

STROUD DISTRICT COUNCIL
STRATEGY AND RESOURCES COMMITTEE

30 SEPTEMBER 2021

Report Title	BUDGET STRATEGY 2021/22 TO 2025/26			
Purpose of Report	To set out the assumptions that will be used when preparing the upcoming Medium-Term Financial Plan			
Decision(s)	The Committee RECOMMENDS to Council to: a. Approve the Budget Strategy 2021/22 to 2025/26 as set out in this report and appendices b. Continue with the Business Rates pooling agreement, until such time as the Section151 Officer may determine.			
Consultation and Feedback	Formal budget consultation is currently taking place in the form of a telephone survey of local council tax and business rate payers			
Report Authors	Andrew Cummings, Strategic Director of Resources Email: andrew.cummings@stroud.gov.uk			
Options	To review assumptions made in funding. To challenge long term cost projections.			
Background Papers	None			
Appendices	Appendix A – Draft Medium-Term Financial Plan 2021/22 to 2025/26 Appendix B – Current assumptions on budget changes.			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	No	No

1. INTRODUCTION / BACKGROUND

- 1.1 This report set outs the current assumptions on funding available throughout the period 2021/22 to 2024/26, and initial estimates on the level of cost pressures and savings that the Council may expect in that time. That information forms the basis for the detailed budget setting process now taking place throughout the Authority. Officers are reviewing all expenditure and income budgets to determine appropriate levels and identify savings where possible.
- 1.2 This is the second Budget Strategy produced against the backdrop of the Covid-19 pandemic. This places a degree of uncertainty on expenditure budgets but most

particularly the levels of income which may be received. The detailed budget setting process will include extensive considerations of the likely impact of the pandemic.

- 1.3 The Council's General Fund and Housing Revenue Account (HRA) budgets for 2022/23, including the budget proposals of the administration, will be presented to full Council at their meeting on 17 February 2022. Proposed budgets will have first been reviewed by service committees.
- 1.4 This strategy represents the first stage of the budget setting process for 2021/22 and many of the figures involved will be subject to significant review in the coming months before final Council budget approval. As stated at 1.2 this will include any adjustments as necessary for the impact of Covid. An indicative draft Medium-Term Financial Plan (MTFP) is shown at Appendix A showing the assumptions at the current time,
- 1.5 At its meeting in October 2021 the Council will also be considering the new Council Plan for adoption. If adopted these will set out the priority projects and commitments for the Council over the next five years. As part of the budget setting process, consideration will be given to ensure sufficient sums are in place to fund these projects.

2. General Fund Budget Strategy and Medium-Term Financial Plan Funding Projections

- 2.1 The current financial year represents a period of a one-year financial settlement from Central Government with no clarity over the position after 2021/22. Council noted this uncertainty when agreeing the current MTFP in February 2020.
- 2.2 Central Government has recently confirmed its intention to announce the results of a three-year spending review, to cover the period up until 2024/25, on October 27th, 2021. Local Government funding is usually not explicitly covered by Central Government reviews; however, they are dictated in part by the funding available for the Ministry of Housing, Communities and Local Government and therefore the spending review is a key milestone. The impact of the review on local government may not be known until the Provision Settlement, expected in December. The following paragraphs and tables set out what is anticipated at this point but much of the information is provisional until the settlement is received.
- 2.3 The "Fair Funding Review" to reallocate local government funding across the sector is still technically scheduled for 2022/23. However, there has been no recent consultation on the proposals and although theoretically possible it would seem to be very unlikely for it to be implemented in time for next year. More details will be known later in the Autumn.

New Homes Bonus

- 2.4 As with the previous years, 2021/22 has again seen one additional year of New Homes Bonus growth awarded as part of the roll over settlement giving a total grant of £880k in the current year. This grant has declined for some years having reduced from £3.2m in 2016/17.

- 2.5 The only expected payment in 2022/23 is £218k representing the final payment of the four years of award of the 2017/18 housing growth. Confirmation that this grant will be honoured won't be available until the settlement but as all previous legacy payments have been honoured it has been included at this point. Additional one-off reward payments, as awarded for the last two years, have not been included in the MTFP.
- 2.6 Earlier in 2021 Central Government consulted on various possibilities for the future of a New Homes Bonus Scheme. SDC was among those who responded to the consultation. As yet, there has not been a Government response to the feedback received and therefore no further details are known. For the purposes of this Strategy it is assumed that the NHB will cease after the final payment in 2022/23. A replacement scheme is possible but there is no certainty on any funding which may be removed through such a scheme.
- 2.7 The table below sets out the amounts of New Homes Bonus within the draft MTFP.

Table 1 – NHB Forecast 2021/22 to 2024/25 (MTFP assumption)

	2020/21	2021/22	2022/23	2023/24	2024/25
Year of Reward	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
2015/16	238				
2016/17	337	337			
2017/18	218	218	218		
2018/19	538				
2019/20		225			
TOTAL NHB	1,331	880	218	0	0

Business Rates

- 2.8 The level of business rates income permitted to be retained by the Council is closely linked to the local authority financial settlement. It is through setting the baselines of retained rates that Central government can allocate this taxation income across the Country.
- 2.9 Stroud as an area has benefited from considerable growth above the baseline of expected rates since the retention system was introduced in 2013. For context the current baseline of retained growth is £2.4 million, yet the income included within the MTFP is £4 million.

- 2.10 It is for this reason that SDC is particularly vulnerable to the planned “reset” of baselines across the country as much of the growth against baseline would likely be redistributed elsewhere and a new baseline calculated. A baseline reset was anticipated in 2022. There has been no firm news to the contrary therefore the figures for business rates have been left unchanged from the February MTFP. Further details can be expected in either the October spending review or the Local Government Settlement.
- 2.11 However, with the timescales involved it seems increasingly unlikely that any reset will occur in 2022. The Council's funding advisors are currently modelling on the basis of a one-year delay to the reset of business rates growth. For information purposes only, the table shows the impact that this would have over the life of the MTFP

Table 2 – Impact of a delay to rates reset

Business Rates Retained	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	Total (£'000)
Current MTFP	4,077	2,287	2,333	2,379	2,439	13,515
Delayed reset	4,077	4,806	2,466	2,568	2,642	16,559

- 2.12 The businesses rates base in Stroud has held up well in Stroud during the pandemic, albeit with an increased level of arrears which were provided for in the 2020/21 accounts. What was also seen in 2020/21 was large deficits in the collection fund for both Council Tax and Business Rates. These were largely compensated for by central government and sums held in an earmarked reserve to protect the Council's position. The MTFP has been updated to transparently reflect the unwinding of both the deficit and the earmarked reserve over three years. This has no overall net impact on the financial position.
- 2.13 Within the overall business rates retention system, the rates collected by renewable energy facilities within the District is retained 100% by this Council and is not redistributed elsewhere. The amount collected from such facilities has greatly increased in recent years from £107k in 2018 to £358k in 2021. Previously these amounts have been presented as part of overall rates in the MTFP. However, they have now been split out. This allows a greater transparency on rates collected through this method and gives greater visibility to increases in renewable energy generation across the district.
- 2.14 The Gloucestershire Business Rates Pool is continuing in 2021/22 and at the early monitoring stage a pool gain of £500k is predicted for Stroud. This is not included in the base MTFP as sums to be retained are unpredictable and vary depending on rates collected across the County.
- 2.15 If the businesses rates baseline is reset, then the financial incentive for pooling is removed and the Gloucestershire Pool will not continue. MHCLG have recently written to

Stroud as pool lead asking for an indication by October 8th as to whether the pool members wish to proceed. Section 151 Officers across the County agree that pooling should continue based on current arrangements. Members are asked to endorse this approach. If the Local Government Settlement makes pooling unfavourable then we can choose to revoke the pool at that point.

Council Tax

- 2.16 For the current financial year the Council was limited to, and applied, a Council Tax increase of £5 for a Band D property. There have been no announcements as to potential limits in future years and so a limit of £5 has been assumed for each year of this Strategy. The final budget proposals to Council will include a recommendation to increase Council Tax by the referendum limit. With inflation currently increasing this is a vital part of the financial resilience of the authority.
- 2.17 For the current year the growth in the Council Tax base was 1.17% which was lower than in previous years. This was a result of an increase in the number of claimants of local Council Tax support. The level of claims has actually slightly decreased to date in the current year and therefore the Council Tax base growth included in the Strategy is 1.5% as in previous years.
- 2.18 As anticipated at the time of Budget Setting in February the final position for the Council Tax collection fund was a deficit as income had fallen lower than anticipated in the 2020/21 year as a result of the Covid. The SDC deficit was estimated at that point to be £120k and the collection is spread over 3 years as permitted by Central Government. This adjustment is shown in Appendix A. The actual year end deficit for SDC was £175k and the MTFP has been adjusted to reflect this.
- 2.19 Central Government compensated Councils for 75% of lost Council Tax income in 2020/21. The amount received for SDC was £120k. This was included in the year end collection fund smoothing reserve which will be used to fund the deficits.

Lower Tier Services Grant

- 2.20 District Councils have received additional grant funding in 2021/22 to reflect the cost of providing lower tier services. The allocation for SDC was £105k. There has been no indication that this grant will continue and therefore it is not included in the MTFP after the current year.

3. Budget Assumptions

Pay and Price Inflation

- 3.1 Inflation linked increases will be added to budgets for spend with external partners. At the time of writing the CPI inflation rate in the UK is 3.2% and is expected to increase further in the Autumn. This Budget Strategy and Draft MTFP plans to allow for annual

inflationary increases of 3% on contract sums but this will be updated to reflect the September CPI during the budget setting process.

- 3.2 Considerable inflationary pressure is expected on utilities where changes in wholesale markets have led to large increases in the price of energy. The Council's contracts are due for renewal in October 2022 and further adjustments to the budget may be required at that time. Insurance is a further area where increases are expected for both the General Fund and the HRA.
- 3.3 The biggest contractual partner for General Fund budgets is Ubico and discussions have already begun on the level of budget for next year.
- 3.4 Inflation will not be included on budgets which are not related to salaries or contracts. It is anticipated that efficiencies will be used to maintain expenditure within existing budgets. This approach represents a small but significant way that the Council can achieve some real terms savings in expenditure.
- 3.5 There has been no agreement on the local government pay award for the current year of 2021/22. A final offer of 1.75 on most grades has been rejected by Unions. The budget for this year assumed an increase of 1%, in line with government expectations on public sector pay. Therefore, when an agreement is reached there will be additional cost over and above budget for both the HRA and General Fund. At the present time this cost is estimated as £73k for the General Fund and included in the MTFP estimates accordingly.
- 3.6 With the fact that there is yet no agreement on the 2021/22 pay award this of course means that there is no indication as to the level of award in future years. For the purposes of the draft MTFP this has been included at 2.5%.
- 3.7 It has been confirmed that the rate of employer's National Insurance contributions will increase in 2022/23. The increase is 1.25%. This is for one year only but will then be replaced by a new Health and Social Care Levy of 1.25% which is to be ringfenced for Health and Social Care spending. The increase to the NI percentage and subsequent new tax are expected to cost the Council £130k p.a. It is possible that the local government settlement will include funding for Councils to meet this cost but at this point in time that has not been confirmed.

Local Government Pension Scheme

- 3.8 Currently the Council is part way through a three-year period in which the local government actuary has determined that the level of contribution into the Gloucestershire Pension Fund should be reduced. This will continue into 2022/23. After that point the MTFP assumes that the level of pension contribution will remain stable with no further fluctuation after that point. There will be a further actuarial valuation at the end of this period to determine the level of future contributions.
- 3.9 At the point of a further actuarial valuation the Council will again seek to gain savings through the up-front payment of pension contributions. This has previously been achieved successfully but was not taking up at the start of the current valuation period as a result of the cash flow uncertainty at the start of the pandemic.

Interest Rates & Investment Income

- 3.10 As part of their pandemic response the Bank of England reduced the base rate of interest to 0.1%. It is unlikely that there will be any increase in this during the upcoming financial year. As reported previously in the MTFP this has a budget impact on SDC as large cash balances are often held. As the budget was adjusted in February 2021 no further adjustment is required at this stage.
- 3.11 The Council currently has four investments totalling £10 million in pooled funds covering both property and multi-asset funds. These have a higher level of risk as unlike other investments they are exposed to variations in capital value. These have consistently achieved higher rates than the traditional investments and capital values have not decreased in the last year. Through the Treasury Management Strategy process opportunities will be explored to increase the level of yield, without unduly threatening the security of investments.

Fees & Charges

- 3.12 It is now a standard part of our budget setting procedures that full Council approves a comprehensive list of fees and charges to be levied by the Council for services in the upcoming year. This is good practice both in terms of financial efficiency and transparency.
- 3.13 The level of increase in fees and charges was set at an average of 2% at the current year's budget setting decision. This introduced an extra £66k per annum into the MTFP.
- 3.14 As previously discussed in this report the level of CPI inflation is expected to be higher in the current year. It is therefore proposed that all fees and charges, including car parking, are increased by the level of inflation as per the September CPI. For the purposes of the draft MTFP this is estimated as being 3%. This is estimated to allow for income growth of £120k per annum
- 3.15 Income Streams are recovering from the pandemic, but this process may take some time. Where necessary, income budgets will be adjusted for Covid impact during the detailed budget setting process.
- 3.16 The table below gives a summary of the main assumptions included within the Budget Strategy.

Table 3 – Assumptions included within the Strategy

	2022/23	2023/24	2024/25	2025/26
Band D Council Tax Increase	£5	£5	£5	£5
Tax Base Increase	1.5%	1.5%	1.5%	1.5%
Contract Inflation	3%	2%	2%	2%
Pay Inflation	2.5%	2.5%	2.5%	2.5%
Fees and Charges Growth	3%	2.5%	2.5%	2.5%

Borrowing and Minimum Revenue Provision (MRP)

- 3.17 The General Fund requirement for borrowing to fund past capital works currently stands at £15.202 million (increased from 14.647 million the year before). This creates a need for a Minimum Revenue Provision (MRP) to repay that borrowing. This was budgeted at £1.010 million in 2021/22.
- 3.18 The current budget strategy allows for increases of MRP in line with the borrowing included in the capital programme. The budget setting process will further review the level or provision required over the life of the MTFP. Where possible the capital reserve will be used instead of borrowing to limit MRP exposure.
- 3.19 This strategy does not consider the detail of the capital programme which will be included within the full budget report.

Longer Term Budget Adjustments

- 3.20 The following paragraphs set out those items in the draft MTFP which represent significant changes to the budgets which have previously been approved by Council. Expected changes to the budget are all shown in Appendix B. These are early estimates at this stage and further work will be carried out through the budget setting process.
- 3.21 Further budget is likely to be needed to meet the shortfall on housing benefit subsidy claims, as reported previously to this committee in the outturn report. This is principally for supported accommodation. There is a higher rent allowable for supported accommodation, however, if the cost of housing is significantly higher than the amount allowable under housing benefit this cannot all be claimed back through housing benefit subsidy. This means that the excess cost falls back to be met by the General Fund. As the cost and number of placements has continued to be increased an additional budget allowance of £200k has currently been estimated.

3.22 The Fit for the Future Programme has continued to progress using the funding previously allocated. This was from the IT capital budget, including for a digital platform, and the modernisation reserve which was established to fund the programme. As the programme develops there are likely to be additional costs identified as the Council transitions to new ways working beyond the initial implementation stage. Two additions are considered likely at this stage. The first is an allowance for IT software and the second is for a permanent resource to promote good organisational development throughout the Council. The organisational development resource is being provided by consultants in the early stages but that cannot be a permanent solution. Additions of £50k and £60k respectively have been made for these items at this draft stage.

3.23 The MTFP still includes projected savings from the modernisation programme. In the initial stages this is likely to be through vacant posts. As the programme develops service efficiencies are expected to deliver savings. The current target of £1m has been included from the existing MTFP and will be reassessed as needed if a long-term financial settlement is received.

4. General Fund Medium Term Financial Plan

Financial Resilience and Use of Reserves

4.1 The Council continues to use an equalisation reserve to manage the General Fund budget over the medium term and this remains a fundamental part of the Budget Strategy.

4.2 In the 2021/22 budget an estimate was made for the impact of Covid of £1.54 million, partially offset by government grant of £978k. No further government support is expected and at this stage no Covid adjustments have been made to the budget. This will be reviewed throughout the budget setting process with detailed analysis of expenditure and income streams.

4.3 The balance of General Fund earmarked reserves, excluding the capital reserve and collection fund smoothing reserve, at the end of 2019/20 was 16.37 million (2019/20 £13.94 million), including the £6.85 million General Fund equalisation reserve. This is in addition to the General Fund balance of £2.169 million which this Strategy recommends be held at that level.

4.4 The Business Rates Risk Reserve remains a core part of the MTFP in smoothing the impact of the potential Business Rates reset. The balance on this reserve was £2.49 million at the end of 2020/21 after £600k was added in line with the agreed budget. It had previously been reported to Committee that the transfer was at risk as a result of the pandemic, but that risk did not materialise. Council has agreed to £500k in 2021/22 in preparation for the rates reset and the balance is then released over the remainder of the MTFP.

4.5 The S151 Officer has reviewed the reserves as part of the outturn process, and they were also agreed by Strategy and Resources Committee. The level of Reserves is deemed to be sufficient at this stage.

- 4.6 The Council has been managing its budgets through a series of single year settlements and delayed reviews of Local Government finance. These have made longer term budgeting difficult but in the interim period the Council has continued to invest in priority projects, usually for fixed terms. At the same time the reserves which protect the Council against short-term financial shocks have been maintained, even through the pandemic. If, as hoped, a longer-term settlement is received this may include a reduction in funding as has been anticipated by the MTFP.
- 4.7 If these further funding reductions are realised this will be the point at which clear decisions must be made to reduce costs or grow income. This must be done with the intention of bringing anticipated expenditure in line with anticipated income. This must be a whole Council effort including members across all committees and officers across the Council
- 4.8 The table below shows the current forecast of General Fund equalisation Reserve over the life of the draft MTFP.

Table 4 – Forecast level of General Fund equalisation reserve

	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000
Estimated Surplus / (Deficit)	(104)	(1,359)	(1,803)	(1,020)	(1,270)
GF equalisation reserve					
Opening	6,846	6,742	5,383	3,580	2,389
Change	(104)	(1,359)	(1,803)	(1,191)	(1,270)
Closing	6,742	5,383	3,580	2,389	1,119

5. Housing Revenue Account (HRA)

- 5.1 HRA balances and reserves at the end of 2019/20 were relatively robust at £4.611 million in general reserves and £5.668 million in earmarked reserves. In common with the General Fund, the Housing Revenue Account (HRA) faces financial pressures over the medium-term plan period.
- 5.2 The proposed Budget and Rent Setting 2022/23 Report will be presented to Housing Committee in December, followed by Strategy and Resources Committee in January 2022 and Council in February 2022.

- 5.3 2022/23 is the third year of permissible rent increases of Consumer Price Index (CPI) +1% following the four-year rent reduction set out in the Welfare Reform and Work Act 2016. Based on national rent guidance, rents are assumed to increase by CPI +1% for a further two years after 2022/23.
- 5.4 CPI had been included in the MTFP and 30-year position at an assumed rate of 2%, in line with the Bank of England target rates. Following a very low inflationary uplift for 2021/22 (CPI of 0.5% + 1% = 1.5%), a revised rate of 1.6% (which would give rent increases of 2.6%) had been included in the MTFP for 2022/23 only. The latest reported figures (August 2021) show CPI at 3.2%. Should rates remain at this level rent increases of up to 4.2% would be allowable under the rent regulations. The inflationary uplift for rents is set using September CPI, which will not be available until 20 October 2021.
- 5.5 The total net borrowing incurred for the HRA is currently £101.947million. All the external debt is at fixed rates and so there will be no fluctuations in interest payments for current borrowing over the medium term. There may be opportunities to re-schedule the debt to take advantage of lower rates and this will be kept under review. Of the borrowing, £4.230 million is internally borrowed (net of existing provisions made for the repayment of debt). This utilises HRA balances and lowers interest payments over the short term. This position will continue to be reviewed as balances reduce and borrowing increases, in line with the Treasury Management Strategy.
- 5.6 The HRA MTFP currently includes an annual contribution towards repaying borrowing. This base amount will increase by inflation each year, with additional amounts added to reflect any new borrowing.
- 5.7 Following the decision of a preferred option of retrofit works to council housing stock by Housing Committee in September 2021, the MTFP and 30-year position will be updated to include the additional cost. The option of increasing the average SAP rating to C, will have additional borrowing required of approximately £18million over seven years.
- 5.8 This additional cost will need to be funded through new savings, or additional income, with an indicative savings target required of £900k per year (assuming that the borrowing will be repaid over 30 years). These savings would not need to be found in year one of the MTFP but could be phased in over the MTFP period to allow for a period of change.
- 5.9 The HRA will also be affected by pay and price inflation as set out in section 3 of this report. In particular price inflation, public sector pay (including the increase of 1.25% in National Insurance contributions), and the cost of utilities and insurance are expected to increase significantly. Where these costs are incurred for service charge areas, such as independent living or shared communal areas, these cost increases would impact the service charges to tenants, in order to cover the cost of the service being provided.
- 5.10 Overall, the medium and long position of the HRA is under significant financial pressure, with the additional retrofit works and external cost pressures. An increase in rents and charges in line with the rent regulations would help support this, but it is expected that new savings will need to be found. It may not be possible to identify savings to fund the full extent of the pressures during this budget round. Any remaining

savings needed would remain in the MTFP as a savings target, which would need to be allocated to specific savings at a later date.

6 RISKS

- 6.1 All of the figures in this report are estimates and there is a clear risk that final outcomes will differ. The budget monitoring process will review things as the year progresses.
- 6.2 If the long-term impact on budgets of the pandemic is greater than anticipated a further revision of the MTFP will be required including measures to bring Council expenditure in line with the funding available.

7 IMPLICATIONS

7.1 Financial Implications

The whole report is of a financial nature.

Andrew Cummings, Strategic Director of Resources
Email: andrew.cummings@stroud.gov.uk

7.2 Legal Implications

There are no legal implications arising from the recommendations made in this report

One legal
Email: legal.services@onelegal.org.uk

7.3 Equality Implications

An EqIA is not required because no changes to service levels are proposed

7.4 Environmental Implications

There are no direct financial implications to the budget strategy. The Council has identified funding to support its CN2030 Action Plan.