

STROUD DISTRICT COUNCIL
STRATEGY AND RESOURCES COMMITTEE

29 SEPTEMBER 2022

Report Title	Medium Term Financial Plan Update 2022/23 TO 2025/26			
Purpose of Report	To set out the assumptions and challenges in preparing the upcoming Medium-Term Financial Plan			
Decision(s)	The Committee RESOLVES to Approve the MTFP update 2021/22 to 2025/26 as set out in this report and appendices, including included assumptions.			
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 – Previously agreed budget changes			
Implications (Further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	No	No

1. INTRODUCTION / BACKGROUND

- 1.1 It is a standard part of the budget process for the Council to produce a Budget Strategy in the Autumn period which sets the foundations for the full Medium Term Financial Plan (MTFP) process. The Budget Strategy updates the MTFP with all the known changes and sets out the assumptions which will be used as part of the Budget Setting process
- 1.2 The Budget Strategy process for the upcoming 2023/24 years is, by necessity, less certain than at similar stages in previous years. This is a combination of the extremely high levels of economic uncertainty and a delay in communication from Central Government as to promised reforms of the local government financial system.
- 1.3 Nevertheless, it is a key part of the Council’s sound financial governance to ensure that members are updated on financial matters. Although not as detailed as in previous years

this paper informs on the current financial position and risks. The impact of all the included factors cannot be known at this stage but awareness of these matters is vital.

- 1.4 As in previous years, officers are currently reviewing all expenditure and income budgets to determine appropriate levels and identify savings where possible. This paper will include details of the current assumptions being used by officers on inflation levels and other changes to budgets.
- 1.5 As inflation is likely to be the dominating factor of this budget setting process it may be that a general allowance for inflation is used which is cross cutting across Council services. This will be determined by the detailed budget setting process.
- 1.6 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 16 February 2023. Proposed budgets will have first been reviewed by policy committees.
- 1.7 This update represents the first stage of the budget setting process for 2022/23 and many of the figures involved will be subject to significant review in the coming months before final Council budget approval.
- 1.8 Although not part of this report which focuses on the current revenue position the Capital Programme will also be reviewed in detail as part of the budget setting process. It is likely that there will need to be revisions to the programme in response to the current inflationary position. This may include allocations of existing budget for existing schemes or reductions in the number of schemes in the programme.

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

Funding Projections

- 2.1 It was originally announced in October 2021 that the settlement for 2022/23 would be the start of a three-year settlement from central government. This eventually became a one-year rollover settlement when the provisional settlement was announced in December 2021.
- 2.2 When presenting the final settlement in February 2022, the then Secretary of State Michael Gove announced that the Government would be consulting on potential funding reform. In a later statement to the LGA conference he also confirmed that Councils will receive a two-year funding settlement. With the subsequent change in Prime Minister and Secretary of State there has been no further announcement from Central Government on either funding reforms or settlement length.
- 2.3 This clearly makes long term projections of funding challenging, most significantly around the level of retained business rates. The Council has for many years used funding advisors to help with medium term projections. Their current advice is that the funding reforms, and the resultant loss of income to SDC, will now not take place for the next two years. Their current projections have been used in this update of the MTFP.

New Homes Bonus

- 2.4 The situation with New Homes Bonus is unclear. There was a government consultation on its future in early 2021 and there has been no response from Government on the consultation since that closed.
- 2.5 For 2022/23 the final year of legacy funding was paid, and one additional year of growth was also included, with the caveat that it would be paid for one year only. The additional year of legacy funding was unusually large for SDC as a result of housing growth within the District.
- 2.6 There are a number of possibilities for the future of the scheme and with no clarity it is difficult to make clear assumptions. At this stage, with no consultation having taken place for twelve months it is assumed that an additional year of growth will be paid in 2023/24, albeit at a level of £400k which is more line with growth of previous years.
- 2.7 The table below sets out the amounts of New Homes Bonus within the current draft MTFP.

Table 1 – Current New Homes Bonus assumptions	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			
2020/21			1,213		
2021/22 (and onwards)				400	400
TOTAL NHB	1,331	880	1,431	400	400

Business Rates

- 2.8 It is a key component of the Medium-Term Financial Plan of the Council that the retained business rates element of our income will drop at whatever point the anticipated fair funding review, and associated reset of business rates growth, takes place.
- 2.9 As discussed in paragraphs 2.2 and 2.3 it is now expected that this reset may not now take place for at least two further years, allowing the Council to continue to benefit from business rates growth in that time.. This will of course be updated during the budget process when details of the financial settlement are known.
- 2.10 As well as the delay in the rates reset, a key assumption included within the projected business rates income is that local authorities will continue to be fully compensated for any Central Government measures to reduce rates payable by businesses. It has been a component of the business rates system in recent years that Central Government has reduced, or indeed frozen, inflation linked increases in rates payable to businesses. This money has then been compensated directly to local authorities at the relevant rate of inflation which would otherwise have applied. The high level of inflation means that the cost to Central Government of providing support to businesses and compensating local authorities accordingly will increase greatly next year. If this element of funding is reduced it will remove a key inflationary link in the Council funding streams. Again, no details are known at this stage but are likely to be confirmed in the local government funding settlement.
- 2.11 The table below shows how the estimated retained rates are included over the life of the current MTFP and the latest estimates at this stage. The impact of the two-year delay can be seen in the fall in the increased income from 2023/24 onwards in the table below.

Table 2 – Impact of a delay to rates reset

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Business Rates Retained	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Previous MTFP	4,077	4,751	2,857	2,693	2,469	16,847
Delayed reset	4,077	4,751	5,400	5,707	4,079	24,014

- 2.12 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. Sums received are allocated by Strategy and Resources Committee as part of the outturn process.
- 2.13 As no business rates reset is expected in 2022/23 the financial incentive for pooling remains in place. The Countywide Section 151 Officer group has agreed that the Gloucestershire Pool should continue. In October 2021, the Council meeting at SDC

agreed that this authority should remain in the pool until such time as the Section 151 Officer advised otherwise, therefore our membership will continue.

2.14 As in previous years no gain from the pool is included within the base budget, due to the inherent risks of rates pooling, and any gain will be allocated in the outturn process.

Council Tax

2.15 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, whatever that is ultimately set at. With inflation currently significantly higher than this level, and still increasing, it is a vital part of the financial resilience of the authority to maximise Council Tax income. £5 would represent an increase of 2.2%, a significantly below inflation increase.

2.16 At the time of writing there are no plans to reduce the level of Council Tax Support payable which currently provides 100% support to those most in need. This inevitably has an impact on the level of income received by the Council, but it is not considered to be an appropriate time to reduce levels of support in the current cost of living crisis.

2.17 The Council Tax base growth currently being assumed is 1.5%, in line with previous years. Increases in the number of Council Tax support claimants have the impact of reducing the level of Council Tax Base and therefore lower levels of growth for future years may be possible. There is not the data to support changing assumptions at this stage, but the number of claimants will be closely monitored during the budget setting process.

2.18 The collection rate for Council Tax will also be considered as part of the budget setting process. SDC currently assumes that 99% of tax will be collected as a result of the historic high performance of tax collection. It is anticipated that collection rates may fall with the severe impact of energy prices on household finances. The most recently published figures for Stroud showed a rate which had improved after the pandemic to 98.54% (the highest in the County). The table below shows the impact of any changes in collection assumptions.

Table 3 – Collection Tax Collection

	2023/24	2024/25	2025/26	2026/27	Total
Council Tax Income	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Current MTFP (99% assumption)	10,725	11,125	11,535	12,003	45,388
98.5%	10,671	11,069	11,476	11,943	45,159
98%	10,617	11,013	11,418	11,882	44,930

2.19 The table shows that a reduction in collection assumption from 99% to 98%, would result in a fall in estimated income of £458k over the next four years. There would also be an impact upon the County Council, the Police and Parish and Town Councils as a change in SDC collection assumption affects their respective tax bases. Therefore, any change in assumption would be carefully considered using current data.

Housing Rents

2.20 Housing Rents are to be considered by the Housing committee as part of their budget setting process. Central Government have recently begun a process of consulting on a potential limit on social rent increases, with a preference of 5%. Housing rents in the existing MTFP are linked to Consumer Price Index (CPI) +1% so this would represent a significant loss of income. This is particularly the case when inflation in HRA costs, including construction and repairs is currently higher than the CPI rate suggests. In a similar situation to Local Council Tax Support those who are not able to meet the cost of Housing Rents will have those costs met by Housing Benefit.

Income Performance

2.21 At times of economic downturn, it should be expected that levels of collection will decrease for all sources of Council income including taxation and housing rents. The budget setting process will consider expected collection levels and provisions for arrears.

3. Budget Assumptions

Price Inflation

- 3.1 Issues around inflation will be the dominating factor in relation to the budget setting process. At the time of writing the CPI inflation rate in the UK is 9.9% and is expected to increase further in the Autumn, creating extreme pressure on Council budgets and those of our partners, residents, and businesses.
- 3.2 Many SDC contracts are linked to inflationary indexes as part of the process of setting annual charges. As part of the budget setting process an allowance of 10% is being added to budgets for contracts. This represents an additional cost of £896k per annum for contract costs.
- 3.3 The Medium-Term Financial Plan already includes budget for an increase of energy costs of 50% when the Council's contracts end at the end of September 2022. At the exact point of writing this report the government has announced support for businesses but the exact impact upon Councils is unclear as details on the scheme are not available. At this point in time an extra £1.1 million has been included for each of the next two years of the MTFP, reducing to an extra £600k in each of the next two years after that.
- 3.4 The contract for leisure services at Stratford Park Leisure Centre through SLM incorporates a benchmarking mechanism whereby the Council and SLM are to share 50% each of unexpected rises in energy costs. This clause would see the management fee increasing in 2023/24 to reflect higher costs incurred in the current financial year. There is no estimated figure for this at the current time, but it will be included in the budget estimates presented to the Community Services and Licensing Committee.

- 3.5 The biggest contractual partner for General Fund budgets is Ubico and discussions have already begun on the level of budget for next year. The biggest elements of variable cost in the Ubico budget are staffing and fuel so the level of increases in those budgets will be the main driver of increases in contract cost rather than CPI. At the present time an allowance of 10% has also been made as an estimate but this will be very much informed by the detailed budget setting process.
- 3.6 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 significant way that the Council can achieve some real terms savings in expenditure. The detailed budget process will also be identifying budgets no longer required and recommending them as savings.

Pay Inflation

- 3.7 It is already clear that the level of pay inflation will be significantly higher than budgeted for in the MTFP. Our current budget included an assumption of 2.5%, at the higher end of most Council's position. For information CPI at the time of writing the budget setting report was 5.1%.
- 3.8 The National Joint Council's pay offer to Councils was for a pay increase of £1,925 for all staff, regardless of grade, along with an extra day's leave for all staff.
- 3.9 As a flat figure this represents a different percentage depending on the grade of the member of staff. For information purposes it would represent a 9.6% increase for a Stroud 2 grade and 3.3% for a Stroud 9 grade.
- 3.10 The outcome of pay negotiations is not certain with Trade Unions having either rejected the claim or being in the process of consulting with their members. If accepted the claim would add an estimated additional cost over the 2.5% of £417k in the General Fund. An allowance for inflation of £370k has been made in the General Fund as part of the outcome process although the HRA would have to provide funding for its share of salary increase from the current year budgets.
- 3.11 The significant increase in staffing costs above budgeted levels will also have an impact on the cost of the Ubico contract. An allowance of £311k has been included within the outcome report.
- 3.12 Although these higher than budget increases create an in-year pressure for 2022/23 they do of course create an annual increase which continues for each year of the MTFP. As a result of the continued high forecasts for inflation pay increases of 5% for 2024/25 before reverting to 3% in 2025/26.
- 3.13 The new Prime Minister has indicated her intention to reverse increases in National Insurance for businesses, although this has not yet been taken through parliament. The Draft MTFP has been prepared upon the assumption that this cost will be removed.

Local Government Pension Scheme

- 3.14 Recently the results of the latest actuarial valuation of the position within the Pension Fund at March 31st 2022 have been received. Pleasingly this indicates a success of the

current contribution strategy with the level of estimated future assets of the fund now at 110% of estimated future liabilities. It is therefore recommended that there are no further changes to contribution levels. The updated MTFP has now been prepared on that basis.

- 3.15 The Council has indicated to the Pension Fund that we will again make up-front payment of pension contributions. This brings with it a saving, albeit one which cannot be quantified until actuarial figures are received.

Interest Rates & Investment Income

- 3.16 As part of their pandemic response the Bank of England reduced the base rate of interest to 0.1% resulting in a considerable reduction in investment income. As a result of the Bank of England's response to inflation there have been a number of changes to the base interest rate which currently stands at 1.75%, with a further rise expected in the coming weeks. Additional income has been factored into the MTFP at this stage but there is a corresponding increase in borrowing costs as a result of the borrowing incurred to fund the capital programme.

Fees & Charges

- 3.17 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.
- 3.18 The level of increase in fees and charges was set at an average of 3% at the current year's budget setting decision. This introduced an extra £102k per annum into the MTFP.
- 3.19 The setting of fees and charges is recognised as a key area of the budget setting process. The Council's approved fees and charges policy sets out that fees and charges are "*a significant source of income that supports the delivery of the services. If the Council were to reduce or stop charges for services, it would not have the resources to continue providing all of the services it currently offers*". With the significant increases reflected in both pay and general inflation this will require the Council to either raise fees and charges in line with inflation, reduce the level of service provided, or provide a subsidy from the general Council budget.
- 3.20 The draft budget will be prepared on a general assumption of increasing all fees and charges, including car parking, by 5%. When considering fees and charges service committees may choose to lower the level of increase, with a corresponding impact on budgets. This overall level of increase in fee income will see additional revenue of £185k. It should be recognised however that this below inflationary increase effectively requires a subsidy from the general fund to chargeable services of approximately £180k. Individual committee budget papers will contain sufficient information to allow appropriate consideration of the impact of varying charging levels from this average.
- 3.21 The table below gives a summary of the main assumptions included within the budget process at this early stage.

Table 4 – 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%	10%	5%	3%
Pay Inflation	2.5%	£1,925	5%	3%
Fees and Charges Growth	3%	5%	5%	3%

Borrowing and Minimum Revenue Provision (MRP)

- 3.22 This strategy does not consider the detail of the capital programme which will be included within the full budget report. However, it should be recognised at this stage that inflation is already causing significant cost increases in capital works. Strategies to mitigate this impact could include reducing the scope of planned capital works, increasing the number of years over which borrowing is repaid or changing the funding allocated to the programme.
- 3.23 This is likely to have a considerable impact upon the HRA with costs of retrofit works, the building of new homes, and enhancement works to existing stock all increasing. The impact of this will be considered in the budget setting report to the Housing Committee.
- 3.24 Where capital works are funded by borrowing the rise in interest rates will see an increase in the cost of borrowing. This will be included as a budget pressure in both the General Fund and Housing Revenue Account as appropriate.

Longer Term Budget Adjustments

- 3.25 At this stage it is not possible to make any longer-term projections on additional budget required or savings needed to stabilise the medium-term financial position. This will be set out in the final budget papers to Committee. The budget setting process at officer level will include an enhanced level of robust challenge as to appropriate levels of budget required and possible savings.
- 3.26 All previously agreed savings, including the end of fixed term projects, are assumed to be proceeding as planned. For information purposes the agreed changes to the MTFP for future years, as agreed in February 2022, is reproduced again at Appendix B. The only change to this document has been the updated forecasts for investment income and borrowing based on the current interest rate position.
- 3.27 The MTFP still includes projected savings from the “Fit for the Future” modernisation programme. The tracking of these savings forms part of the budget monitoring process. The programme includes a process to identify improve and modernise business process to ensure the community is at the heart of Council activities. It is anticipated that the required savings will be facilitated through this process.

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 The balance of General Fund earmarked reserves, excluding the capital reserve and collection fund smoothing reserve, at the end of 2021/22 was £17.2 million (2020/21 £16.37 million), including the £6.85 million General Fund equalisation reserve. This is in addition to the General Fund balance of £2.169 million which the S151 Officer recommends be held at that level.
- 4.3 The S151 Officer has reviewed the reserves as part of the outturn process. The level of Reserves is deemed to be sufficient at this stage.
- 4.4 This budget setting process will be dominated by managing the impacts of the high inflationary environment. The key focus will be in ensuring the financial resilience of the authority in the medium term. Existing funds reserved for Council Plan projects and supporting the community through cost-of-living projects will be protected but there is likely to be limited scope for adding additional projects.
- 4.5 The environment of continued uncertainty around the future of local government funding will also likely be maintained throughout this period. The Council is making good progress on delivering savings through the fit for the future programme but in the absence of longer-term funding support a wider programme of savings and consideration of service priorities will likely be required.

5. Housing Revenue Account (HRA)

- 5.1 As set out in this report there are significant cost pressures expected over the short and medium term.
- 5.2 The previous MTFP showed that savings of £1million per annum would need to be found in order to balance the long-term position of the HRA, including funding the identified retrofit works to increase the average SAP rating to C.
- 5.3 Costs are expected to rise significantly in 2022/23 and 2023/24. Cost increases above the existing approved budget, which are expected for salaries, utilities, insurance and labour and materials, will need to be funded from HRA general reserves in 2022/23.
- 5.4 It is assumed that costs will continue to rise in line with the budget assumptions set out in this report. Additional work will be undertaken to establish the cost of repairs and maintenance, major works including the retrofit programme, and new build. At this point it is expected that many of these costs are rising by more than the cost of inflation which will put further pressure on the HRA.
- 5.5 The potential capping of rents at 5% (para 2.20) would have a significant impact on the financial stability of the HRA. Based on CPI of 9.9% (as at August 2022), this represents a reduction of 5.9% from the previously allowed rent increase of CPI plus 1%. Since this one-year reduction would be carried forward in the base rents each year,

over the 30 years of the HRA financial model this one-year rent cap would reduce income by approximately £47million.

- 5.6 This below inflationary increase in income, combined with expected above inflationary uplifts on some of the major costs is expected to increase the budget gap in the HRA significantly and limit what can be delivered within the available funding.
- 5.7 The HRA has external borrowing of £97.7m. This is all at fixed rates and so will not be affected by an increase in interest rates. The HRA also has internal borrowing of £9.9m. This is where available balances are utilised to fund expenditure temporarily to prevent paying interest charges. Additional borrowing of £38.7m is currently included for retrofit works and new build. However, this amount is expected to increase with an increase in the cost of works and building. This, together with an increase in interest rate, means that the cost of borrowing will also increase.
- 5.8 Since 2019/20 an annual amount has been put for the repayment of borrowing when it becomes due. There is currently £2.8m set aside for this purpose, of which £1.9m is in earmarked reserves.
- 5.9 There is currently £4.56m in HRA general reserves. This is comfortably above the minimum recommended balance of £1.6m, and these reserves can be used to fund the service over the short term. There is also £6.79m in earmarked reserves. It may be necessary to review and redistribute the balances held in reserves over the short term.
- 5.10 Overall, the medium- and long-term position of the HRA is under considerable financial pressure from increases costs and capped income. It is not expected that the long-term financial position will be balanced, and action will be required to mitigate the pressure.
- 5.11 Areas of consideration will include
- Reviewing the level of capital works, including major works such as kitchens and bathrooms, as well as the retrofit programme
 - Reviewing revenue repairs, cyclical works, and the lettable standard for void properties
 - Establishing the level of service offered to tenants through the Tenancy Management and Income teams
 - Reviewing service charges to ensure that the cost of providing additional services is recharged to tenants where appropriate
 - Maximising grant and other income, especially for the retrofit programme
 - Reviewing the repayment of borrowing.
- 5.12 Given the cost increases and limited income generation, it can be expected that significant changes will need to be made to ensure a financially stable and sustainable HRA.

6 RISKS

- 6.1 This budget process will be making a number of significant assumptions on inflationary changes to both costs and income. Any differences between assumed and actual levels

of inflation will represent a risk to the MTFP. All assumptions made will be clearly stated in the relevant budget papers.

- 6.2 The provisional local government financial settlement is expected to be announced in December. The details of that settlement, both short and medium term, will have a major impact upon the MTFP.

7 IMPLICATIONS

7.1 Financial Implications

The whole report is of a financial nature.

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7.2 Legal Implications

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

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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.