanding appeals from the 2010 list and the new appeal process as stated above. In addition there are also potentially large fluctuations in year as schools convert to academies. In 2017/18 one school conversion has resulted in a £126,000 loss of business rate to SBC (40% share) by the school obtaining mandatory relief. There is the also a risk that the NHS challenge for mandatory relief is also upheld.

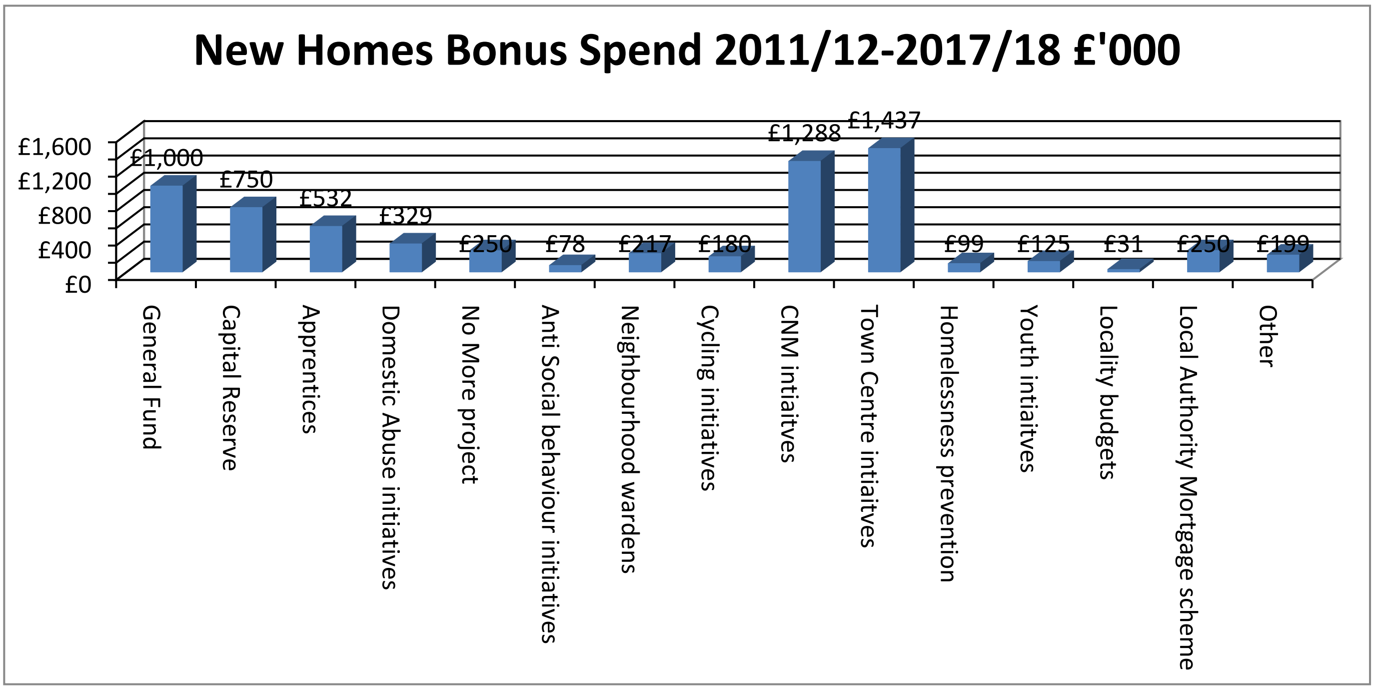
4.7.6 Within the business rates system of distribution there is a safety net below which the government will reimburse councils for lost NDR yield, this is currently set at 7.5% and for 2017/18 this equates to £180,000. There is an allocated reserve holding £172,000 which can be returned to General Fund balances in the year should this occur. For the pilot (reference 4.7.3) the safety net is set at 3% but for the Hertfordshire LA’s as a whole.

4.7.7 As part of the 2017/18 budget setting process Members approved the ring fencing of projected, in year business rate gains of £303,000 to help fund the council’s regeneration aims, linking business and regeneration. The 2017 MTFS recommends that all potential NDR gains are not budgeted for, but when realised gains above the baseline for the period 2017/18-2020/21 are ring fenced for the regeneration of the town centre.

4.7.8 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.

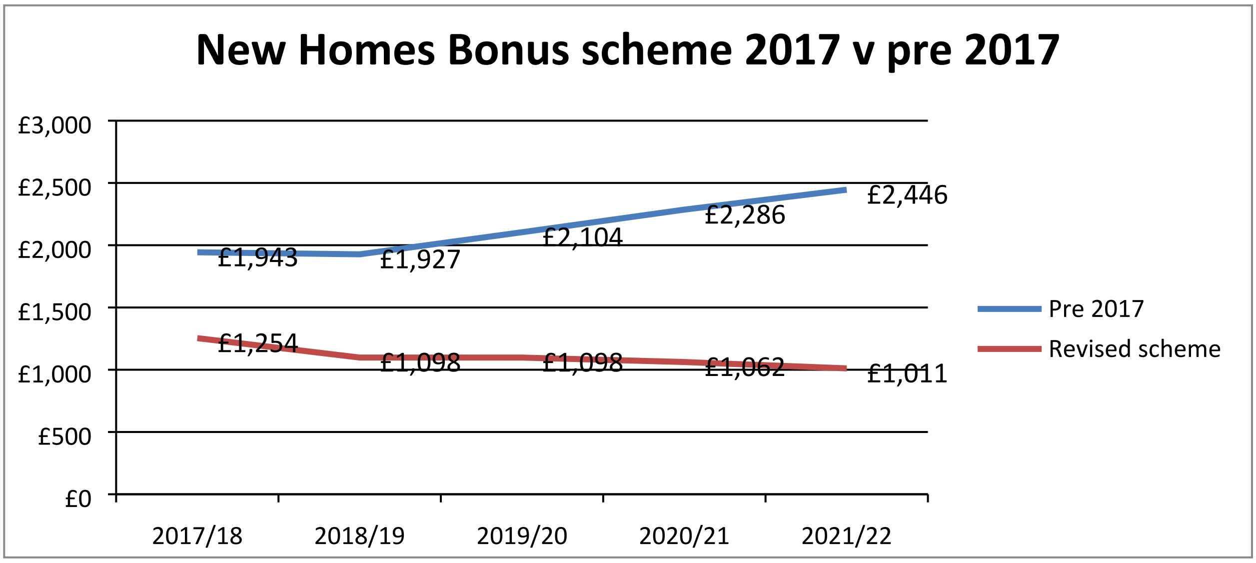
4.8 New Homes Bonus

4.8.1 It has been the Council’s policy to date not to rely on New Homes Bonus (NHB) to fund permanent services, however there are a small number of initiatives that have continued to have funding from this resource. The chart below shows the variety of initiatives funded from NHB.



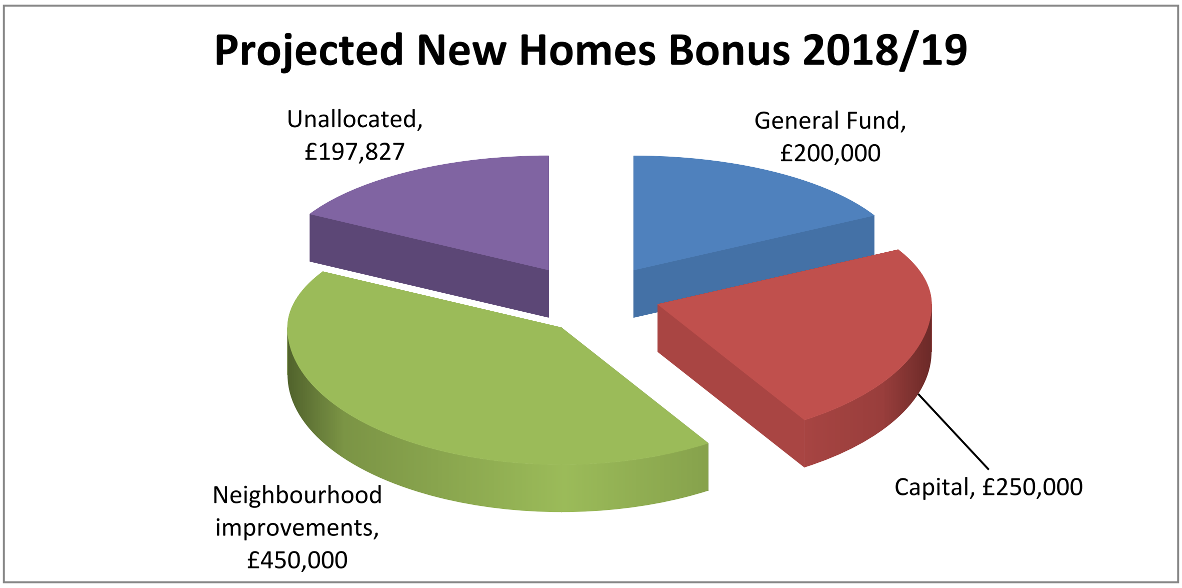
4.8.2 In 2017/18 a bid of £46.4K was approved for the homelessness prevention initiative. Since then government funding for homelessness has been granted for 2017/18 and 2018/19 which this NHB bid has now been funded from. This means £46K is now available to fund other priorities. A bid of £45K has been made by the Credit Union towards a new ICT system and implementation, which will support their business case to reach more savers and borrowers and help future proof the Union. Members are asked to approve this bid. The Credit Union have in conjunction with the Assistant Director (Finance and Estates) agreed a number of KPI's to be produced quarterly to support the success of the new ICT.

4.8.3 From 2017/18 the Government changed the amounts paid from NHB, essentially changing any sum paid from a six year period to four years and reducing the amount paid by setting a threshold. This has meant that the amount of NHB that would have been received, the chart projects the amount of NHB due under the old regulations and the amounts now estimated to be due.



2018/19 onwards based on 2017/18 NHB

4.8.4 While £1Million may still seem a significant amount of money (depending on house building levels), some NHB funding has already been approved for specific purposes as follows:



4.8.5 The potentially unallocated amount is just under £200,000 and there are a number **of priority initiatives that have been supported by NHB such as Neighbourhood Wardens, No More Project and Domestic Abuse funding and it is recommended that** these are initiatives receive the unallocated funding until a solution is found to either to exit from them or find a permanent funding solution as part of the Future Town Business Reviews. This should prevent undue financial pressure on the General Fund in trying to mainstream NHB projects.

4.8.6 There is a risk that the scheme could be changed further or that the funding is removed altogether.

4.9 Budget Pressures

4.9.1 The Council has launched its ambitious Future Town Future Council priority agenda including regeneration, housing development and co-operative neighbourhoods, all of which to a greater or lesser degree may require additional funding or seed funding to meet their stated aims and potentially unlocking future financial benefits. The ability to deliver this in a climate of reducing central government funding is going to be challenging. In addition FTFC funding to support these programmes was only in place for 2016/17 and 2017/18.

4.9.2 In anticipation of the likely pressures to emerge from Assistant Directors' business reviews to meet FTFC priorities a sum of £150,000 has been assumed per year in the MTFS for the period 2018/19-2020/21. This is for modelling purposes only and should not been seen as a target and is not intended to be an going pressure to the General Fund. In addition a further £200,000 has been assumed for upfront costs for the business reviews currently being finalised by Assistant Directors.

4.9.4 It is the CFO's view that the delivery of FTFC priorities against a backdrop of funding cuts will necessitate that growth should only be to approved which meets the outcomes of the FTFC priorities. In addition resources spent on services that are not considered a priority need to re-directed, which is the fifth strand of the financial security work programme.

4.10 Financial Security

4.10.1 The five strands of the financial security priority are set out in paragraph 4.3.9 of this report. The 2016 MTFS identified 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.

4.10.2However Members have approved the first major ‘targeted commercialisation’ option for £15Million investment in commercial property at Council on the 17 May 2017 giving an estimated net £200K contribution to the General Fund, officers are currently progressing a number of investments including housing development. These options while being entrepreneurial also carry additional financial risks needs to be considered in the level of balances required and reflected in decisions officers recommend, e.g. ring fencing monies to fund any future losses and risk assessing a higher level of General Fund balances.

4.10.3 The options described above in paragraph 4.10.2 ‘**Targeted commercialisation’** is about being ‘business like’, knowing the unit cost of the services the council provides and making charging and service level decisions accordingly. When all Assistant Directors are in a post to progress this strand of Financial Security , the Commercial Manager can be appointed and this work can progress further.

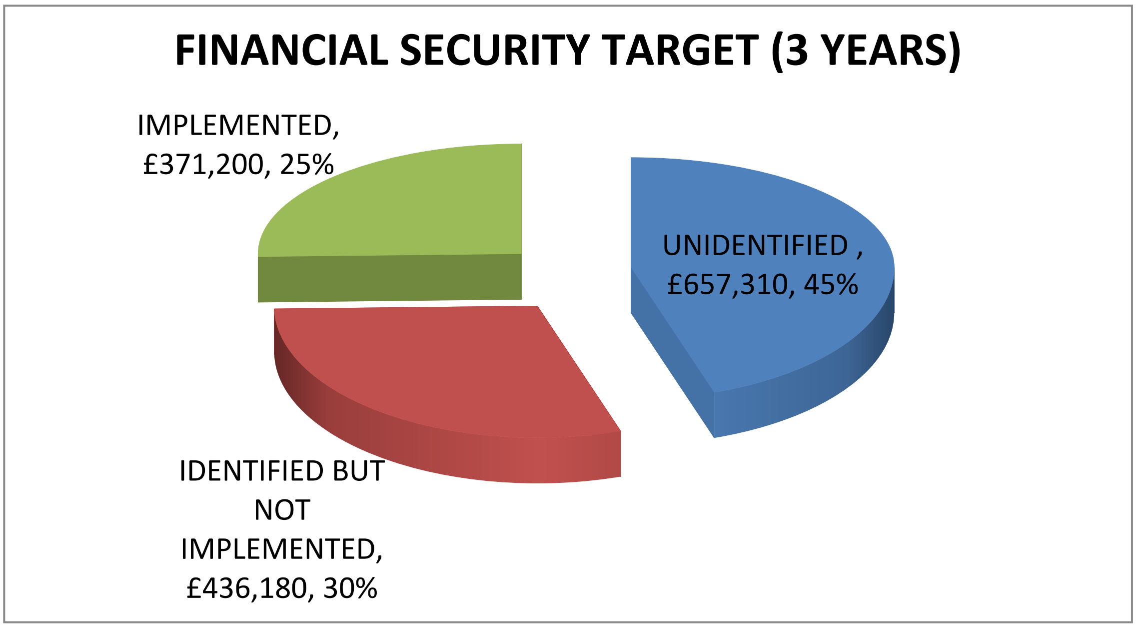
4.10.4 **Procurement**-Corporate Procurement officers have been identifying areas of spend that could be procured more efficiently and are working with officers to achieve this to deliver savings.

4.10.5 **Improve Processes**-Members approved significant investment in digital ICT which is anticipated to lead to improving processes and reducing costs by transferring transactions online, efficient workflow processes and other such initiatives.

4.10.6 The last strand of Financial Security is to review the **prioritisation of services**, to enable scare resources to flow to services which are important to the Council and residents.

4.10.7 As part of the Financial Security work the Members group (LSFG) chaired by the Resources Portfolio Holder supports the Financial Security work programme and reviews options that come forward for consideration, in addition to growth and capital options.

4.10.8 The Financial Security Target for 2018/19-2020/21 is £1.464Million and is summarised in the following chart .This shows that 25% of the three year target has been implemented (including commercial property fund and quarterly monitoring savings).



4.10.9Included within 'identified but not implemented' options are PBB or Financial Security options which have been deferred and the Future council business reviews which have an assumed target (£126,000 for the General fund) but which has yet to be tested as business review plans are currently being complied and yet to be completed.

4.10.10 The Financial Security package will be considered by the Leaders Financial Security Group and then by the Executive and Scrutiny Committees in November 2017. This report will also include any fees and charges increases and growth options.

4.11 General Fund Balances and Reserves

4.11.1 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.

4.11.2The Council's General Fund balances as at 1 April 2017 was £6.4million and is forecasted to be £4.0million by 31 March 2022. This is a reduction of £2.4Million in general balances while at the same time the implementation of £1.2Million of unidentified or not implemented budget reductions, in addition to increases in fees and charges and council tax.

4.11.3 The General Fund balance projections based on the MTFS projections are summarised in the table below.

General Fund balances	2017/18	2018/19	2019/20	2020/21	2021/22
Opening Balance	(£6,426,984)	(£5,087,628)	(£4,565,633)	(£4,280,973)	(£4,032,361)
In Year	£1,339,355	£521,995	£284,659	£248,612	(£5,070)
Closing Balance	(£5,087,628)	(£4,565,633)	(£4,280,973)	(£4,032,361)	(£4,037,431)

*() equals surplus

4.11.4 The current MTFS projections show that in 2021/22 there is a small surplus of £5K, which meets the MTFS priority the 'projected future budget gap is managed and closed by 2021/22. However this will be dependent on the projections as laid out in this report being realised.

4.11.5 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.

4.11.6 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.

4.11.7 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.

4.11.8 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).

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

4.11.10 In terms of determining the level of general balances for the MTFS and 2017/18, the Assistant Director (Finance and Estates) has based her advice on consideration of the factors included in the table below which project a £2.952Million minimum level of balances. This will be further reviewed as part of the budget setting process.

General Fund balances Minimum Level Assessment	**2018/19 £Million**
An amount necessary to cover a 1.5% overrun in gross expenditure	£1.080
An amount necessary to cover a 1.5% overrun in gross income	£1.072
An amount to cover Strategic risks	£0.400
An amount to cover new commercial risks	£0.200
An Amount to cover FTFC risks (Regeneration)	£0.200
Total Estimated General Fund Reserves	**£2.952**

4.11.11 The MTFS projects the General Fund balances to be within the minimum level set for the General Fund in 2018/19, although the balances are above the minimum balances up to 2021/22 there are on-going savings required which need to be identified.

4.12 **Allocated Reserves**

4.12.1 The Council's Allocated revenue reserves as at 31 March 2017 projected to be £1.78Million, the amount set aside for capital is projected to spent by the year end (this does not include any assumptions about underspends).

Movements to/from Allocated Reserves 2017/18				
Allocated Reserve	**Balance as at 31 March 2017**	**Transfers in**	**Transfers out**	**Forecast balance as at 31 March 2018**
Revenue Reserves				**0**
New Homes Bonus	(1,072,835)	0	1,000,000	(72,835)
Future Town Future Council	(180,408)	0	87,480	(92,928)
Planning Delivery	(170,034)	0	170,034	0
Regeneration Assets	(748,922)	(48,970)	40,000	(757,892)
LAMS default	(53,701)	(14,500)		(68,201)
NDR	(172,000)	(303,440)	303,000	(172,440)
Insurance Reserve	(97,460)	0	34,000	(63,460)
Town Centre	(54,459)	0	0	(54,459)
TOTAL REVENUE RESERVES	**(2,549,819)**	**(366,910)**	**1,634,514**	**(1,282,215)**
Capital Reserves				
Capital Reserve	0	(500,000)		(500,000)
TOTAL CAPITAL RESERVE	**0**	**(500,000)**		**(500,000)**
TOTAL ALLOCATED RESERVES	**(2,549,819)**	**(866,910)**	**1,634,514**	**(1,782,215)**

4.12.2 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 2017/18 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.

4.13 Capital

4.13.1As part of the 2017/18 capital programme schemes were 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:

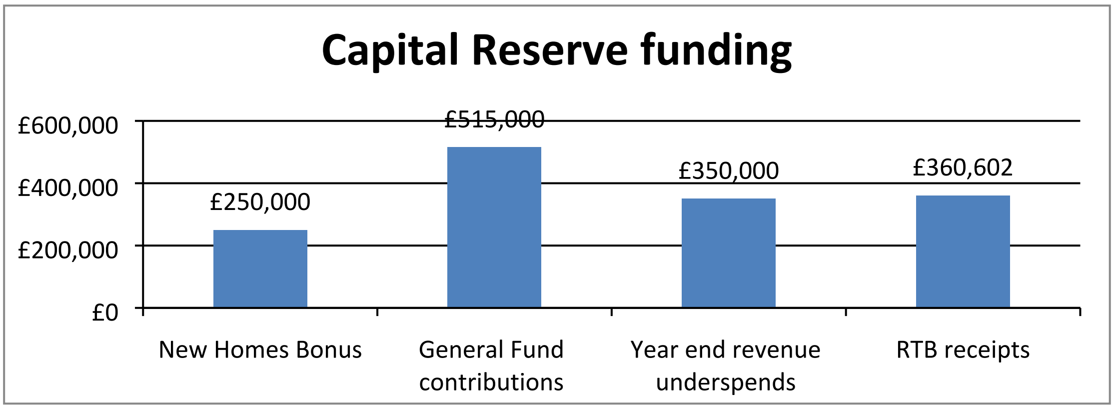
- Category 3 : Mandatory requirements
- Category 4 : Schemes to maintain operational effectiveness
- Category 5 : Match funding schemes

4.13.2 The 2018/19 process 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.

4.13.3 There is an officer group, the Capital and Assets Board, which monitors the progress of schemes and who will also be reviewing the bids for 2018/19. It would be fair to say the 2017/18 programme was largely based on works which could not be delayed (priority one health and safety works) with the addition of co-operative neighbourhood and regeneration schemes, supported in part by NHB.

4.13.4 The Asset Management Strategy due to be presented to the Executive later in the year should set out the plan for the investment in the Council's assets. This should be used to help inform the budget setting process and the use of limited capital resources. At the end of 2021/22 the Capital Strategy estimates there will be £3.5Million of capital resources available of which £700K relates to Capital Receipts. New capital schemes will come forward that will exhaust those resources and in addition there will be a need created by the Council's regeneration ambitions.

4.13.5 A significant portion of the capital programme resources comes via the Capital Reserve (£1.475Million) which is funded 59% per year from the General Fund (through planned £515K transfers and year end underspends £350K).



4.13.6 Pressure on revenue resources could mean a reduction in the transfer to the reserve which in turn will put pressure on the capital programme, causing a need to borrow. For every one million borrowed there is an estimated £62.5K cost to the General Fund.

4.13.7 The MTFS however does not currently have any allowance for new borrowing other than that included for the garage improvements and commercial property investment. It is recommended there continues to be a transfer of underspends to the Capital Reserve and that options around sustaining core assets is proposed in the Asset Management Strategy.

4.14 Approach to Consultation

4.14.1 Over the last few years the council has sort the views of residents and stakeholders through consultation, finding out their preferences for reducing services, increasing fees and charges and increasing Council Tax. This has been via Residents survey, Stevenage Day and other consultation exercises.

4.14.2 The Residents survey due this year once again asks these questions to help inform the decision making. In addition for specific financial security options stakeholders both internal and external will be consulted, however this will very much depend on the options put forward. These findings are part of Council's final decision in setting the Budget and any future budget reduction options.

4.15 Decision Making Process

4.15.1The Leader's Financial Security Group, (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, runs throughout the financial year.

4.15..2 It is currently planned that the normal approval process will be followed:

September 2017	Executive	MTFS
	Overview and Scrutiny	MTFS
November 2017	Executive	GF and HRA 2018/19 Financial Security Package
	Overview and Scrutiny	GF and HRA 2018/19 Financial Security Package
December 2017	Executive	Draft HRA 2018/19 Budget (incorporating Financial Security Options)
	Overview and Scrutiny	Draft HRA 2018/19 Budget (incorporating Financial Security Options)
January 2018	Executive	Draft GF 2018/19 Budget (incorporating Financial Security Options)
	Executive	Final HRA 2018/19
	Overview and Scrutiny	Draft GF 2018/19 Budget (incorporating Financial Security
	Council	Final HRA 2018/19
February 2018	Executive	Final GF 2018/19
	Council	Final GF 2018/19 and Council Tax

4.15.3 Following the approval of the proposed Financial Security options for 2018/19, the Council will have an obligation to begin consultation with staff and partners

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4.15.4 Future year proposal beyond 2018/19 will be monitored via the officer Financial Security group on their development for the following budget cycles as reported to the LSFG. These will come forward as reports to the Executive as options are developed and signed off by SLT and the LFSG.

5. IMPLICATIONS

5.1. Financial Implications

5.1.1 It is the CFO's view that the Council's ambitious FTFC programme will almost certainly lead to pressures on financial resources, in particular, regeneration which may require the council to provide more funding to facilitate the works. Other programmes may require seed funding e.g. housing development business cases and the Co-operative Neighbourhood priority will almost certainly drive expenditure and with it increased maintenance revenue costs. The Council has already approved significant capital investment in ICT, works in the Town centre and neighbourhood improvements and a Transformation Fund has been recommended in this report, however this may not be enough and the council will have to revisit its MTFS.

5.1.2 There may also be pressure on fees and charges targets as increases in fees may conflict with other business objectives.

5.1.3 The length of time the council has had to deal with funding reductions makes the continual pipeline of options more difficult to come up with and implement and the approach to this needs to be changed to reflect this, which is why the Financial Security priority has been implemented.

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. 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 Assistant Director (Finance and Estates) 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 increases the public expenditure reduction programme above the four year deal.	The Financial Security target will need to be increased and sufficient General Fund reserves should be held to ensure that decisions to reduce net costs are taken in a considered manner	Medium	High
UPDATED: Anticipated Financial Security	Regular monitoring and reporting takes place, but the size of the net	Medium	Medium

Risk Area	Risk Mitigation	Likelihood	Impact
options not achieved (Negative Risk) –agreed options do not deliver expected level of savings either on a one-off basis or ongoing.	budget reductions increase 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.		
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. There has been a down trend on the case load in recent years	Low (previously medium	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 £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 Localisation of Business Rates (Potential Negative) schools in Stevenage become Academies	Negative- The council has already lost £126K of yield this year with the impact	Medium	High
NEW: 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.	Medium	Medium
The Government introduces CPI for NDR before 2020/21 (negative risk) This would affect the Governments share as well	There is a 1% differential between RPI and CPI and a reduction in the amount of NDR assumed within the MTFS would require new Financial Security Options to be brought forward. This should be reflected in the level of General Fund balances held. A 1% reduction in NDR for 2018/19 would be £53,000 per year	Medium	Medium
Impact of the Universal	A reduction in the amount of grant	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
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.	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. (New claims complete by June 2018)		
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.	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 on council tax increases	The Council's MTFS has an increase of 1.99% projected going forward. If the cap is reduced to 1% for 2018/19 and subsequent years the budget reduction target will need to increase to compensate for the loss of income	Medium	Medium
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	There is a robust challenge process for capital bids. Officers will be	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
(Negative) There could be increased pressure from the capital programme on the General Fund.	required to confirm that resources are in place to deliver any approved spend.		
NEW 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. In addition there is regular monitoring of cost projections and Members will updated on the proposed scheme once a development partner has been chosen.	High	High
NEW: Transport Subsidy (Negative risk) HCC may reviewing the amount paid to Council's, SBC currently receives £208K	The council would seek to have a phased increase and look to find alternative options with the County	Medium	High
NEW: Fees and Charges target may not be reached (negative risk)	Non achievement of the target would require other FS options to be brought forward.	Medium	Medium

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 and the matter should be discussed with the Trade Unions at the earliest opportunity.

BACKGROUND DOCUMENTS

BD1 - 2016 MTFS Strategy
http://www.stevenage.gov.uk/content/committees/160923/160931/160995/167541

APPENDICES

Appendix A MTFS