

SOUTH STAFFORDSHIRE COUNCIL

OVERVIEW AND SCRUTINY

THE COUNCIL'S MEDIUM-TERM FINANCIAL STRATEGY 2024/25 – 2028/29 AND 2024/25 BUDGET. OUTLOOK AND INDICATIVE FIGURES

REPORT OF THE FINANCE TEAM MANAGER (AND INTERIM 151 OFFICER)

LEAD CABINET MEMBER – COUNCILLOR ROGER LEES, LEADER OF THE COUNCIL

1. Summary

- 1.1 Council approved the budget for 2023/24 and Medium Term Financial Strategy (MTFS) 2023/24 to 2027/28 on 21st February 2023.
- 1.2 In setting the Council Tax for 2023/24, the report acknowledged considerable uncertainty in the latter years of the MTFS, particularly with regards to the timing and impact of any fundamental changes to local government financing from central government.
- 1.3 The position presented at that time showed the General Fund Reserves of the Council falling below minimum safe levels (of £1.5m) in 2026/27.
- 1.4 The budget for 2024/25 and MTFS for 2024/25 to 2028/29 will be formulated on best knowledge and understanding of a number of external factors and internal decisions around costing, priorities and service provision.
- 1.5 In depth analysis of the internal factors is ongoing but some greater clarity is starting to emerge in relation to the prevailing external factors, certainly in the shorter to medium term. This report informs members of the potential budgetary impact surrounding some of these major factors.

2. Recommendations

- 2.1 It is recommended that Overview and Scrutiny note the broad economic and external climate that could precipitate the best, worst and likeliest scenarios presented.
- 2.2 Overview and Scrutiny to also note the potential impact of identified and provisionally costed external factors on the General Funds of the Council, notwithstanding that these are indicative and internal policy prioritisation remains ongoing.

3. Summary Impact Assessment

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The budget is the financial expression of the Council's priorities and therefore underpins the Council Plan.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	Budget / MTFS assumptions and forecasts do not impact on equality issues.
SCRUTINY POWERS APPLICABLE	Overview & Scrutiny Committee on 26 September 2023	
KEY DECISION	No – Council decision	
TARGET COMPLETION/ DELIVERY DATE	February 2024 for approval of the MTFS and setting of Council Tax	
FINANCIAL IMPACT	Yes	As set out in the report.
LEGAL ISSUES	Yes	<p>The Council has a legal obligation to set a balanced budget (s32 of the Local Government Finance Act 1992) and must make three calculations namely:</p> <ul style="list-style-type: none"> • an estimate of gross revenue expenditure; • an estimate of anticipated income; and • a calculation of the difference. <p>The amount of the budget requirement must be sufficient to meet the Council's budget commitments and ensure a balanced budget. The 2024/25 budget requirement must leave the Council with adequate financial reserves. The level of budget requirement must not be unreasonable having regard to the Council's fiduciary duty to its Council Taxpayers and non-domestic rate payers.</p> <p>A lawful Council Tax is required to be made on or before 12 March 2024.</p> <p>Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'.</p>
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	<p>The relevant risk (per the Strategic Risk Register) is:</p> <ul style="list-style-type: none"> • Budget pressures, increased income volatility and uncertainty as to the future of local government finance – The budget, the MTFS and the financial stability of the Council is severely impacted by reductions and/or changes in the way in which local government is financed.
IMPACT ON SPECIFIC WARDS	No	

4. **Background**

Continuing levels of uncertainty

- 4.1 The Medium-Term Financial Strategy (MTFS) puts in place a strategic approach to the planning of the Council's resources and provides the framework for the planning of the Council's revenue and capital spending each year via the annual budget. The MTFS, once approved will cover the five years 2024/25 to 2028/29 and highlight the various financial challenges facing the Council over this period.
- 4.2 The underlying economic context remains challenging. There is greater certainty in relation to local government funding ahead of the next General Election (which will be on or before January 2025) and perhaps for a year following the election of a new administration. Beyond that however, local government funding remains uncertain.
- 4.3 There are four parameters outside of the control of South Staffordshire Council that could potentially have a material impact on the finances of the Council, these being:
- The level of interest rates as set by the Bank of England and impacting on the Council's ability to raise revenue through Treasury activities.
 - The level of inflation and the impact the cost of living crisis may have on pay levels awarded to employed staff and the impacts of contractual inflation for services outsourced.
 - The Local Government Finance settlement, particularly from 2026/27 onwards should a new administration embark on any fundamental reforms.
 - Significant economic developments within the locale (in particular West Midlands Interchange and Royal Ordnance Featherstone) have the potential to yield significant Business Rate income if developed and occupied as planned.
- 4.4 Whilst none of the above are directly in the control of the Council, it is possible to envisage the broad circumstances that would be prevailing in what is identified as the Best, Worst and Medium case scenarios that could significantly impact on budgets.
- 4.5 Table 1, Description of Prevailing Conditions in Each Scenario

	Best Case	Worst Case	Medium Case
Interest Rates	Interest Rates and Reserve Balances Remain at or close to current levels enabling material returns to bolster the MTFS	Interest Rates fall significantly in the medium term and/or council reserves are depleted significantly reducing the ability of the Council to gain from Treasury activity.	Interest Rates fall gradually in line with current Monetary Policy Committee (MPC) projections. Reserves are maintained at a sufficient level to maintain good returns from Treasury activity

Inflation	Inflation falls rapidly reducing pressure on pay awards and contracts	Inflation pressures persist and become embedded in the economy. Ongoing pressures on pay and external contracts, not funded through Local Government settlement.	Inflation falls in line with current MPC projections. Pay pressures are contained within resources (including Earmarked Reserves). Specific pressures to significant contracts (eg Waste and Fleet) may remain.
Local Government Settlement	Assumed settled for 2024/25,2025/26 and 2026/27. Future settlement makes no or neutral changes to funding parameters.	Assumed settled for 2024/25 and 2025/26. Future settlement makes radical changes to funding favouring single tier authorities over districts to South Staffordshire's detriment.	Assumed settled for 2024/25 and 2025/26. Acknowledged that any future settlement may see a rebalancing away from district Councils but that transitional arrangements will reduce any medium-term impact.
West Midlands Interchange/ Royal Ordnance Featherstone	New businesses (and multiplier effects) arise following the commencement of, eg WMI and development of ROF. Business Rate regime allows South Staffordshire to benefit directly from growth.	Economic conditions prevent or delay take up by new businesses of opportunities at eg WMI/ ROF. Changes to business rate regime mean any additional resources do not benefit South Staffordshire.	New businesses (and multiplier effects) arise following for example commencement of WMI and development of ROF. Any alterations to business rate regime are staggered to enable some, significant benefit to South Staffordshire finances.

- 4.6 Consistent with previous years, the intention shall be to construct the Medium Term Financial Strategy (upon which Council Tax decisions are based) on the mid-case scenario. Where the finances are particularly sensitive to future conditions, sensitivity analysis, informing members of the impact of different outcomes will be published in the text for information.

5. Indicative Financial Position

- 5.1 Table 1 below is reproduced from the Budget and MTFS approved by Full Council in Feb 2023.

Table 1, MTFS as presented to and approved by Full Council.

General Reserve Balances**	2022/23	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	BUDGET	FORECAST OUTTURN	PROJECTED BUDGET	PROJECTED BUDGET	PROJECTED BUDGET	PROJECTED BUDGET	PROJECTED BUDGET
Opening Balance 1st April	(9,296)	(9,296)	(8,361)	(6,589)	(5,269)	(3,297)	824
Forecast (Surplus)/ Deficit		2,685	1,772	1,320	1,972	4,122	4,676
Transfers to (from) Earmarked		(1,750)					
Closing Balance 31st March	(9,296)	(8,361)	(6,589)	(5,269)	(3,297)	824	5,501

- 5.2 Whilst showing balanced budgets for three years (using General Fund reserves) it can be seen that there are deficits prevailing for all years of the MTFS and General Funds would fall below minimum decreed safe levels (of £1.5m) in 2026/27.
- 5.3 Table 2 below shows how the deficits projected in February 2023 may change as a result of external factors which are presently favourable to the Council.

	2023/4	2024/5	2025/6	2026/7	2027/8
	£'000	£'000	£'000	£'000	£'000
Forecast Deficit (Feb 2023)	1,772	1,320	1,972	4,122	4,676
Latest Monitoring	(45)				
Revised Treasury Forecasts		(200)	(100)		
Impact of delayed Local Government Finance Reviews				(1,500)	(1,500)
Impact of Additional Business Rate Growth		(119)	(722)	(2,405)	(4,325)
Revised Deficit/ (Surplus)	1,727	1,001	1,150	217	(1,149)

- 5.4 To reiterate, the above Table does not take into account ongoing detailed work around future years' service budgets, specific inflationary impacts and Council policies and priorities which are being costed. However, it does provide a broad indication that ongoing delays to local government finance reform in particular may significantly benefit the General Fund of the council in the medium term. Balanced budgets (without recourse to reserves) may be achievable from 2026/27.
- 5.5 Table 3 below indicates how the position detailed in Table 2, if transpiring, would impact on General Fund reserves (with all caveats still applying).

Table 3, Most Likely Indicative Financial Position

	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000
General Fund Opening Balance	8,672	6,945	5,944	4,794	4,577
Adjusted Budget Deficit/ (Surplus)	1,727	1,001	1,150	217	(1,149)
General Fund Closing Balance	6,945	5,944	4,794	4,577	5,726

Note that Opening Balance in 2023/24 differs from Table 1 further to betterment in provisional outturn.

- 5.6 Table 3 above shows General Fund reserves not falling below £4.5m and being replenished if budget surpluses can be achieved from 2027/28.

6. Timetable

- 6.1 The process for completing the MTFS and Budget shall be completed according to the following timetable:

12th September 2023 Cabinet – Indicative Figures pre-detailed analysis
 26th September 2023 O&S – outline of timetable, process and key issues
 September and October 2023– detailed analysis by Accountants/Service Managers
 November 2023 Cabinet – RPP
 November 2023 Member RPP forum
 December 2023 Local Government Finance Settlement
 December 2023 Cabinet RPP Summit
 January 2024 Cabinet approval of draft budget
 January 2024 Overview and Scrutiny examination of budget
 January 2024 Public Consultation
 February 2024 Full Council approval of draft budget and MTFS

7. BACKGROUND PAPERS

MTFS and Budget Report – February 21 2023

Report prepared by:

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