Stevenage BOROUGH COUNCIL

Part I – Release to Press

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

Portfolio Area: RESOURCES

Date: **16 SEPTEMBER 2020**

Financial security

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY UPDATE (2020/21 – 2024/25)

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1. PURPOSE

1.1. To update Members on the General Fund MTFS since the MTFS COVID recovery report was approved by Members at the June 2020 Executive.

1.2. To advise Members on the current and future position of the Council's General Fund budget over the next five years, including the projected impact of COVID on the General Funds financial resources in the current and future years.

1.3. To update Members on any the actions taken in the June Executive COVID report.

1.4. To update Members on the first quarterly monitoring adjustments projected for the General Fund.

1.5. To update Members on revised inflation projections and pressures for the General Fund MTFS.

1.6. To update Financial Security targets for the period 2021/22 – 2024/25.

2. RECOMMENDATIONS

2.1 That Members approve the change to the Medium Term Financial Strategy (MTFS) principles, as outlined in paragraph 4.1.6 to this report.

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 4.8.12 refers).

2.3 That the updated inflation assumptions used in the Medium Term Financial Strategy (section 4.4 refers) be approved.

2.4 That the approach to Financial Security as set out in section 4.7 be approved.

2.5 That an amount of £200,000 for 2021/22 and 2022/23, be approved for inclusion in the budget setting process as a Transformation Fund, to help deliver the Financial Security Target, (paragraph 4.6.3(v) refers).

2.6 That a General Fund Financial Security Target of £2.45million be approved for the period 2021/22- 2023/24, (paragraph 4.7.17 refers). This will include increases in fees and charges.

2.7 That an amount of £100,000 for 2020/21 is included in the budget to cover an associated costs of the Devolution and Recovery white paper, (paragraph 4.6.3(ii) refers).

2.8 That the 1st quarter changes to changes to the General Fund as outlined in paragraph 4.6.1 are approved.

2.9 That Members note the financial impact of COVID in 2020/21 and future years, including the estimation of income guarantee scheme as set out on section 4.5.

2.10 That Members approve that the budgets held as part of the June COVID MTFS report are not released and are removed from the budget as set out in paragraph 4.7.17 and based on the level of projected General Fund balances.

2.11 That Members note the assumptions set out in paragraph 4.7.17 that underpin the level of Financial Security savings required in the MTFS and which support the General Fund balances.

2.12 That the unavoidable growth pressures as outlined in paragraph 4.6.2 are noted and will be included in the budget setting process.

2.13 That General Fund growth is only approved for the Council's FTFC priorities and the growth allowance in the 2021/22 budget is £75K. Growth above that level will need to be funded by further savings in addition to the £2.45Million target identified, (paragraph 4.7.17 refers).

2.14 That the Leader's Financial Security Group oversee the development of the 2021/22 – 2023/24 savings package.

2.15 That Members note the New Homes Bonus Balances available and that the growth funding of the Co-operative Neighbourhood Management is included as part the budget setting process.

2.16 That the revenue contribution to capital is reduced by £350,000 per year from 2021/22 as a result of the locality review sales to increase the resilience of General Fund balances.

2.17 That a minimum level of balances for the General Fund of £3.41million be approved for 2020/21 (section 4.11 refers).

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

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

2.20 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 is the second update of the MTFS this financial year, the first being the **Coronavirus Recovery Plan** to the June 2020 Executive. The June report outlined a number of actions that needed to be taken to ensure the resilience of General Fund balances. This included the use of ring fenced receipts, rather than revenue resources and the holding of some expenditure. The June report also only dealt with the in- year impact of COVID and did not project any future year losses.

3.2 A summary of the measures approved by Members in the June Executive report which were recommended to improve the resilience of the General Fund are summarised in the Table below.

Options £'000	**2019/20 £**	**2020/21 £**	**2021/22 £**	**Total £**
COVID impact on General Fund:				
Losses	£184	£3,999	£0	**£4,183**
Council Tax	£0	£0	£207	**£207**
Business Rates	£0	£0	£455	**£455**
Total	**£184**	**£3,999**	**£662**	**£4,845**
Funding Options:				
Government grant	£0	£928	£0	**£928**
Use of Regeneration receipt	£1,218	£508	£0	**£1,726**
Hold Capital Expenditure	£0	£125	£0	**£125**
Hold vacant posts	£0	£152	£0	**£152**
Hold spend budgets	£0	£464	£95	**£559**
Remove approved growth budgets (part)	£0	£50	£0	**£50**
Use allocated reserve (NDR 2020/21 gains)	£0	£455	£0	**£455**
Underspend 2019/20	£812	£0	£0	**£812**
Unidentified- under review	£0	£37	£0	**£37**
Total	**£2,030**	**£2,720**	**£95**	**£4,845**

3.3 At the time the June report was written only two funding tranches had been announced by the government, this report will update Members on the further funding received and also a review of the measures taken and whether they should remain in force. This report will also look at any potential future year losses as a result of COVID.

3.4 This report will update the inflation, pressures and income assumptions in the 2019 MTFS update, reported to the Executive on 11 September 2019.

3.5 This report will make assumptions about future Local Government spending reviews. Just as in the 2019 MTFS update, there remains considerable financial uncertainty for Local Government. The Fair Funding review implications (due to be implemented for 2020/21 but subsequently delayed) remain unclear, alongside any changes to business rates such as growth resets, level of council tax rises and lastly the future of New Homes Bonus.

3.6 The Chancellor announced that as a result of the impact of COVID on local government, (28 April 2020) that the Review of Relative Needs and Resources and 75% business rates retention will no longer be implemented in 2021/22. This was to enable Councils to focus on meeting the immediate public health challenge posed by the pandemic. However the announcement also explained *that the government will continue to work with councils on the best approach to the next financial year*, including how to treat accumulated business rates growth and the approach to the 2021/22 local government finance settlement. There has been no clarity about what this means.

3.7 In addition this financial uncertainty, there are other potential risks for Councils in relation to BREXIT, future continued funding of new burdens e.g. from the Homeless Reduction Act and the impact of Universal Credit (with the potential of many more UC claimants with any COVID driven recession), on the ability to recover historic benefit overpayments and the impact of the removal from the General Fund.

3.8 Based on the factors above the report will identify any adjustments required to the Financial Security targets to address those financial impacts on the General Fund.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Purpose of the Medium Term Financial Strategy

4.1.1 The Council's Medium Term Financial Strategy (MTFS) is reviewed regularly to assess the impact of national and local government policy on the five year forecast of resources for the General Fund (and Housing Revenue Account). This means that should any particular year in the forecasted MTFS predict that resources look outside that considered prudent or at the minimum level required by the CFO, corrective action can be recommended and implemented.

4.1.2 The MTFS refresh also ensures that there are sufficient resources to meet the Council's The Future Town Future Council priorities. The MTFS horizon scans setting a projection of income and expenditure, based on inflation forecasts and information at a national level through government policy where known on likely funding available and a local level trough pressures and income predictions from the Senior Management Team (SLT), this update covers the period 2020/21 to 2024/25.

4.1.3 The mechanism by which the MTFS adjusts any shortfall in funding, is to revise the Council's **Financial Security** target projections to ensure there is sufficient funding available, (see also paragraph 4.7.17). This is the savings target that has been required for the General Fund over the last decade, mainly as a result of government funding cuts.

4.1.4 The Council's 'Financial Security' methodology is set out in section 4.7 and is based on a four strand approach to deliver a lower cost base for the General Fund. The MTFS identifies the level of financial reductions required to maintain and run services, while funding inflationary pressures and 'Financial Security' helps deliver this. The MTFS is reviewed annually and this report is a refresh of those assumptions.

4.1.5 The impact of funding cuts and inflationary pressures has meant the General Fund has been using its balances rather than making a contribution to them. This is not a sustainable position long term and one of the **MTFS principles is to manage a planned phased use of balances up to and including 2022/23**. This was intended to give the General Fund time to deliver a realistic Financial Security package, while at the same time still maintaining and delivering priority services. Rather than make reactive or opportunist budget cuts to services, which conflicts with achieving those priorities. However this principle has become much more difficult to achieve as a result of the financial impact of COVID.

4.1.6 The MTFS has a set of principles used for financial planning purposes which are summarised below.

No	MTFS principles
1	**UPDATED** :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 2023/24 (was 2022/23)** by ensuring inflationary pressures are matched by increases in fees and income or reductions in expenditure from 2023/24
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.

No	MTFS principles
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 and the grant is used in part for FTFC Top Priorities.

4.1.7 MTFS principle one (see above) has been revised as a result of the current level of COVID funding available from the government and the estimated impact of COVID beyond 2020/21. Government funding relates to 2020/21 only, unless further funding becomes available as part of the 2021/22 spending review.

4.2 The Economy and Government proposals for Funding Local Government

4.2.1 In the last 2019 MTFS Strategy there was considerable uncertainty around BREXIT and the Bank of England commentary in their January 2020 update, prior to the COVID pandemic, was that UK GDP growth was modest in 2019 and is estimated to have been around zero in Q4. This was due to slower global growth and elevated Brexit-related uncertainties. In the Bank of England annual reassessment of supply-side conditions, the MPC judged that potential supply growth has also slowed over the past year.

4.2.2 However the impact of COVID on the economy has been cited as being felt beyond 2020/21 and the Bank of England reported this could lead to the 'sharpest recession' on record, reporting that the coronavirus impact would see the economy shrink 14% this year, based on the lockdown being relaxed in June. Scenarios drawn up by the Bank of England to illustrate the economic impact stated that Covid-19 was, "dramatically reducing jobs and incomes in the UK". Bank governor, Andrew Bailey, described the downturn as "unprecedented", and said consumers would remain cautious even when lockdown restrictions are lifted.

4.2.3 In June, The Bank of England MPC voted 8-1 to increase the size of its bond-buying programme approving the pumping of an extra £100Billion into the UK economy to help fight the "unprecedented" coronavirus-induced downturn. However, they said there was growing evidence that the hit to the economy would be "less severe" than initially feared. The Bank's Monetary Policy Committee (MPC) also kept interest rates at a record low of 0.1%.

4.2.4 The bank approved this just days after Bank's Governor, Andrew Bailey said policymakers were ready to take action after the economy suffered its biggest monthly contraction on record. The Bank also said more recent indicators suggested the economy was starting to bounce back.

Minutes from the MPC's June meeting *said: "Payments data are consistent with a recovery in consumer spending in May and June, and housing activity has started to pick up recently."* However, Mr Bailey warned that the outlook for the economy remained uncertain. He said: *"We don't want to get too carried away by this. Let's be clear, we're still living in very unusual times."* The minutes added: "While recent demand and output data had not been quite as negative as expected, other indicators suggested greater risks around the potential for longer-lasting damage to the economy from the pandemic

4.2.5 The UK economy shrank by 20.4% in April, while official jobs data showed the number of workers on UK payrolls fell by more than 600,000 between March and

May. Scenarios drawn up by the Bank suggested the economy could shrink by 25% in the three months to June and in fact the impact was measured at 24.5%.

4.2.6 The Bank of England has implemented extra monetary stimulus or quantitative easing (QE) – this will raise the total size of the Bank's asset purchase programme to £745bn to support financial markets and underpin the recovery. This outweighs previous QE initiatives as shown below.
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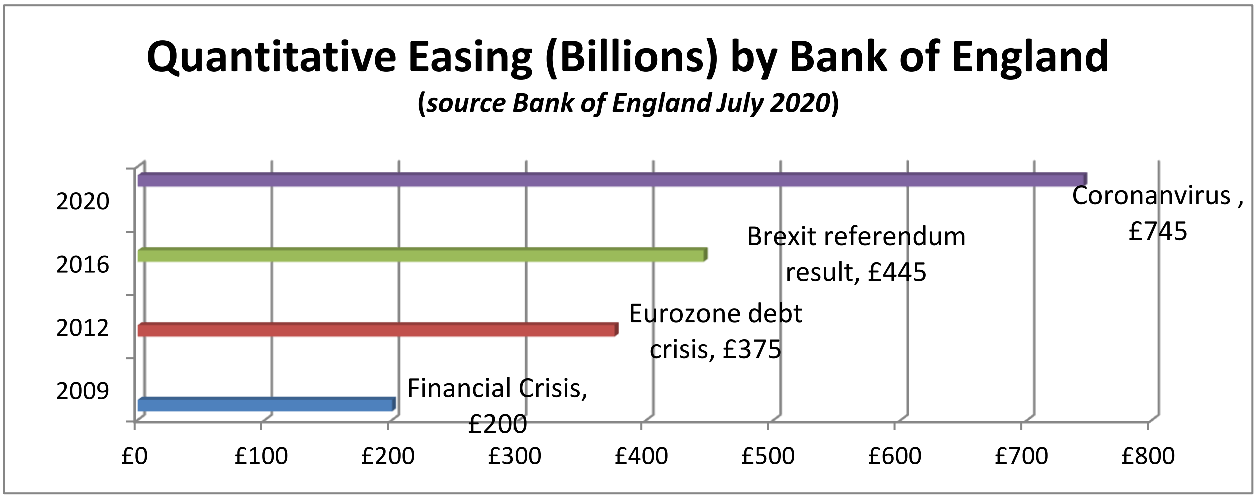


4.2.7 This repayment of QE and the impact of Coronavirus on the economy, on jobs and the council are likely to be beyond 2020/21 and will impact on the government ability to fund public spending including financial settlements for Councils.

4.2.8 The MTFS report to the June Executive outlined some of the government support for businesses, of which the Stevenage Borough Council (SBC) administered to businesses, grants of £11.5Million and £21.5Million reductions in business rates payable in the current financial year.

4.2.9. The Government also committed to helping councils face the continuing pressures of the pandemic, providing £3.8Billion of grant funding, including a £600Million Infection Control Fund, and over £5Billion of cash flow support. Then on 2 July, the Secretary of State announced a new set of support measures, including:

- An 'income guarantee scheme; in recognition of the impact on income from sales, fees and charges. Councils will absorb the first 5% of all relevant irrecoverable losses compared to budget, with the Government compensating councils for 75 pence in every pound of loss thereafter. By introducing a 5% deductible, the Government is accounting for an acceptable level of volatility, whilst shielding councils from significant losses
- Changes enabling local authorities to spread their council tax and business rate deficits for 2020/21 over three years rather than the usual one;

4.2.10 However, there are a number of exemptions cited to this support it does not cover HRA losses, leisure provider income losses or rental income and the LGA has published that the funding required is in the region of **£9.6Billion for councils** for 2020/21.

4.2.11 Moving to funding the public sector, the government has set out the position for the next spending review. The review will set UK Government departments' resource budgets for the years 2021/22 to 2023/24 and capital budgets for the years 2021/22 until 2024/25, and devolved administrations' block grants for the same period government has borrowed.

4.2.12 The Chancellor outlined that the Comprehensive Spending Review is the:

'opportunity to deliver on the third phase of our recovery plan, where we will honour the commitments made in the March Budget to rebuild, level up and invest in people and places spreading opportunities more evenly across the nation'.

4.2.13 The Government has confirmed that the next business rates revaluation will take place in 2023, and called for evidence for a wider review of the rating system. This comes after it was announced in May that the business rates revaluation in 2021 would be postponed, but an exact time for when it would be rescheduled was not revealed until July 2020.The two-year delay means the next revaluation will take effect in April 2023, and to reflect the impact of Covid-19, this revaluation will be based on property values as of 1 April 2021.

4.2.14 The Chancellor also stated that in the interest of fairness , restraint in future public sector pay awards, meaning across this year and the spending review period, public sector pay levels retain parity with the private sector.

4.2.15 Given the impact COVID-19 has had on the economy, the Chancellor was clear in his July statement that there will need to be **tough choices in other areas of spending at the review**. As part of their preparations for the CSR departments have been asked to identify opportunities to re-prioritise and deliver savings and departments will be required to fulfil a series of conditions in their returns, including providing evidence they are delivering the government's priorities and focussing on delivery. It remains to be seen whether this includes savings from delivery 'devolution' in upper and lower tier local government areas.

4.2.16 In addition to economic uncertainty due to COVID-19, any recession and longer lasting impacts, the economy also may impacted by BREXIT when the UK leaves on the 31 December. Uncertainty in the market may only build in cost for goods, materials and contracts and added complexity for the businesses, depending on the deal or no deal that is agreed.

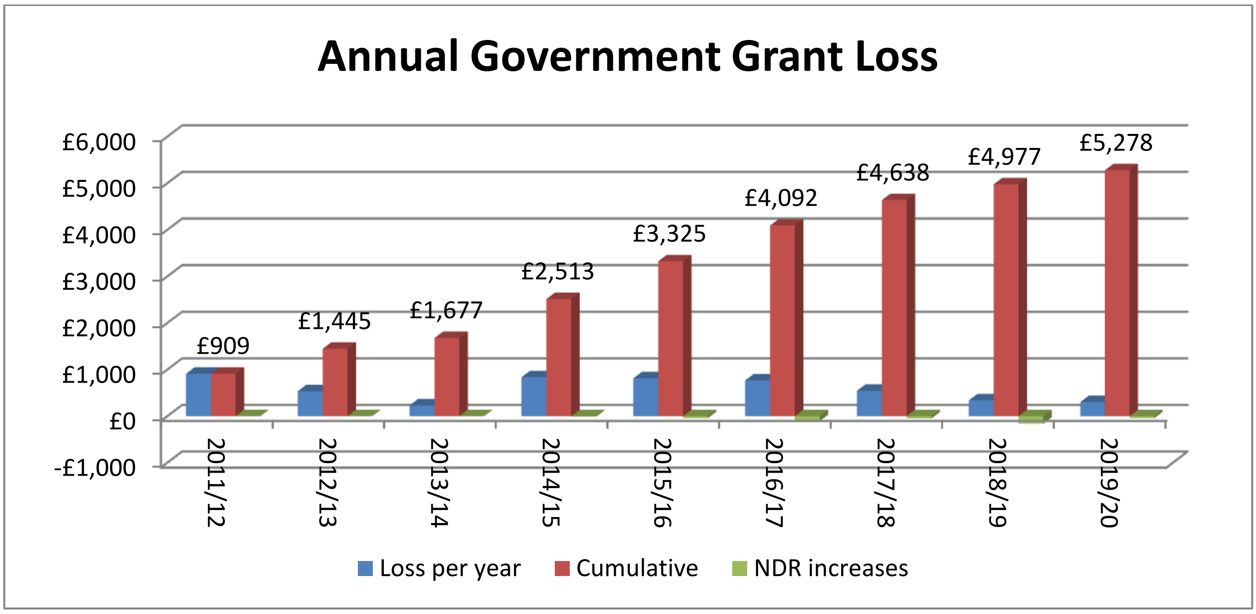
4.3 Stevenage Financial Position Why the Need for Annual Savings

4.3.1 Between 2011/12 and 2019/20 there has been significant decline in government funding, this is important to note for a number of reasons:

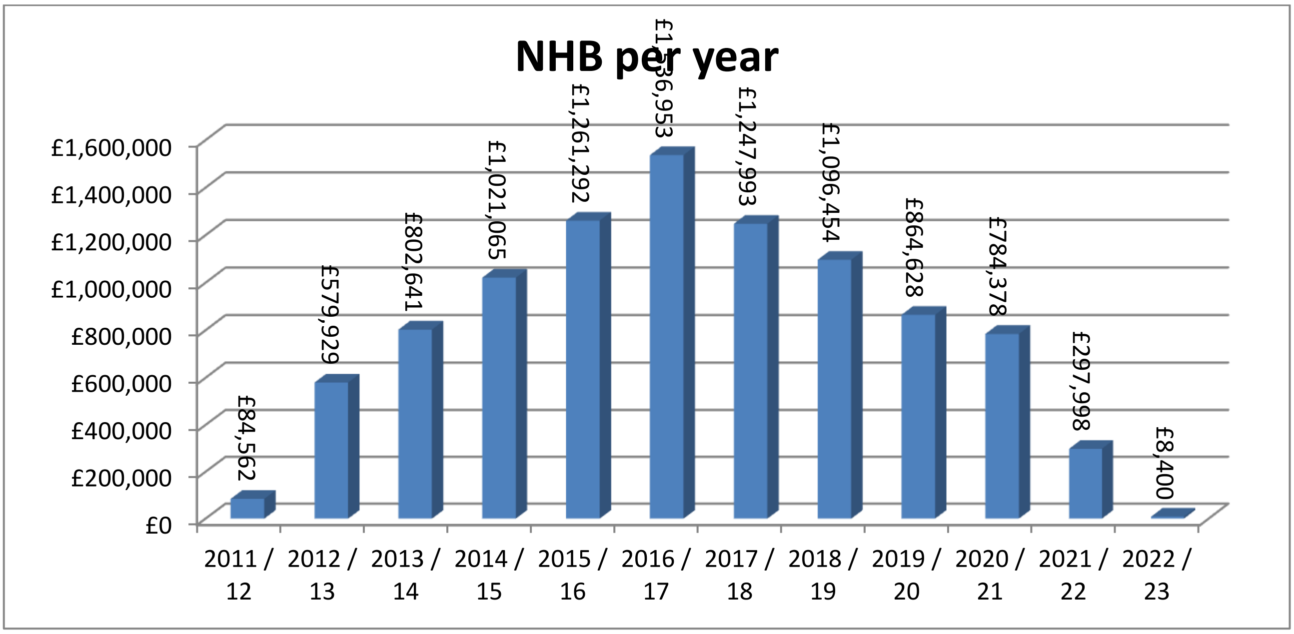
I. The loss of grant funding was substituted in part by more risk based income (or not guaranteed), such as Business Rate gains or New Homes Bonus (NHB). For instance NHB rules have been revised by the government and business rates can fluctuate depending on prevailing economic conditions. This means it is difficult to fund on-going expenditure from this income.
II. Grant loss was accompanied by council tax freezes, although funding was available it has been subsequently cut.

III. Increases in council tax have been capped so that a referendum has been required above the threshold set by the government. Thus limiting the amount of additional income available to fund any grant cut.
IV. Inflation pressures from salaries and contracts had to be resourced which compounds any shortfall in funding.
V. Councils have chosen to use income generating options rather than cut services which are subject to fluctuation in times of recession and pandemics such as COVID-19.

4.3.2 The loss of funding is summarised in the chart below.

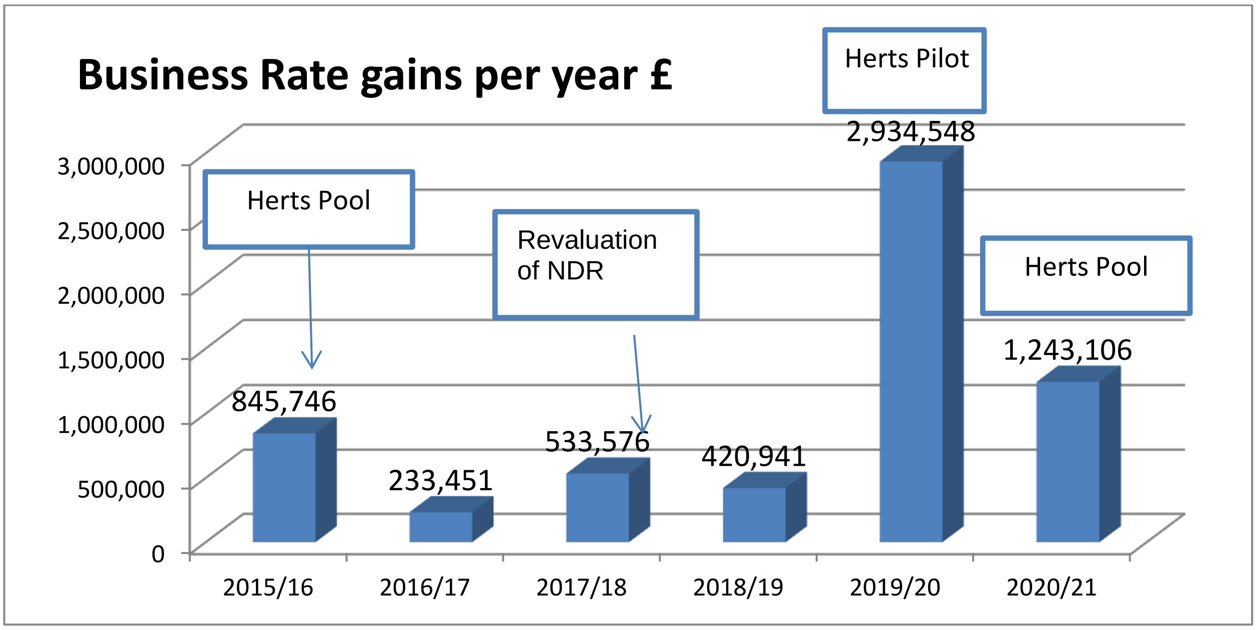


4.3.3 To illustrate the higher related risks by substituting NHB for grant losses, the chart below shows how levels of NHB have fluctuated due the government policy changes, (and the number of new properties built). The government has signalled a number of times about reforming NHB and the 2020/21 payment was for one year only.

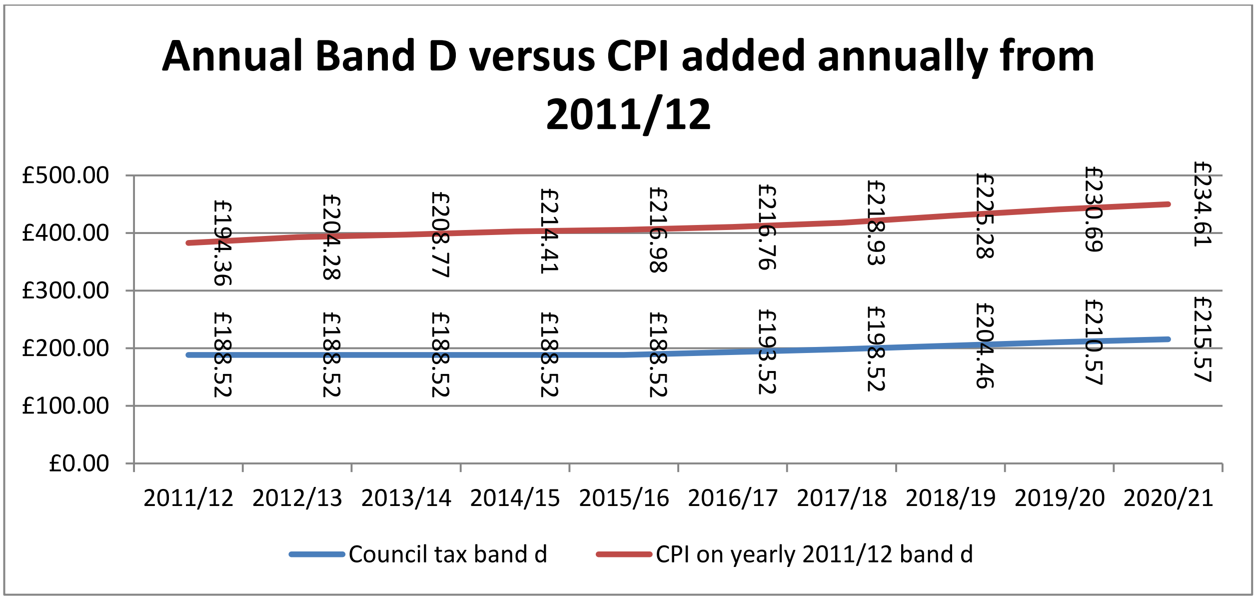


4.3.4 Based on the fluctuations in annual allocations, the Council has chosen not to use NHB as a substitute for savings options or government grant, but mainly for one off initiatives. Historically only using £200,000 to support General Fund balances, which from 2021/22 will be completely removed, (2020/21 £83,000 removed). The annual allocated NHB shown in the chart above, assumes no new allocations beyond 2020/21. This has implications for the future funding of the Co-operative Neighbourhood Management (CNM) programme and capital programme from 2021/22 onwards.

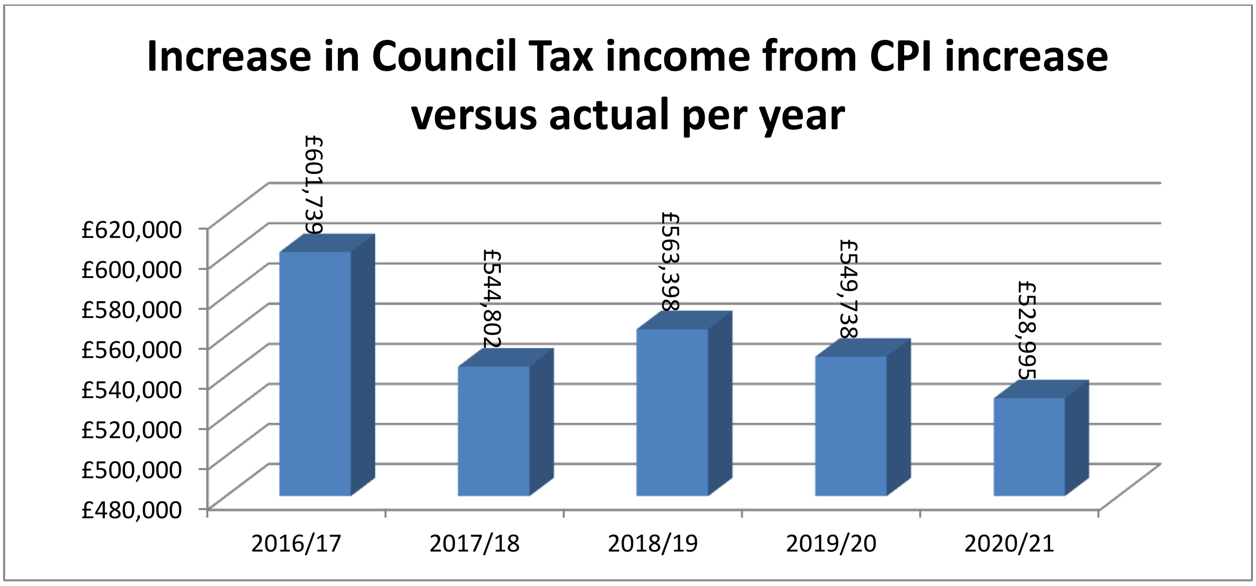
4.3.5 Business rate gains similar to NHB have not been built into the General Fund budget to substitute the need for savings options (see also section 4.9). While gains have been significant in a number of years this has been as a result of either being eligible for the Hertfordshire business rate pool (2015/16 & 2020/21). This is a combination of the best performing Districts and the County Council which results in minimising the levy from say 50% to 5 or 6%.Or Government pilot opportunities, which meant 75% Business Rates retention in Hertfordshire. The government did not continue the scheme beyond 2019/20.



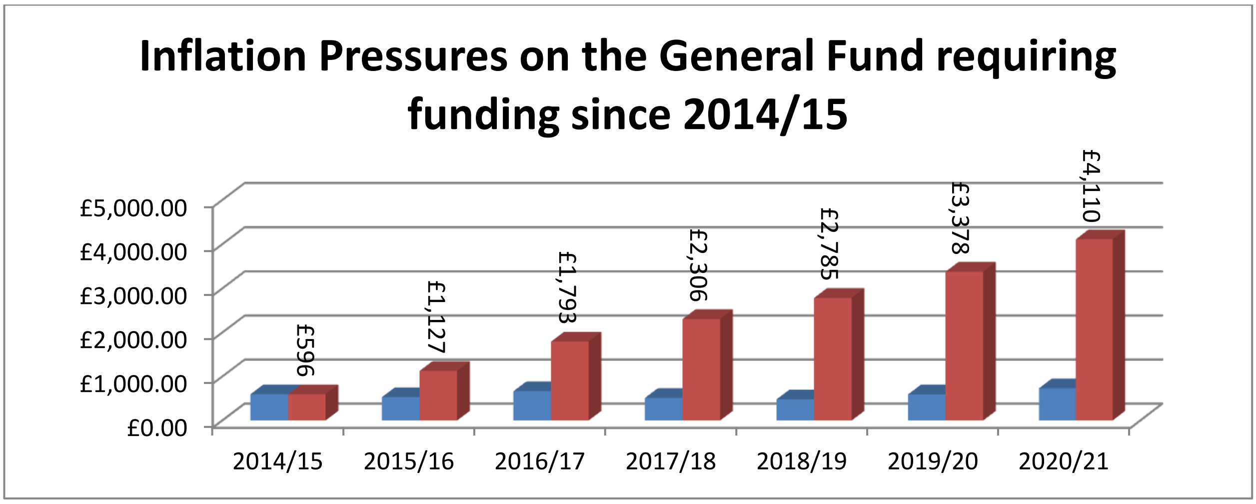
4.3.6 Turning to the points raised above in para.4.3.1 (ii and iii), council tax increases have been supressed through the offer of government grant, subsequently removed from core funding in later years and the capping of the maximum increase allowable, before a Stevenage wide referendum would be required. An analysis of say pegging council tax increases to the previous years' September CPI (as with business rate increases since 2017/18), shows how the gap between a CPI increase and the actual increase allowable/approved including the rent freeze period.



4.3.7 If you assumed that the freeze grant funding had been removed by 2016/17 from government grant, the Council with a CPI increase rather than freezing council tax could have in theory benefitted from an addition average £557,000 per year. (Note: *CPI may have been higher than the government cap on council tax and members may have chosen to keep council tax low during that period).*



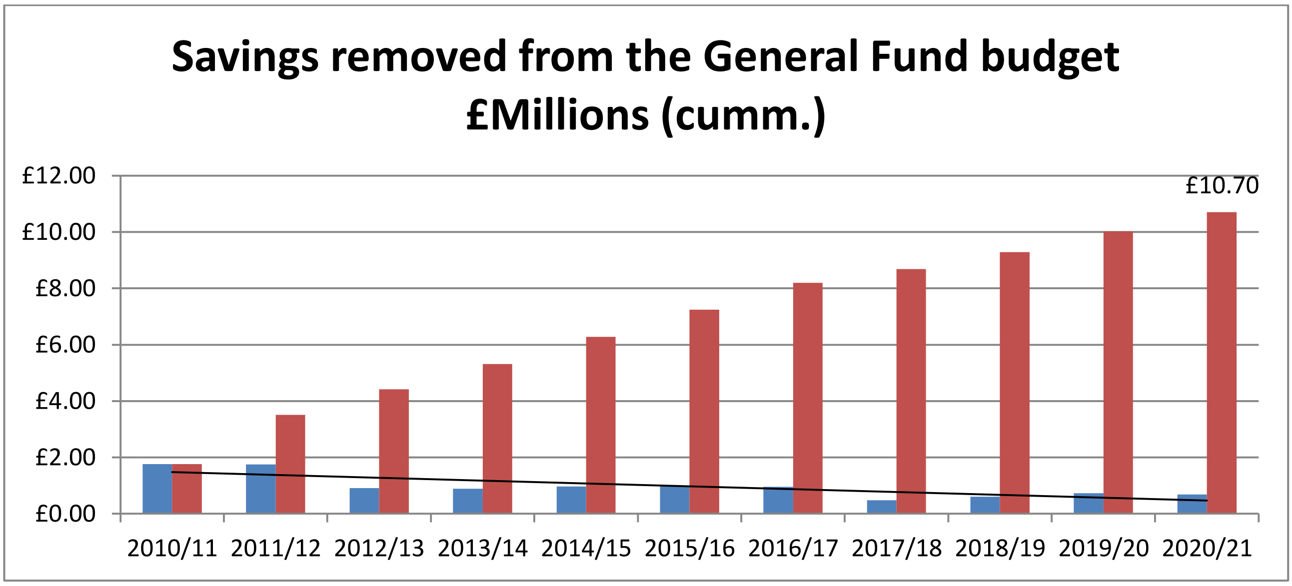
4.3.8 Inflation pressures (para 4.3.1 iv) have compounded budget pressures from government funding cuts combined with the limited ability to raise council tax. The table below illustrates that over £4Million of salary and contractual budget pressures required funding between 2014/15 and 2020/21, increasing that need to make additional savings or net budget reductions.



4.3.9 During this period the Council has wanted to deliver Member and resident top priorities, as set out within the Future Town Future Council (FTFC) programme. With resources limited, only growth for top priorities has been approved, or the use of known resources available from NHB and NDR have been utilised to support the FTFC programmes.

4.3.10 There has also been a need to address pressures related to economic factors, such as the increase in use of bed and breakfast as a result of spikes in homelessness and more recently the need to house rough sleepers during the current pandemic.

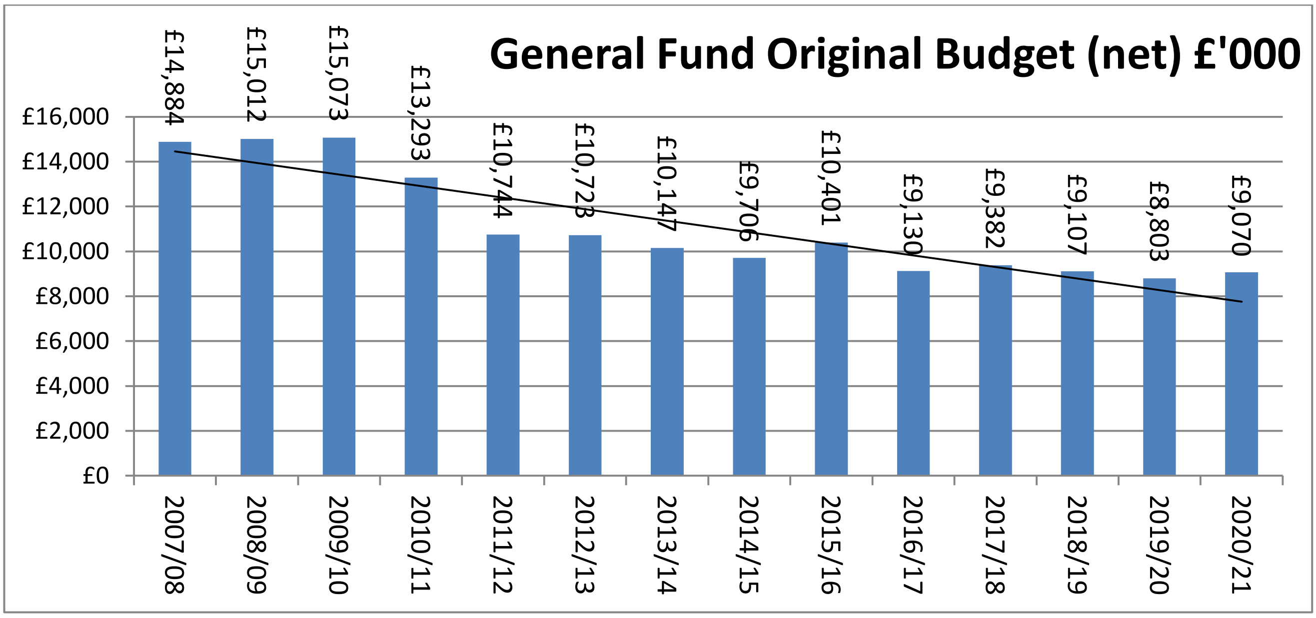
4.3.11 As a result of the factors identified above there is a need to make on-going savings in order to close the gap between expenditure and income, which has been exacerbated by the adverse impact of COVID-19 on the Council's finances and necessitated the MTFS recovery plan to the June Executive. The level of General Fund savings delivered to date is summarised below.



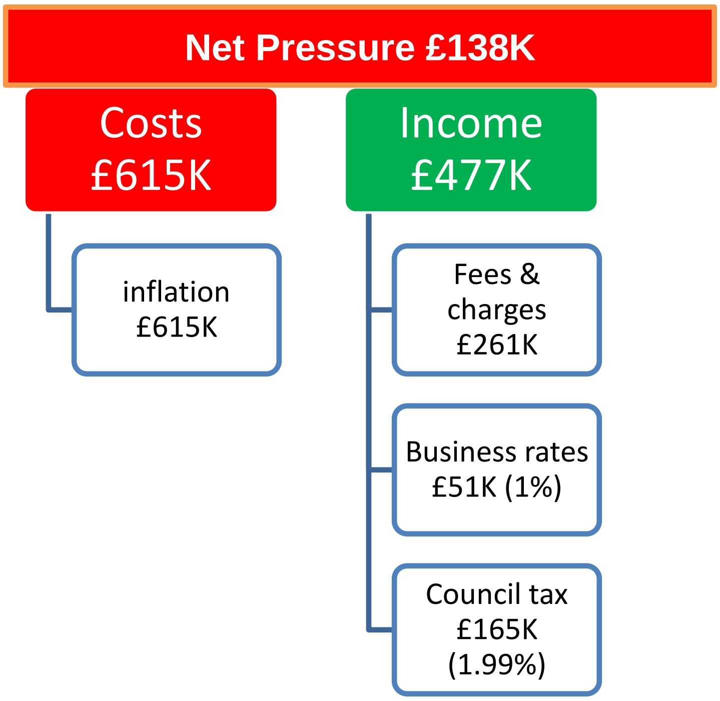
4.3.12 The trend line on the chart above shows the increasing difficulty in identifying, implementing and removing savings from the budget over time. This is why a more transformational approach combined with implementing the Co-operative

Commercial Strategy and prioritisation of services will be needed as set out in section 4.7 to release further savings.

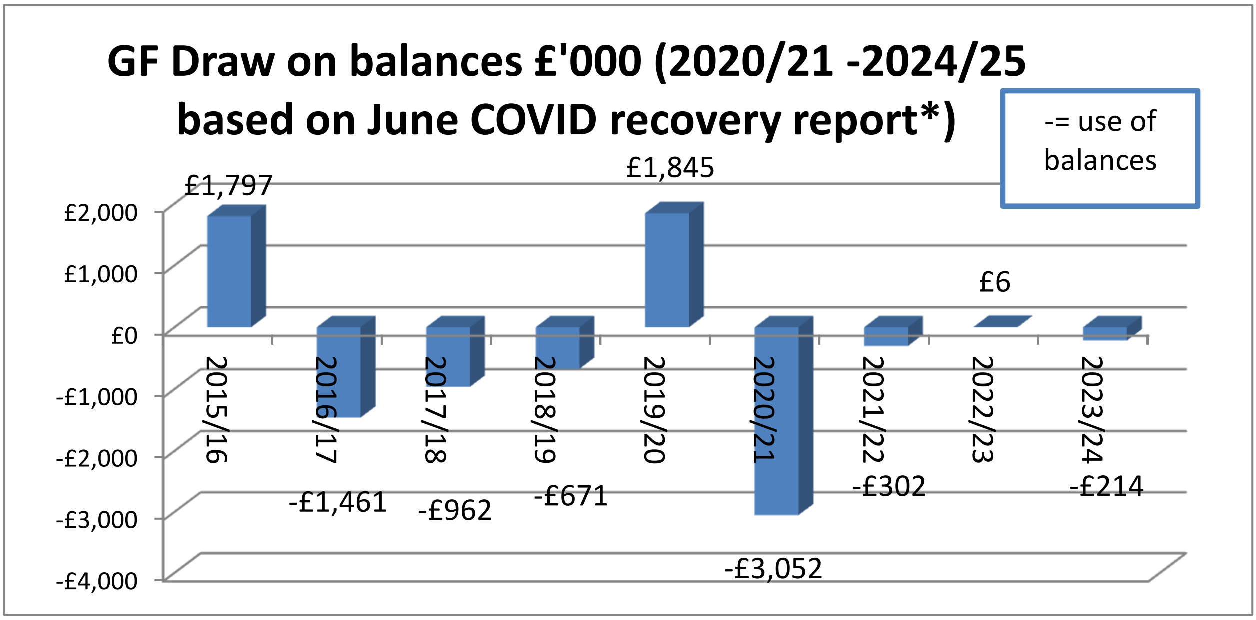
4.3.13 The impact of the savings identified means a reduction in the General Fund net spend reducing from some £15Million to £9Million as summarised in the chart below, however there remains a funding gap to be resolved.



4.3.14The 2021/22 gap between inflation and income is demonstrated below, despite the reduction in net budget there is currently annual gap between inflation and increases in fees of about £138K and this assumes that previous level of fees and charges can be achieved. In real terms projected inflation costs, (largely staff related) exceed the amount of proposed increases in council tax (assumed for modelling purposes at 1.99%), proposed fees and charges (agreed in principle at the November 2019 Executive) and the estimated CPI increase in the baseline need for business rates.



4.3.15 The draw on balances over the last few years is summarised in the chart below, but the introduction of retained business rates has distorted the draw on balances, due to the timing of when business rate payments and receipts are made and received. The impact of COVID-19 has further distorted the yearend balance for 2019/20.



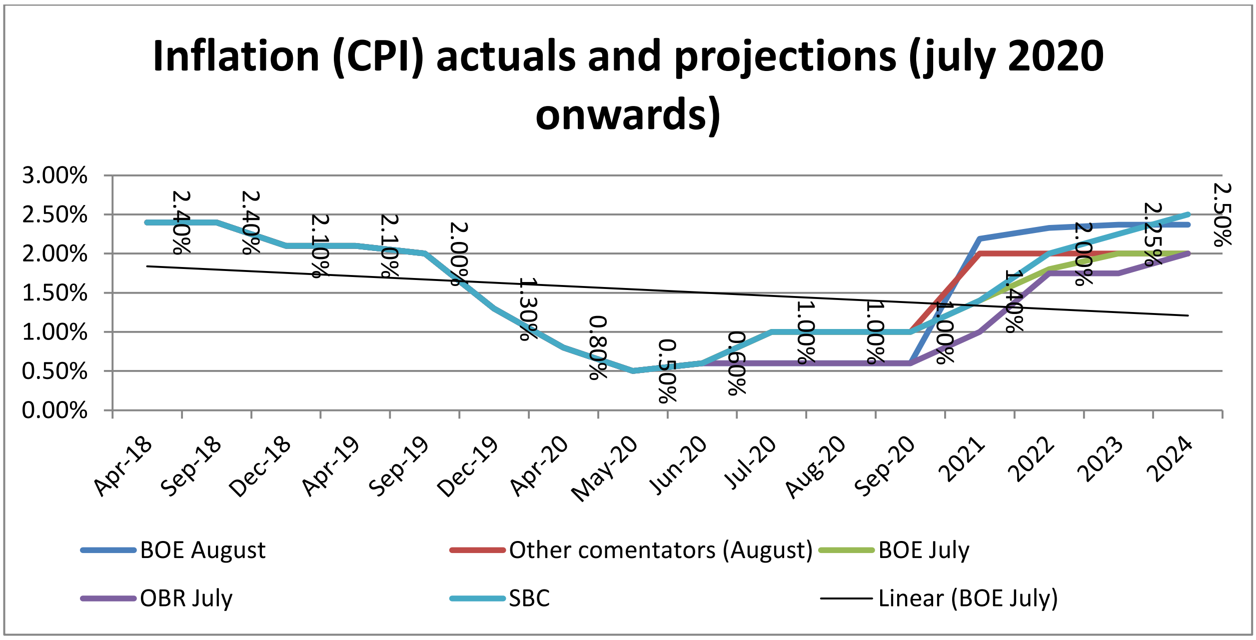
** see also updated September position para.4.11.5*

4.3.16 It could be argued that the actual draw on balances will be less than planned due to the realisation of year end underspends. However the level of underspends which is not committed for projects, (approved for carry forward into the next financial year) has reduced and there is an expectation that one off underspends of £350K need to be realised to support the capital programme.

4.4 Inflation

4.4.1 It is difficult to predict inflationary increases due to the uncertainty about the lasting impact of COVID-19 currently on the economy has meant that CPI for June was 0.6% compared to CPI in April 2019 of 2.1%.This is due to lower oil prices and lower activity in the retail and leisure sector due to COVID-19.

4.4.2 CPI is the tracked measure for inflation used by the government and for increases in retained business rates. Bank of England projections, Office of Budget Responsibility and the CFO assessment are shown in the graph below.



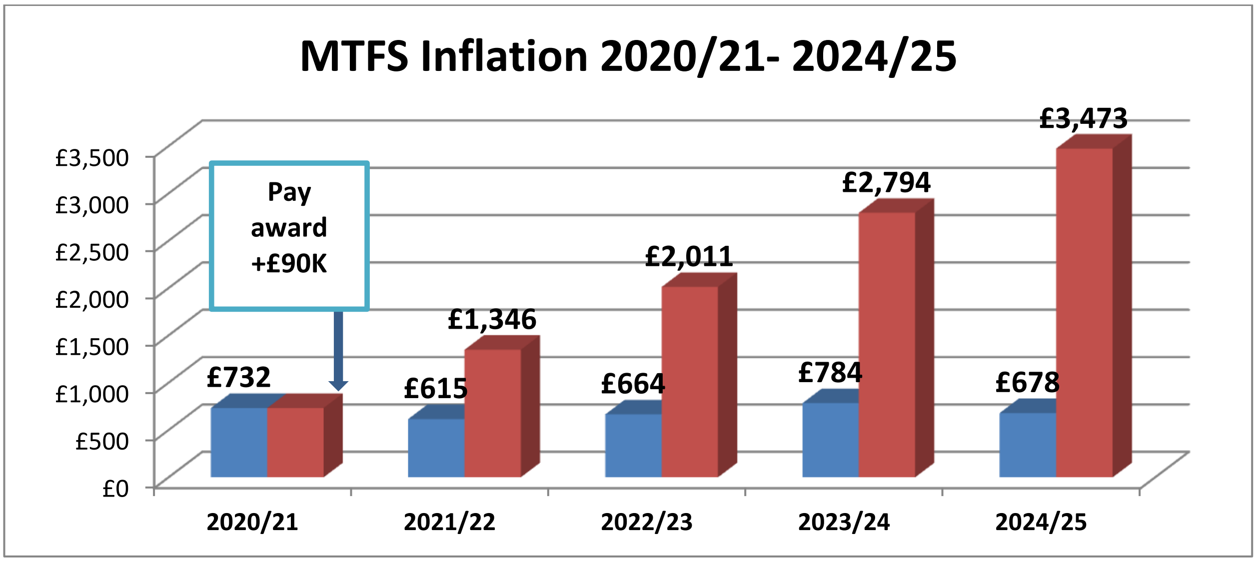
** Other commentators (mean result from August Bank of England report*
*** Bank of England August report based on market interest rate expectations and other policies as announced*

4.4.3 The CFO projections are slightly higher to reflect the unknown impact of BREXIT and potential increase in contract prices. But the current uncertainty around COVID and BREXIT makes predicting inflationary pressures very difficult. The rationale for the inflation assumptions made in the MTFS is shown below.

	2020/21	2021/22	2022/23	2023/24	2024/25
Inflation-Applied to:					
September CPI for business rate increases	2.00%	1.00%	2.00%	2.00%	2.00%
Salaries - % increase	2.75%	2.25%	2.25%	2.25%	2.25%
Pension Increase	0.00%	0.00%	0.00%	1.00%	0.00%
CPI indices increases	1.70%	1.40%	1.80%	2.00%	2.00%
RPI indices increases	2.40%	2.40%	2.80%	3.00%	3.00%
BCIS	4.40%	5.00%	5.00%	5.00%	5.00%
Fuel Increases	4.64%	2.00%	3.00%	4.00%	4.00%
Gas (unit charge only)	7.38%	7.38%	7.38%	7.38%	7.38%
Electricity (unit charge only)	11.56%	11.56%	11.56%	11.56%	11.56%

Rationale for inflation assumption	
Salaries - % increase	Salary inflation is estimated at 2.25% for the MTFS period. The 2020/21 employer offer 2.75% (accepted in August 2020), however the Chancellor has said there will be a need for wage restraint in future years. As pay is the largest inflationary pressure for the MTFS it has been modelled on 2.25% for the MTFS term which is above CPI but lower than RPI forecast for the same term. A lower pay offer in line with CPI would increase GF balances.
Pension Increase	An assumption has been made that as a result of the impact of COVID and BREXIT the next actuary's projection will mean an increase in the employer's contribution of 1%. This would be for 2023/24 at the next revaluation date.
Consumer Price Index (CPI) indices increases	Current projections from the Bank of England show an increase up to 2% by 2025.
Retail Price Index (RPI) indices increases	This is based on a 1% differential between the CPI forecast.
Fuel Increases	Fuel prices have been low and have been modelled on 2% increase in 2021/22, rising to a 4% increase by 2025.
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

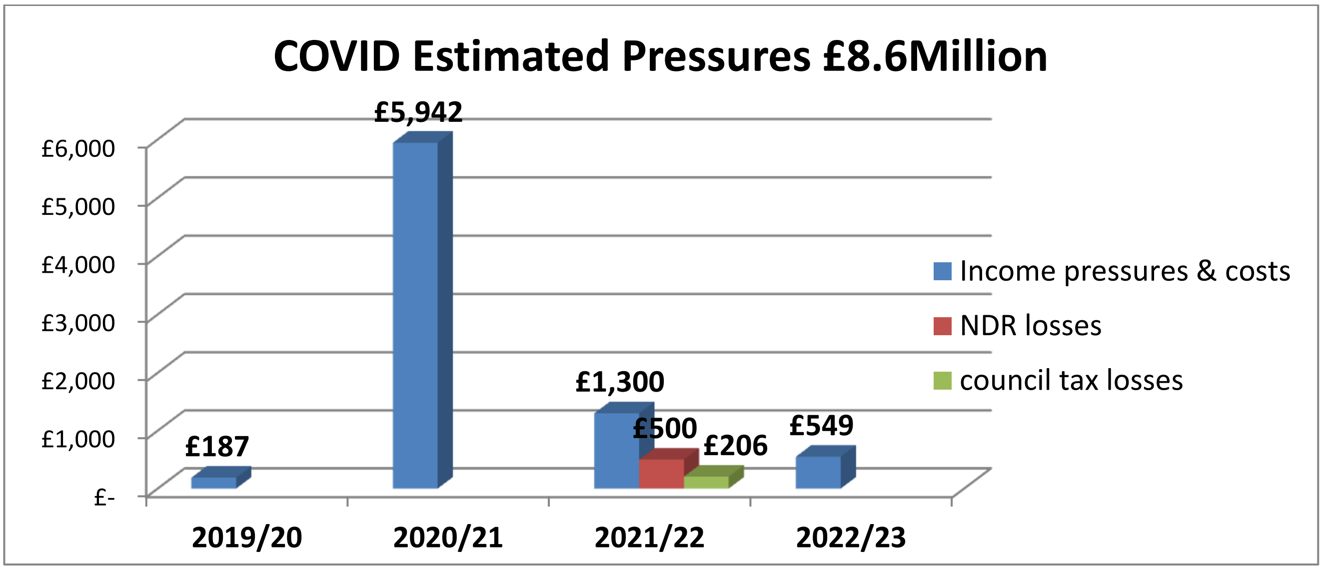
4.4.5 The amount of inflation projected in the MTFS (net of recharges to the HRA is shown in the table below).



4.4.6 The CFO has modelled that a 0.25% increase in pay inflation would equate to £43K and a 1% increase on contractual inflation across all indices would add an estimated £73K to the inflationary pressures in the General Fund in 2021/22. Which again, if realised would lead to an increase in future year's saving target.

4.5 COVID Budget Pressures

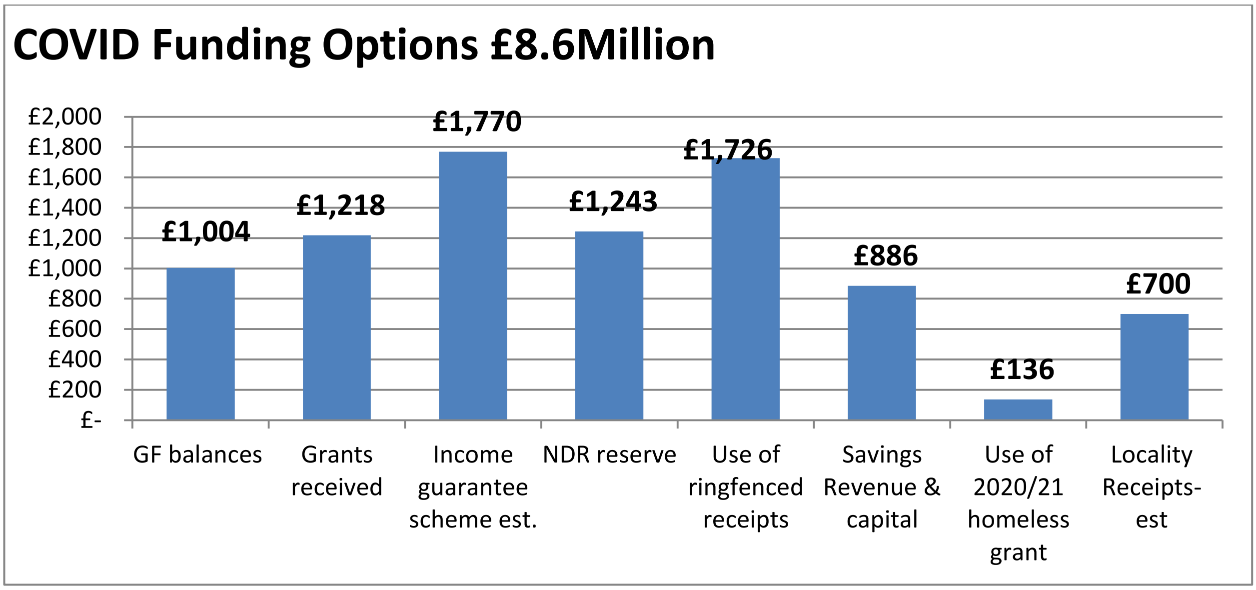
4.5.1 The MTFS contains an update on the projected COVID losses and potential funding. The projected costs are estimated to be £7.7Million for the General Fund and are summarised below.



4.5.2 The 2020/21 losses of £5.9Million include assumptions including costs to support the Council's leisure provider and losses in parking and rent income. The MTFS models **losses of £1.5Million in future years as income losses are sustained beyond 2020/21**, however this is currently difficult to predict and is an acknowledgement of the likely depth of the impact of COVID-19 on the economy.

4.5.3 The 2021/22 costs also assume there will repayments to the Collection Fund for 2020/21 of £500K of NDR losses compared to budget and a further £206K in council tax deficits as a result of higher Council Tax support (CTS caseload in 2020/21 and higher arrears).

4.5.4 The total assumed funding for COVID-19 in the MTFS is summarised in the chart below and this is the basis for the General Fund balances currently included at Appendix A.



4.5.5. This does assume that the Council will receive £1.77Million for the income guarantee scheme. The exact calculation needs to be completed as the government assumes cost reductions will offset losses. The calculation is based on:

- 5% deduction for budget variation
- No income for rental streams
- 75pence in the £ to be paid
- Some deduction for local decisions taken

However this level of funding is not a guarantee and the MTFS may be revised, with the savings target adjusted to reflect a lower level of grant received. The income guarantee form was received 4 September and the final calculation could be £200K lower than currently modelled. Members will be updated when the first submission is made at the end of September.

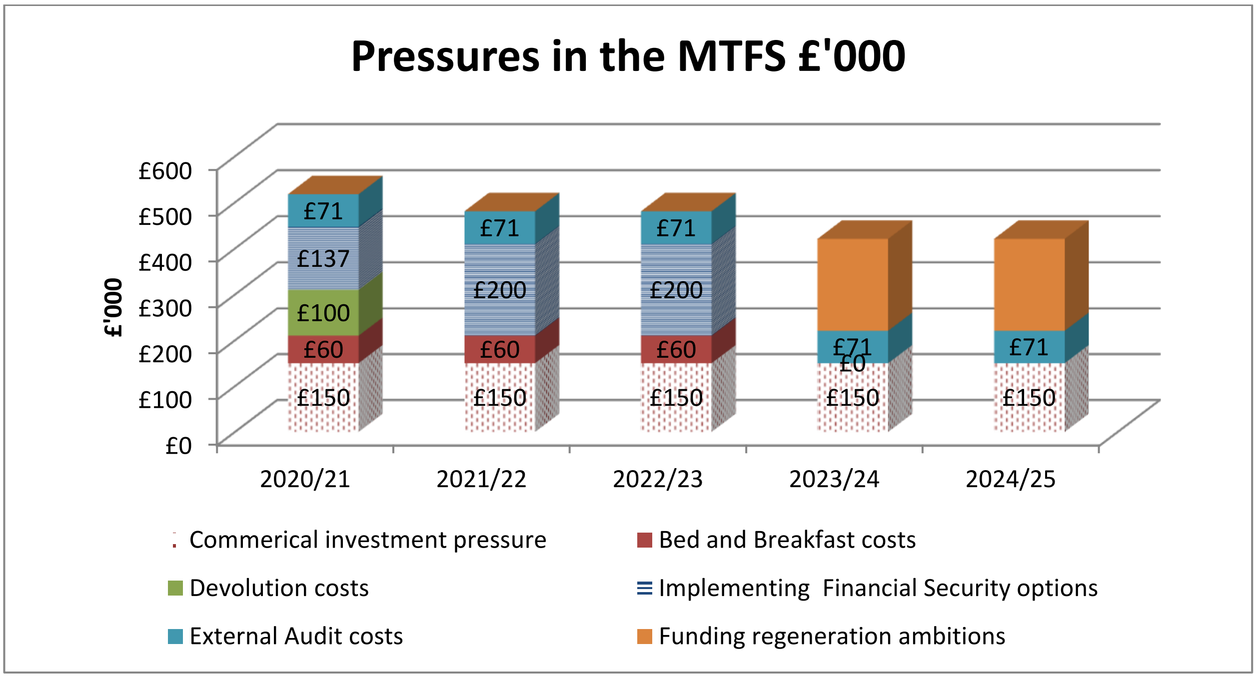
4.6 Non COVID Pressures

4.6.1 **1st Quarter Monitoring-** A number of budget pressures have been identified and summarised in the MTFS. The total monitoring adjustments are £299K and include £289K of grants relating to COVID of which £130K was received as new burdens funding for the Retail, Leisure and Hospitality grants. The changes that members are asked to approval and include in the General Fund budget are summarised in the table below.

1st quarter Expenditure and Income	Commentary	£	Carry Forward
Increased Spend and lower income:			
CCTV dividend	Based on current projections a surplus will not be payable in 2020/21	50,000	
Other overspends	Misc. budget adjustments	123,070	
Underspend/more income:			
Events cancelled due to COVID	Fireworks and other events	(15,280)	

1st quarter Expenditure and Income	Commentary	£	Carry Forward
Reduced postage costs	Lower post due to changes in ways of working	(19,350)	
Procurement income	Increased income from other Hertfordshire LA's	(21,300)	
SDS equipment		(22,000)	
Cash Collection Service	Suspension of cash collection during COVID	(25,120)	
Local elections	Election postponed until next year	(80,420)	80,420
New Burdens Grant	Grant received for administering retail & hospitality grants	(130,000)	
MHCLG 3rd Tranche COVID grant		(159,420)	
Total		**(299,820)**	80,420

4.6.2 **Other pressures** – A number of other pressures have been included in the MTFS and these are summarised in the chart below.



4.6.3 A summary of the pressures is described below:

I. **Bed and Breakfast costs** £60K has been assumed in the MTFS for 2021/22-2022/23 (£60K was included as a one off in 2020/21). Based on the current year's costs and the pressures the homeless service may face particularly if the economic conditions worsen, the CFO has assumed costs for a further two years and until any housing first solutions are in place.

II. **Government Devolution and Recovery White Paper** – The Government has stated that this paper will be published in September 2020. An allocation of £100K has been assumed in the MTFS for modelling purposes to help meet any associated costs which cannot be identified at this time - **the CFO recommends Members approve this budget.**

III. **Commercial investment** in the current economic climate is difficult and the government consultation in preventing Councils using PWLB for income yield purposes, stymies this. If SBC did so this would prohibit the use of PWLB for other activity such as social housing and the **CFO recommends this is funded in 2020/21 from the Regeneration Assets reserve in 2020/21 and then removed from the budget until the Co-operative, insourcing Commercial Strategy can deliver income**

IV. **Funding Regeneration** Members have approved the use of NDR gains to fund regeneration priorities, however these funds are exhausted by 2023/24 and the CFO has included this cost for modelling purposes.

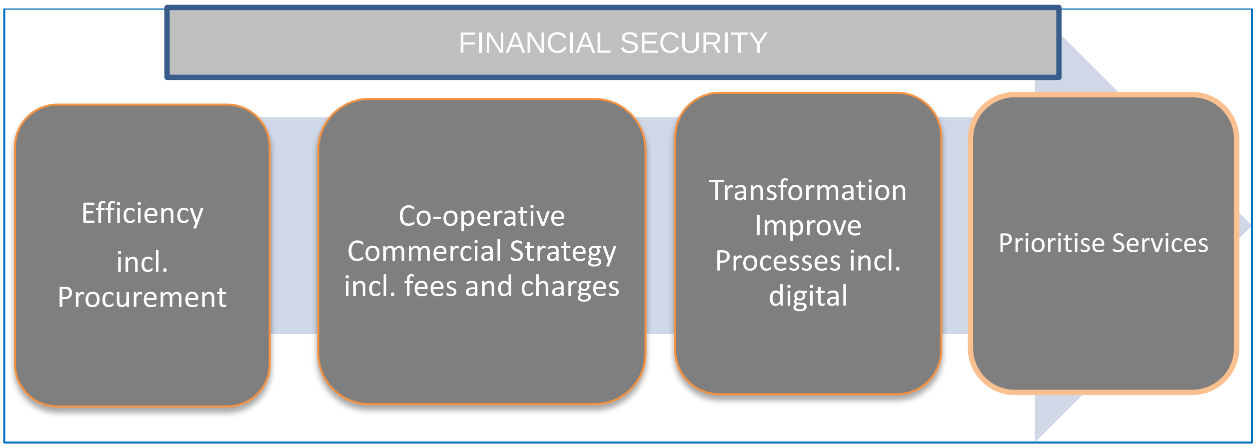
V. **Implementing Financial Security options-** The 2020/21 costs relate to options approved in principle by the November Executive for 2021/22-2022/23 savings options. The CFO recommends a **further £200K is included in the following two years to fund transformation and commercial business cases**.

VI. **External Audit Fees-**The Council's auditors (EY) have advised the CFO that they have assessed SBC's fees (procured through PSAA) as needing to increase by 120%, this included in the MTFS for note only. All Hertfordshire authorities have sent a joint letter to the PSAA on the proposed increase.

4.6.4 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 approved which meets the outcomes of the FTFC top priorities.

4.7 Financial Security

4.7 1 The Financial Security priority is the vehicle to deliver budget reductions across the General Fund and HRA and consists of four, streams. The graphic below sets out the process for 2021/22 onwards.



4.7.2 **Efficiency savings** are reported and removed from the General Fund as part of the quarterly monitoring process. However, there may be some generated from changing the way we work as a result of COVID, these have increasingly been more difficult to extract and in the main cost pressures have been reported. This places more emphasis on savings from the other strands to deliver budget reductions.

4.7.3 However, as inflation and pressures are added to budgets and as services evolve with new ways of working, this can still lead to budget efficiencies. Budgets are reviewed to determine that inflationary increases have not been overstated as part of the quarterly monitoring.

4.7.4 **Commercialisation**-The Council approved its Co-operative Commercial and Insourcing Strategy at the 12 August 2020 Executive, this set a number of work streams and the setting up of an Executive sub-committee to review initiatives. This work is expected to contribute to future Financial Security targets, however this may not be in time to deliver 2021/22 options to be included as part of the Budget and Policy framework.

4.7.5 The Co-operative Commercial and Insourcing Strategy included:

- 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

4.7.6 The progress for the commercial property investment has not made significant progression with one property acquisition and a shortfall of £150K against the £200K target. This has been compounded by difficulties in the purchase of Investment Properties due to availability, location and the condition of the retail sector and latterly COVID.

4.7.7 There was also a tightening of the Prudential Code in 2018 regarding borrowing for commercial investment, as a result of the large scale acquisitions by some Councils. The government has also consulted on revised prudential borrowing via PWLB which if implemented would prohibit the borrowing via PWLB for yield, the penalty being the inability to access any PWLB borrowing , which would include for social housing. The Council's Commercial Investment Strategy was predicated on borrowing and therefore the action outlined in paragraph 4.6.3 (iii) is recommended.

4.7.8 When the new Head of Estates is appointed the CFO recommends a review of the strategy to focus on an assessment whether investment in the existing stock could yield an increase in income.

4.7.9 An 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.

4.7.10 **Improve Processes (including digital)** –With the reduction in scope for efficiency options there is a renewed importance in the delivery of commercial and improve processes. The AD ICT and Transformation is currently procuring a partner to help the Council deliver this agenda and identify options to deliver savings. This will be in conjunction with implementation of the digital platform and customer account and it is intended that cutting bureaucracy and stream lining processes will lead to cost reductions by transferring transactions online, efficient workflow processes and other such initiatives.

4.7.11 The Council is exploring new ways of working to consolidate like activities to get staffing productivity gains. This requires up front funding of which £75K was included in the 2020/21 budget, however this will need to be reviewed as part of the will be reviewed as part of the opportunity assessment.

4.7.12 Options will be brought forward as part of the Budget and Policy Framework process but it is likely that this will contribute to savings targets from 2022/23 onwards.

4.7.13 The last strand of Financial Security is to review the **prioritisation of services**, to date this work has not been progressed to a large extent. However the COVID recovery report recommended that;

To mitigate the risk of bringing a S114 forward it is preferable to have control over the services provided by the council. To that end it is recommended that the Executive approve the development over the summer of a priority list of services as a further precautionary measure, if losses and the impact of COVID 19 are financially greater than modelled. However this would include services to vulnerable resident's .This will consider short term need to run services which would be impacted from social distancing measures and could be based on the following factors:

- *Critical to the recovery and Stevenage businesses and residents economic and community welfare*
- *Number of residents/businesses served by the activity*
- *Consideration of whether the service is offered by other organisations*

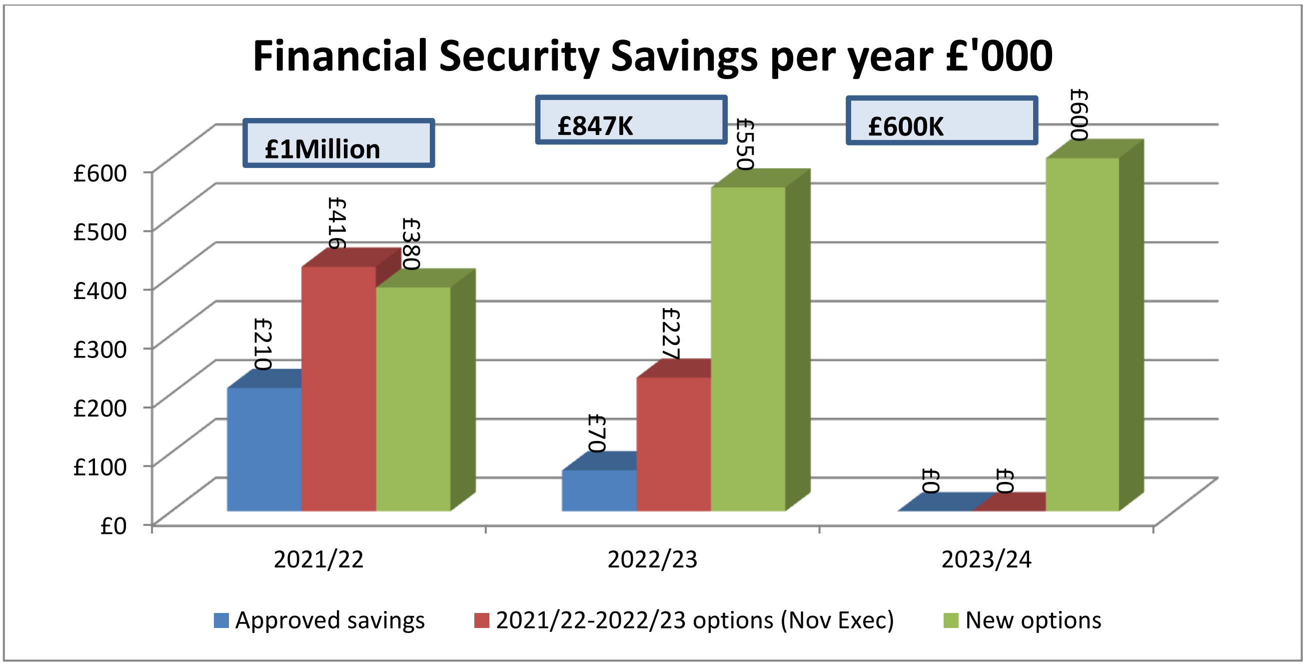
4.7.14 This work will need to commence during September and October to ensure that there are sufficient level of General Fund balances and that the Council is able to meet the Financial Security target as set out in paragraph 4.7.17. This reprioritisation process will also help move scare resources to fund the transformational work to unlock future savings and protect high priority services.

4.7.15 As part of the Financial Security work the Members group (LFSG) chaired by the Resources Portfolio Holder will review the three year Financial Security package, in addition to growth and capital options.

4.7.16 The Financial Security Target for the period 2021/22-2023/24 has been revised taking into account the current economic conditions and the likely financial impact of COVID in the current and future years.

4.7.17 The Financial Security is predicated on the following assumptions:

- The use of allocated reserves totalling £1.243Million of NDR reserves to support General Fund balances and a potential £500K loss of NDR gains in 2020/21
- The use of Allocated Reserves (Regeneration Reserve £150K 2020/21)
- The locking in of the measures as set in the June report to support General Fund balances, including use of CNM balances and other spend on hold,
- An assumption that capital receipts from Locality Reviews will be a minimum of £350K per year from 2021/22
- The income guarantee scheme will realise a grant of £1.7Million for 2020/21
- Limited growth bids of £75K per year from 2021/22 with remaining growth funded from increased savings.
- Business rate gains of £500K or 50% of those originally estimated in 2020/21
- Council tax increase of 1.99%



4.7.18 The Council's SLT are reviewing a number of options including transformation and commercial options to achieve the three year target. However the level of options identified currently is **less than the target required and SLT is being asked to identify further options**. **This will need to include a prioritisation of services** to meet the savings targets required.

4.7.19 The Financial Security package will be considered by the Leaders Financial Security Group and then by the Executive and Scrutiny Committees in November 2020. This report will also include any fees and charges increases and growth options.

4.7.20 A new Corporate Plan is due for 2021/22 and this may review the Councils priorities in light of resources available.

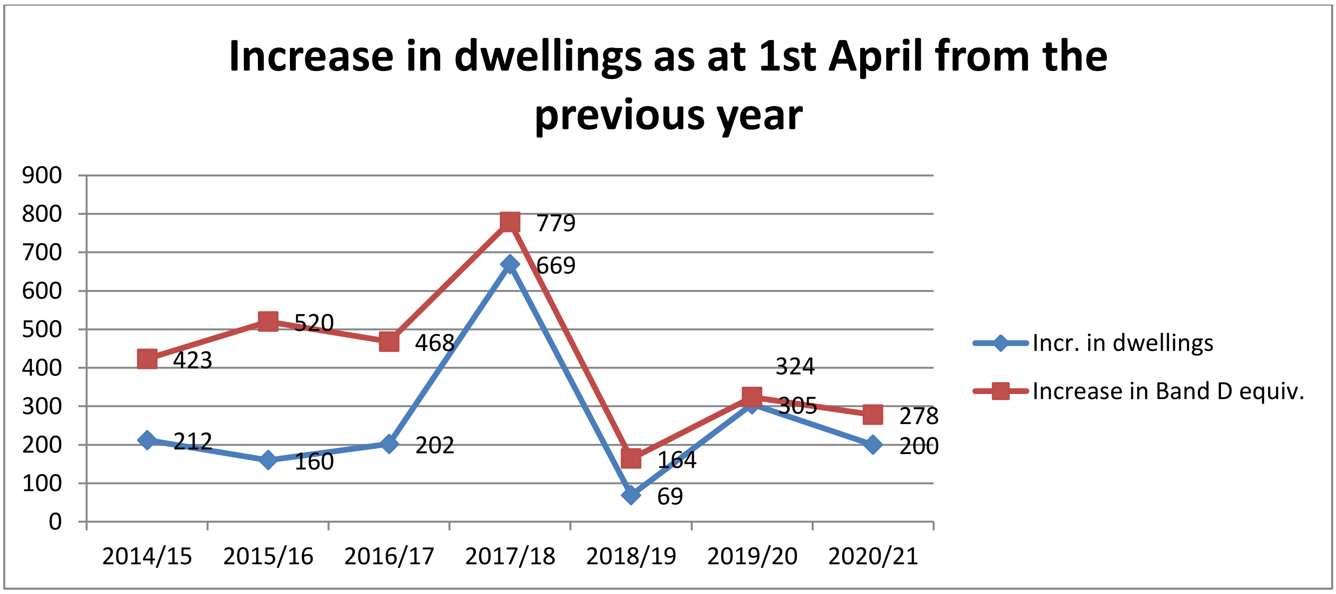
4.8 Council Tax

4.8.1 Council tax income as a core resource has grown in importance as centrally funded resources have been removed and as there has been some relaxation in the 2% cap in increases in council tax before a referendum must be held.

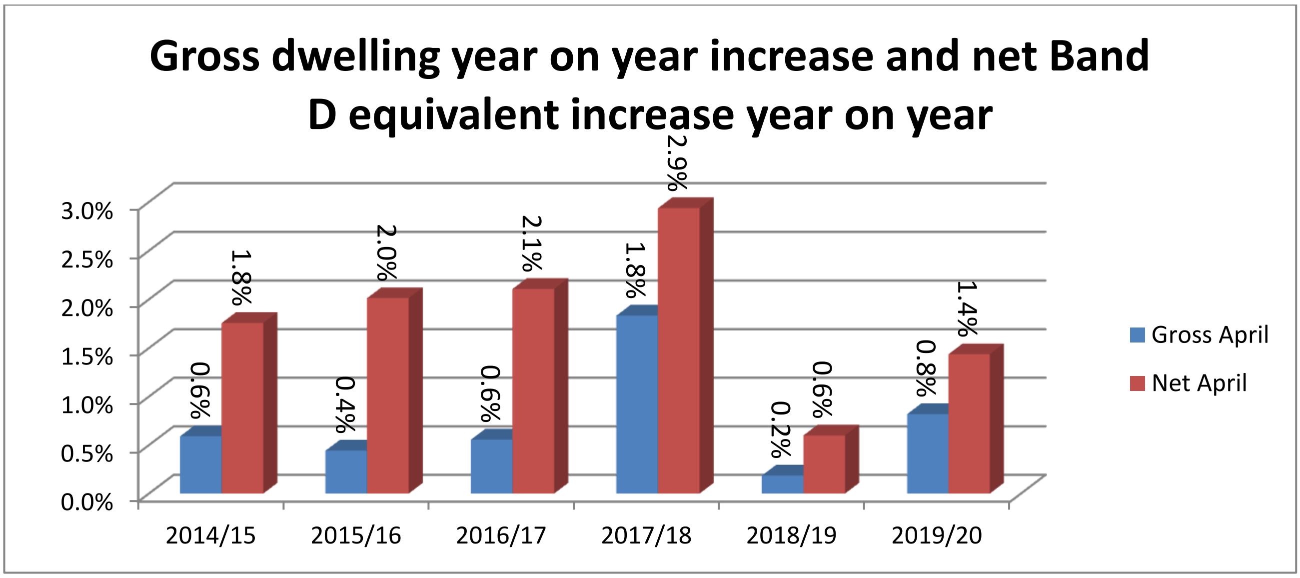
4.8.2 Predicting future levels of council tax is difficult going into a potential recessionary period, over the last few years the year on year increase has fluctuated as shown below and annual estimated have been based on information gathered from planning and visiting officers.

4.8.3 The amount of council tax that can be raised annually is influenced by mainly two factors, firstly the growth in the tax base and secondly the inflationary increase applied each year. The tax base is based on when new properties will be brought into use and converts this to Band D equivalents for the year.

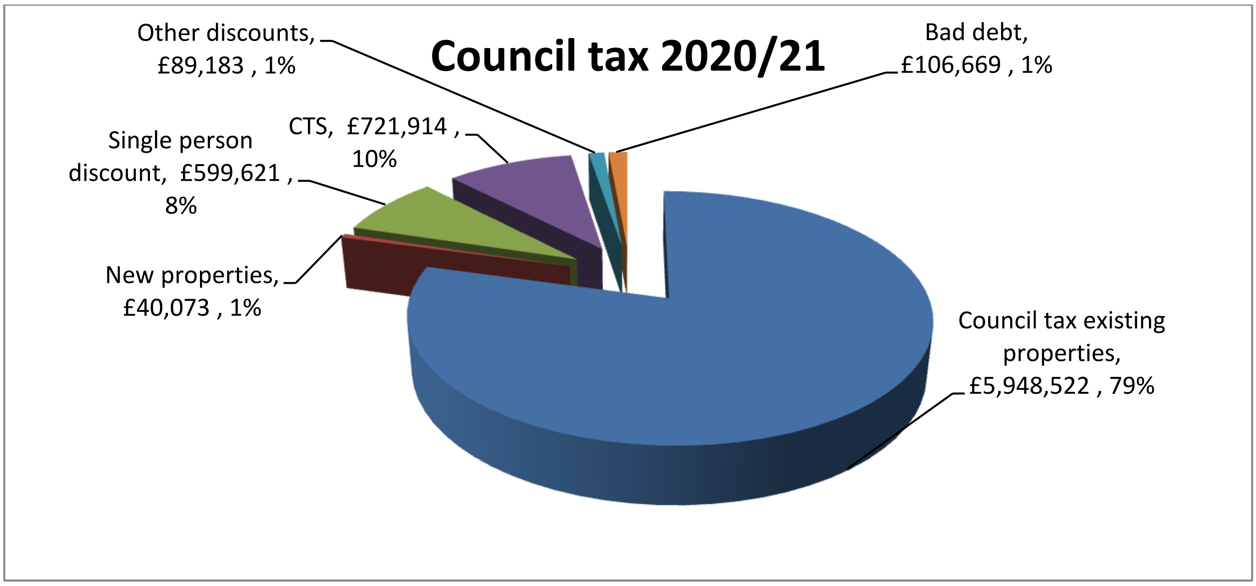
4.8.4 The tax base is calculated based on an estimate of the gross dwellings in Stevenage, reduced by the amount of discounts (single person discount, council tax support and other exemptions).



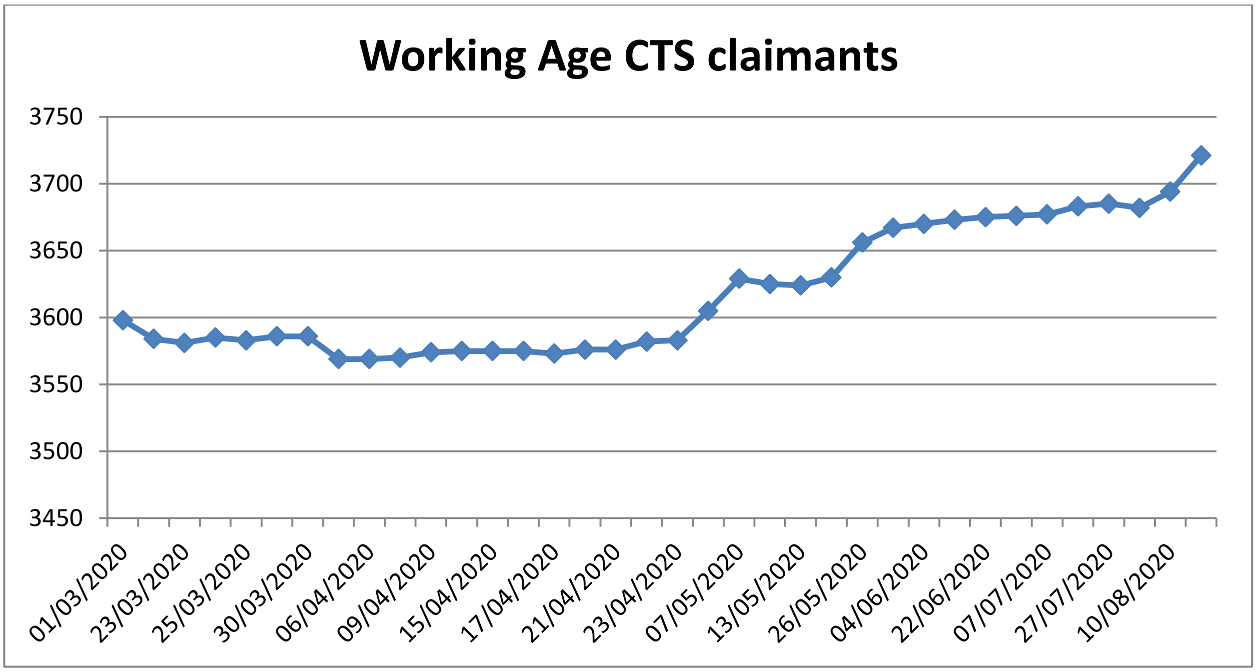
4.8.5 The net number of dwellings percentage increase year on year has exceeded the gross number of new dwellings on the valuation list because of reductions in the numbers claiming council tax support (CTS) and an increase in the collection rate, so increasing the net band D equivalents.



4.8.6 In term of modelling council tax base the level of CTS must be considered as this reduces the tax base by an estimated £722K for 2020/21 and has the largest deflating impact on council tax yield.



4.8.7 The trend nationally was to see a spike in CTS cases in March which has since subsided from the peak, the number of claimants on CTS (which should capture those entitled to housing benefit as well as those on Universal Credit (UC)) shows a steady increase with the case load increasing by 152 cases or 4.22% since the start of the financial year as shown below.



4.8.8 The assumptions for the CTS scheme which is currently an 8.5% minimum liability for working aged claimants has been modelled as remaining unchanged. Last year the Portfolio Holder Advisory Group (PHAG) which met on the 30 August 2019 reviewed options to change the scheme. However both officers and the PHAG recommended keeping the current scheme until there is a significant roll out of Universal Credit. The impact of COVID may trigger a large swing towards UC from HB as result of job losses and business failures if the economic climate does not improve. It was reported on the 11 August that employment in the UK fell by the largest amount over a decade between April and June, decreasing by 220,000 on the quarter.

4.8.9 In previous years the tax base is calculated increasing by planning housing trajectory numbers, however due to the current uncertainty a 0.75% increase in the tax base has been assumed to reflect higher numbers of CTS cases and potential bad debt losses. (See also recent increases shown in the chart in paragraph 4.8.7).

4.8.10 The MTFS currently includes **a 1.99% increase in council tax for modelling purposes,** It is not clear whether as part of the 2021/22 settlement the government will allow higher increases. This should be announced as part of the 2020 Spending Review.

4.8.11 The government has announced that they will extend the period over which councils must manage shortfalls in local tax income relating to 2020/21, from one to three years. This is intended to help ease immediate pressures on councils when budget setting for 2021/22 for council tax and NDR, protecting their ability to deliver essential local services. The details of this will be set out in regulations which are expected to be laid later this year. For modelling purposes losses have been shown in one year and a decision to spread losses will be made once the extent of the 2020/21 loss is known.

4.9 Business Rates and Government Funding

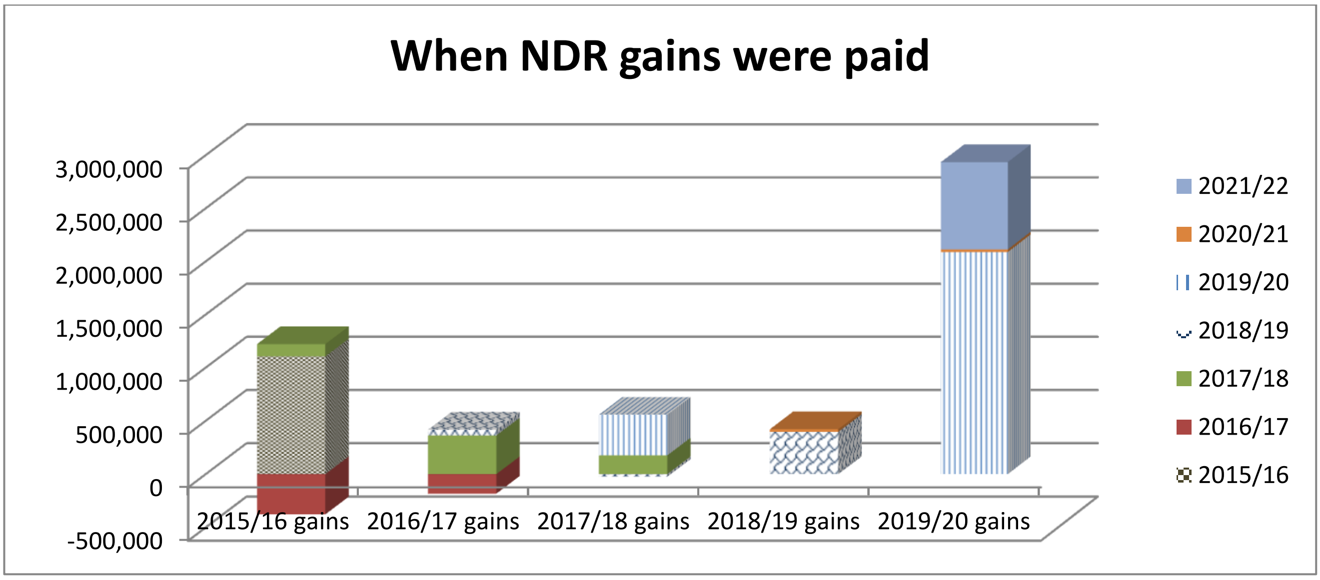
4.9.1 The Chancellor has confirmed that the 2020 Spending Review will be finalised this autumn, covering years from 2021/22 to 2023/24 for revenue spending and years from 2021/22 to 2024/25 for capital spending. There is a deadline of 24 September to make representation to the Government.

4.9.2 In terms of Business Rates Review, the call for evidence for the HM Treasury fundamental review of business rates has been published. The government is seeking evidence on reliefs (including abuse of reliefs) and the business rates multiplier by 18 September and on other aspects, including valuation and transitional reliefs, valuation of plant and machinery, valuation transparency and appeals, maintaining the accuracy of rating lists, the billing process and alternatives to business rates by 31 October.

4.9.3 The Government has also announced that the next revaluation of non-domestic property in England will take effect on **1 April 2023**. So that it better reflects the impact of COVID19, it will be based on property values as of **1 April 2021**.

4.9.4 Continuing uncertainty makes financial planning difficult, particularly for Council's that have realised business rate gains such as Stevenage in the last few years, (since the previous revaluation of 2017). A full reset would see those gains disappear with an adjustment to the tariff payable.

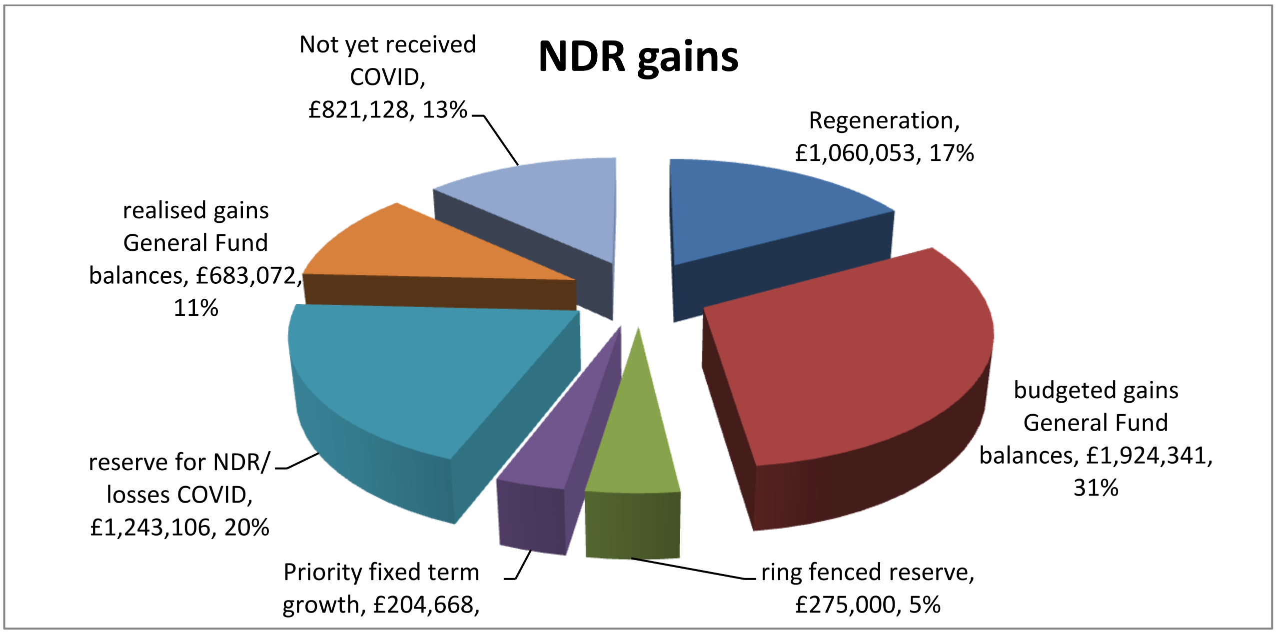
4.9.5 In addition there is a time lag between realising in year gains as forecasts fluctuate with business growth and failure and the level of appeals lodged. This means that gains have been returned to the General Fund up to two years later as shown below.



** 2015/16 SBC was in the Hertfordshire pool where the levy was an est. 6%*
*** 2019/20 Hertfordshire pilot was in existence which saw 75% of business rates retained in Hertfordshire.*

4.9.6 However, business rate gains fluctuate substantially and therefore have not been built into the base budget as they cannot be guaranteed and they have tended to support one off or time limited spending. The table below summarises how NDR gains have utilised since 2015/16, the majority of gains have been used to support

General Fund balances with £1.9Million of budgeted gains and a further £683K of gains increasing balances as a result of the year end position.



4.9.7 The CFO recommends that a level of gains are not built into the General Fund budget due to the risk of not achieving the level, due to government policy changes or business failures and appeals. 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 2020/21 this equates to £192,930. There is an allocated reserve holding £172,000 which can be returned to General Fund balances in the year should this occur.

4.9.8 In 2020/21 SBC is in the Hertfordshire Pool and there was an estimated £1.2Million of business rate gains. However this also relies on the relative gains for other pool members and the Hertfordshire LA's outside the pool. The MTFS assumes that £500K of the £1Million gains will be lost due to a loss in the business rate yield for both business failure and levels of arrears.

4.9.9 Lastly, the government waived the negative RSG payment due from a number of authorities in 2019/20 and 2020/21, which for SBC was £27K. However it is not clear whether this will be incorporated into the 2021/22 one year settlement. For planning purposes the CFO has modelled that this would not be a feature of government funding for 2021/22, but would be from 2022/23.

4.10 New Homes Bonus (NHB)

4.10.1 NHB was introduced in 2011/12 and is monies 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:

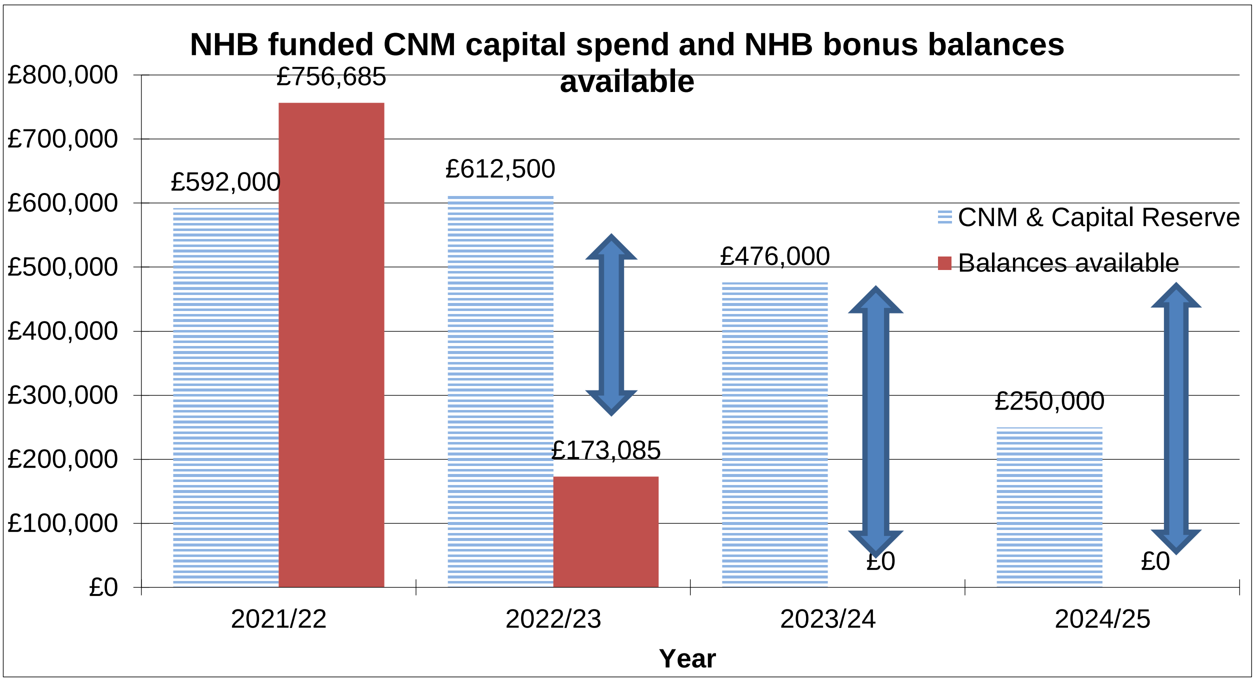
- Reducing the number of years a payment is made for, from six to four years;

- Introducing a threshold of 0.4% of the tax base before any new payment is made.

4.10.2 This has meant that from the peak in 2016/17 funding has fallen and Members have approved the removal of the NHB contribution to the General Fund of £200K per annum over the period 2020/21 (£83K removed) and 2021/22 (£117K removed).

4.10.3 From 2020/21 onwards, the government signalled it was considering other methods to reward housing growth, however this has been delayed with COVID-19 and the 2020/21 NHB was for one year only . Furthermore, even if the scheme was continued for one more year into 2021/22, current projections show that the level of new properties net of long term empty properties is below the 0.4% threshold as at the 1 August 2020 and the snapshot is taken based on the October 2020 tax base form (CTB1), (see chart in paragraph 4.3.4)

4.10.4 Part of the capital CNM spend was deferred until 2021/22 (playground refurbishment and replacement bins) along with the funding. This means for 2021/22 the residual NHB is needed to fund the contribution to the capital reserve of £250K. Beyond 2022/23 there is a shortfall of £439K in 2022/23 and no funding beyond 2023/24, this is summarised in the table below.



4.10.5 This would require **alternative funding for the CNM programme** (other than the play and bin replacement programme) from 2021/22 and for the whole programme beyond that. The residual funds in **2022/23 are not even sufficient to meet the capital reserve** annual contribution of £250K. This leaves a shortfall each year as summarised below.

NHB Funding Gap:	2021/22	2022/23	2023/24	2024/25	Total
Capital:					
Capital CNM Playground refurb	£243,000	£283,500	£220,000	£0	£746,500

NHB Funding Gap:	2021/22	2022/23	2023/24	2024/25	Total
Capital CNM bin replacement	£99,000	£79,000	£6,000	£0	£184,000
Capital Reserve Contribution	£250,000	£250,000	£250,000	£250,000	£1,000,000
Total	**£592,000**	**£612,500**	**£476,000**	**£250,000**	**£1,930,500**
Shortfall	£0	***£439,415***	***£476,000***	***£250,000***	***£1,165,415***
Not Funded:					
CNM revenue initiatives	£75,000	£75,000	£75,000	£75,000	£300,000

4.10.6 The removal of the funding will have a significant impact on the Capital Strategy which means the outcome of the Locality reviews to review the assets the Council holds to reduce their financial footprint and deliver capital receipts is key. The alternative course of action is an increase in borrowing/revenue contributions to capital which would require compensatory savings as a result of the current pressures on the General Fund.

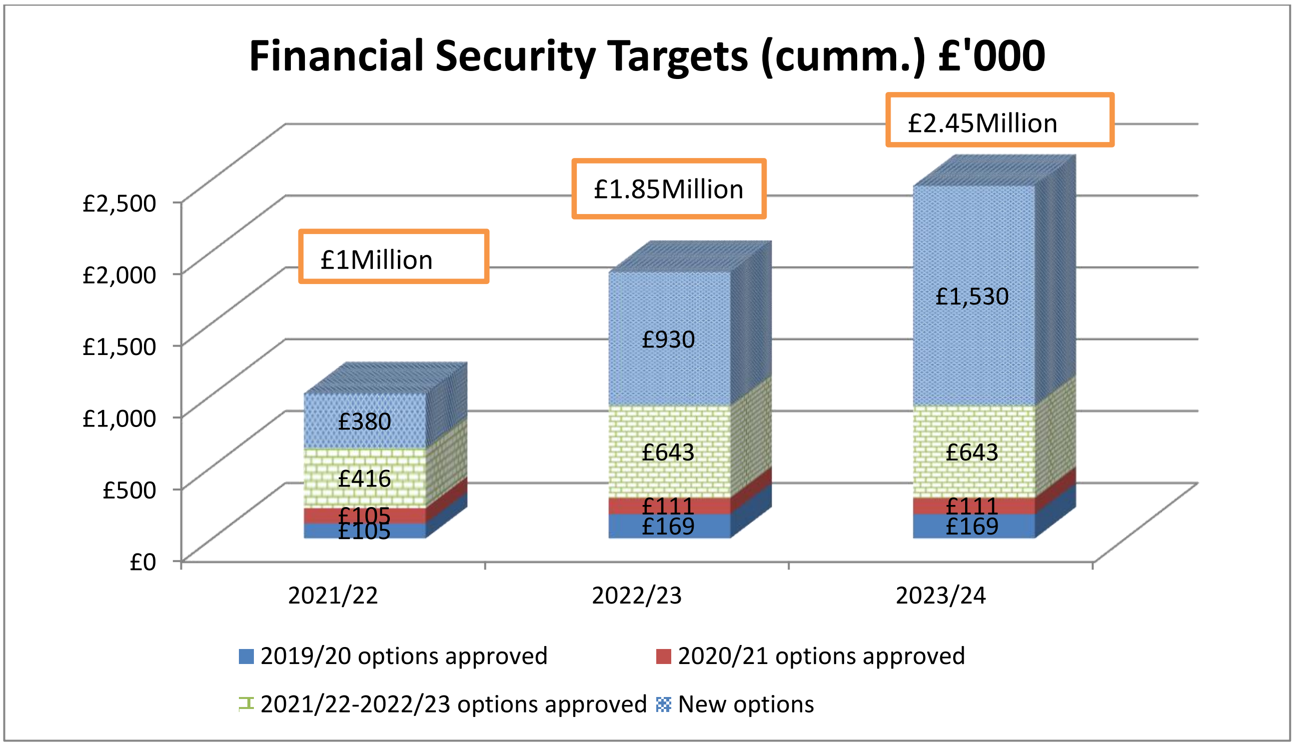
4.10.7 This also means that there is **no further funding for CNM initiatives** which for 2020/21 a budget of £75K was allocated. However this and historic CNM balances have been put on hold as a result of the impact of COVID on the Council's finances. **It is recommended that CNM revenue growth bid is submitted as part of the Financial Security process alongside other priority bids and subject to sufficient savings options being available**.

4.10.8 If the government does announce a further round of NHB for 2021/22, current projections show that the new net number of properties in the taxbase compared to the last October 2019 taxbase is **20 Band D equivalent properties below** the threshold with only two months for new properties to be banded .

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.

4.11.2 The Council's General Fund balances as at 1 April 2020 were £6.9million, aided by the use of ring fenced receipts, (rather than revenue balances for capital), to maintain the resilience of General Fund balances. General Fund balances are projected to be £2.9million by 31 March 2025. This is a reduction of £3.3Million in general balances, which has been driven by the projected financial impact on COVID which requires the identification, approval and implementation of £2.45Million of Financial Security savings, in addition to increases in council tax. The Financial Security target for 2021/22-2023/24 is summarised in the chart below.



4.11.4 Despite the measure outlined in 4.17.7, the Financial Security Target has been increased to ensure that the General Fund can make a contribution to balances by 2023/24 and maintain sufficient balances to fund any COVID losses over and above than modelled in the MTFS.

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

General Fund balances	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Opening Balance	(£6,930)	(£3,931)	(£3,724)	(£3,255)	(£3,261)
In Year	£2,999	£207	£469	(£6)	(£146)
Closing Balance	(£3,931)	(£3,724)	(£3,255)	(£3,261)	(£3,407)
January 2020 MTFS update	(£3,733)	(£3,678)	(£3,812)	(£3,927)	
Variance to January 2020 MTFS	(£198)	(£46)	£557	£666	Year not in report
June COVID recovery report	(£3,587)	(£3,285)	(£3,291)	(£3,076)	(£2,950)
Variance to June COVID recovery MTFS	(£344)	(£439)	£36	(£185)	(£457)

() equals surplus

4.11.6 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.

4.11.7 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.

4.11.8 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 CFO 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 in particular for next year, the CFO has based her advice on consideration of the factors included in the table below which project a £3.41Million minimum level of balances. This is higher than in previous years due to the impact of COVID on the 2021/22 budget and a new potential risk of devolution related costs. This is indicative at the current time and will be further reviewed as part of the budget setting process.

General Fund balances Minimum Level Assessment	**2020/21 £Million**
Amount to cover a 1.5% overrun in gross expenditure	£1.00
Amount to cover a 1.5% overrun in gross income	£0.86
Amount to cover Strategic risks incl. devolution	£0.25
Amount to cover new commercial risks	£0.20
Amount to COVID losses	£1.00
Amount to cover risk to Financial Security savings	£0.10
Total Estimated General Fund Reserves	**£3.41**

4.11.11 Due to the uncertainty around the impact of COVID the MTFS projects a return to balances by 2023/24, a year later than the previous MTFS projected and supported by reduced RCCO costs through projected Locality Review sites minimising the call on revenue to fund capital. However there are a number of factors outside the control of the Council, which are;

- The finance settlement for 2021/22 and future years, including any changes to the levels of funding when the Fair Funding review is implemented, including the impact of negative RSG
- The level of NHB and method of allocation

- The maximum level of increase in council tax below the threshold before a referendum is required
- Business Rate reset and the 75% localisation of business rates

4.12 Allocated Reserves

4.12.1 The Council's Allocated revenue reserve projections are summarised in the table below. The 2020/21 reserve balance of £4.1Million is projected to reduce to £2.5Million by 2024/25. This is predominately due to:

- The use of NDR gains to support COVID losses;
- The use of residual NHB balances with no new allocations modelled (other than historic gains) ;
- The use of prior year NDR gains to support Regeneration FTFC priority
- Offset by increases in projected Asset reserves to fund holding costs of assets to be demolished as part of the SG1 Regeneration scheme and the revision of MRP costs on those assets;

Allocated Reserves	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
New Homes Bonus	£461	£165	£0	£0	£0
Transformation	£60	£60	£0	£0	£0
NNDR earmarked reserve	£1,807	£326	£172	£172	£172
Homeless Reserve	£193	£0	£0	£0	£0
Rough sleepers Grant	£33	£0	£0	£0	£0
Town Centre	£34	£34	£34	£34	£34
Town Square and Regeneration assets	£762	£1,122	£1,612	£1,910	£2,213
Regeneration Priority	£661	£266	£0	£0	£0
Insurance	£103	£103	£103	£103	£103
Total	**£4,114**	**£2,075**	**£1,921**	**£2,219**	**£2,522**

4.12.2 The level of Town Square and Regeneration assets needs to be maintained to ensure that the Council has sufficient funding to hold the assets prior to demolition and fund any regeneration costs arising.

4.13 CFO commentary

4.13.1 The MTFS projects that general balances will be at around minimum levels based on the revised calculation in paragraph 4.11.10. The General Fund faces one of the most difficult financial periods as there is now a combination of grant reduction, uncertainty about future funding and COVID in year and future year impacts.

4.13.2 It is critical that General Fund reserve resilience measures such as the minimisation of revenue used for capital and the Financial Security targets are achieved as set out in the Strategy. This means that a minimum three year view of the pipeline of options should be identified and presented to the November Executive.

4.13.3 This presents a challenge as Transformation and commercial options will take a period of time to assess and work up, however the 2021/22 target has to be achieved as the level of 2021/22 COVID losses could be far greater than currently modelled. Growth should be limited to top priorities only and should be met by increasing financial security targets or met from unbudgeted business rate gains.

4.13.4 There are a number of unknowns outside the control of the Council as outlined in the report and taking into account the financial challenges the Council faces the CFO recommends that Members identify and prioritise services to determine where budget reductions could be made if the required Financial Security savings are not achieved. This is particularly important as balances reach minimum levels.

4.13.5 The Council cannot rely on unplanned underspends to improve balances as this could result in reactive savings to be made, in addition unplanned underspends are being utilised to fund the Council's regeneration aims.

4.14 Approach to Consultation

4.14.1 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. This has been via Residents survey other consultation exercises. These views will be taken into account in developing the Financial Security options.

4.15 Decision Making Process

4.15.1 The 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 following approval process will be followed:

Date	Meeting	Report
Nov-20	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-20	Executive	Draft 2021/22 HRA budget and rent setting report
	Overview and Scrutiny	Draft 2021/22 HRA budget and rent setting report
Jan-21	Executive	Final 2021/22 HRA budget and rent setting report Draft 2021/22 General Fund budget, Council Tax and Council Tax Support
	Overview and Scrutiny	Draft 2021/22 General Fund budget, Council Tax and Council Tax Support
	Council	Final 2021/22 HRA budget and rent setting report

Date	Meeting	Report
Feb-21	Executive	Final 2021/22 General Fund budget, Council Tax and Council Tax Support
	Overview and Scrutiny	Final 2021/22 General Fund budget, Council Tax and Council Tax Support
	Council	Final 2021/22 General Fund budget, Council Tax and Council Tax Support

4.15.3 Following the approval of the proposed Financial Security options for 2021/22, the Council will have an obligation to begin consultation with staff and partners

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4.15.4 Future year proposals beyond 2020/21 will be monitored via the officer Financial Security group on their development and by each sponsor for the following budget cycles as reported to the LFSG.

5. IMPLICATIONS

5.1. Financial Implications

5.1.1 The CFO view is set out in section 4.11 and 4.13 to this report, the uncertainty around the impact of COVID and any ensuing recession, future funding and the Council's ambitious FTFC programme will almost certainly lead to pressures on financial resources. The generation of underspends is diminishing and potentially business rate gains used for Regeneration could cease if a reset of business rates is implemented by the Government. This means additional pressures on the General Fund.

5.1.2 There is still a draw on balances and this increases the necessity to adhere to the spending and saving plans.

5.1.3 Projections for the likely 'ask' for pump priming are currently being compiled for the medium term period to help with financial planning. The MTFS does contain an allowance for implementing change of £200,000 for 2021/22-2022/23.

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

5.2.2 Any Financial Security options considered will have due regard to any consultation carried out, if consultation is required.

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
NEW: Government COVID funding does not cover losses	The measures included in this report would need to be implemented up to the level of losses realised	High	High
NEW: Government COVID income scheme funding does not cover projected losses identified and costs are higher than identified	This would require the existing measures to stay in place and the locality review sales to exceed the target set in the MTFS along with an increase in the Financial Security Targets and depending on the gap, the review of a s114 notice to be reviewed	High	High
NEW: The NDR 75% retention of receipts produces lower gains for SBC in 2021/22.	The Council does not budget spend on future gains only for those forecast for the coming year. However in the past this has increased Regeneration spending	Medium	Medium
Anticipated Financial Security 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
UPDATED: Under-achievement of Commercial Property Investment (Potential Negative risk)	The MTFS has removed the target in the medium Term.	High	High
REVISED: 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. This could equate to £58K in 2021/22 if the caseload continues to increase.	High	Medium
Localisation of Business Rates (Potential Negative) – A major employer leaves	Negative: The safety net means a maximum loss in year of £190K which the council has included in an allocated reserve. On-going this	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
the town and impacts the business rate yield due to the Council	would impact on the savings target and ultimately services.		
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 a considerable amount of appeals from the 2010 list remain.	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 impact on residents' ability to pay council bills.	A reduction in the amount of grant assumed within the MTFS would require compensating reductions in planned spending within services . However UC is being implemented at a very slow pace and the current case load is reducing.	Medium	High
UPDATED: Inflation (Negative Risk) – The majority of contracts the Council holds include an annual price increase	General balances are risk assessed to ensure overall levels are maintained that can meet higher than expected inflation rates. The inflation projections have been increased for a 2.75% pay award (offered by the employers side) and an increase in pension costs at the next renewal assuming the pension fund will be less well funded due COVID impacts	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	Council's risk management framework ensures operational and	Low	High

Risk Area	Risk Mitigation	Likelihood	Impact
(Negative or Positive Risk) – Financial risks and their timing are not accurately judged leading to either a pressure or benefit to the MTFS.	strategic risks are identified as part of the annual service and MTFS planning process		
The impact of BREXIT (negative risk) the impact of Brexit leads to economic instability and further financial cuts to the council's budgets	A reduction in the resources available within the MTFS would require compensating reductions in planned spending within services . The council would use the Financial Security priority to help address this.	Medium	Medium
Impact of future years capital programme (Negative) There could be increased pressure from the capital programme on the General 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
AFM (Negative risk) HCC may review the amount paid to Councils,	HCC has already planned to remove £1.5Million from the scheme and could remove more. SBC received about £250K in 2018/19, further reductions would lead to an increase in the Financial Security Targets.	Medium	High
UPDATED Fees and Charges target may not be reached (negative risk)	Non achievement of the target would require other FS options to be brought forward. For future years. The in year losses have been addressed within the report from a central scenario modelling	High	High
NEW: Devolution and Recovery White Paper- requires additional staff and financial resources to review the implications for SBC and Hertfordshire as a	An allocation of £100K has been included in the MTFS for 2020/21 and the impact on the Council will be assessed after the white paper is launched and Members will be kept up to date.	High	High

Risk Area	Risk Mitigation	Likelihood	Impact
whole			

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.

5.7 Climate Change Implications

5.7.1 The Budget and Policy setting process prioritised growth for climate change as part of the 2020/21 budget setting process. The 2021/22 process should have due regard for climate change implications based on the Council's Climate Change Strategy.

BACKGROUND DOCUMENTS

BD1 - 2019 MTFS Strategy

BD2- COVID Recovery Plan MTFS June 2020 Executive

APPENDICES

Appendix A MTFS