

Supplementary Paper – Annex to item 8

COUNCIL

A meeting of the Test Valley Borough Council will be held on

Date: Wednesday 25 October 2023

Time: 5.30 pm

Venue: Conference Room 1, Beech Hurst, Weyhill Road, Andover

when your attendance is required to consider the business set out in the agenda.



Head of Legal and Democratic Services

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PUBLIC PARTICIPATION SCHEME

If members of the public wish to address the meeting they should notify the Legal and Democratic Service at the Council's Beech Hurst office by noon on the working day before the meeting.

Report to Cabinet – 4 October 2023

Medium Term Financial Strategy 2024/25 – 2026/27

Report of the Finance and Resources Portfolio Holder

Recommended:

- 1. That the Medium Term Financial Strategy (MTFS) for 2024/25 to 2026/27 be approved.**
- 2. That the Medium Term Financial Forecast, as shown in Annex 5 to the report, be noted.**

Recommendation to Council

SUMMARY:

- This MTFS sets out the framework within which the 2024/25 budget will be prepared.
- It also sets out the Medium Term Financial Forecast for the General Fund income and expenditure for the following two financial years.
- The strategy considers the potential impact of macro-economic factors such as inflation and interest rate forecasts and considers the effects they will have on budget planning in the medium term.

1 Introduction

- 1.1** The Constitution sets out the processes for preparing the Council's budget. Cabinet is required to consult with other Committees in formulating the budget proposals to be presented to Council.
- 1.2** The Medium Term Financial Strategy (MTFS) sets out the key financial assumptions that have been made in producing the Medium Term Financial Forecast and sets out a proposed framework within which to work over the life of the strategy.
- 1.3** The MTFS is updated annually.
- 1.4** All of the options and assumptions in this report relating to any potential budget changes are for indicative planning purposes only. Final decisions on the overall Budget and Council Tax level will not be made until February 2024 once the Local Government Finance Settlement has been announced. These decisions can only be made by Full Council.

2 Background

2.1 This MTFs complements the Council's Corporate Plan and sets out a framework for financial decision making. The Corporate Plan makes clear what the Council's priorities are, and the MTFs sets out how the financial management process will contribute to delivering those priorities.

2.2 The whole of the financing of local government remains challenging. Some of the most significant factors include:

- The re-setting of the business rates baseline is still awaited. This could affect almost £3M per annum of retained business rates income and has been due since 2017. This strategy assumes that the earliest this re-set will happen is with effect from 1 April 2026, one year later than previously forecast.
- Interest rates have increased rapidly over the past year. This has led to increases in investment returns from our cash portfolio; however, the MTFs must not become over-reliant on this source of income as interest rates are expected to reduce over the life of this strategy.
- Following a period of almost two years of much higher than average inflation, rates are slowly returning towards the target level of 2%. The impact of inflationary pressure is a key variable in setting the budget.

2.3 Business Rates

2.3.1 2013 saw a radical change in the world of local government funding. Localisation of business rates had a profound effect on local authority finances and the level of funding risk that individual authorities face.

2.3.2 Despite being implemented over a decade ago, there has been no revision to baseline levels of retained business rates. Due to the success in growing business rates income over this period, the Council is among the most at risk when a re-set does eventually happen.

2.3.3 The re-set has been delayed repeatedly and no certainty has been given as to what will happen to accumulated growth when it does eventually happen. The Council continues to grow its business rates base, so the longer the delay, the greater the risk to the Council's finances.

2.3.4 This strategy assumes that all accumulated growth will be lost at a re-set that comes into effect in April 2026. The potential impact of this, together with ways to mitigate the risk, are discussed later in the report.

2.4 Interest Rates

2.4.1 The Bank of England increased the base rate of interest 14 times between December 2021 and August 2023. During this time the base rate increased from 0.1% to 5.25% (the highest it has been since 2008). The September decision to hold interest rates at the same level is the first sign that the peak rates have been achieved or, at the very least, that the rate of increase is slowing.

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- 2.4.2 The rate increases have been applied as a measure to regain control of the high inflation levels that have been felt in the economy in recent years. As inflation starts to fall it is likely that the need for further rate increases will reduce, though some market commentators forecast that rates will peak between 6-6.5% over the next year.
- 2.4.3 The impact of this on Council budgets has been dramatic. The estimated income from the cash investment portfolio increased from £542,000 in 2022/23 to £2.754M in 2023/24. Actual performance in the year to date suggests that the current year forecast will be surpassed.
- 2.4.4 The budget for 2023/24 was set with the expectation that rates would start to ease by the time the 2024/25 budget is set and assumed an income of £2.554M for the coming year.
- 2.4.5 The Council holds a significant cash investment portfolio, with an average portfolio of approximately £80-90M over the medium term. The higher the interest rate that is forecast, the greater the income the Council will generate from those investments.
- 2.4.6 Whilst the rapid increase in base interest rates over the past year and a half has proven beneficial to the Council's budget setting, it is important that an over-reliance on this income is not built into the medium term forecast. Doing so risks the need to draw on reserves or require large savings with little time to prepare should interest rates fall further than expected in the future.
- 2.4.7 This strategy therefore caps the assumed investment income each year at the current budget level of £2.554. Any amounts forecast to be generated in excess of this amount would be used to either:
- Help close a budget deficit to meet short-term pressures for the coming year only, or
 - Be transferred to reserves for future capital expenditure or to help finance major projects.
- 2.4.8 Specific recommendations for this are addressed later in the strategy.

2.5 Inflation

- 2.5.1 Whilst the Council has benefitted from additional income from its cash investment portfolio as the Bank of England seeks to regain control of inflation levels, it has also faced steep increases in costs, particularly in areas such as staff pay, fuel and utility prices, as a result of economic conditions.
- 2.5.2 Indeed, at its meeting on 13th September 2023, Council approved an additional £478,000 in respect of pay pressures in the 2023/24 financial year. The effect of this is compound and has affected the forecast budget gaps addressed in this strategy.

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- 2.5.3 The target rate for inflation remains at 2%. The Bank of England's August 2023 Monetary Policy Report sets out the expectation that inflation will fall to around 5% by the end of the year, continuing to fall until it reaches 2% by early 2025.
- 2.5.4 The amount included for general inflation has been increased to £1.2M for 2024/25 before reducing to £800,000 per annum for rest of the medium term. This level may need to be reviewed again if inflation does not fall as quickly as forecast.
- 2.5.5 Staff pay is the Council's largest expenditure. To provide some context to the impact of inflation, with a total pay plus on-cost bill of approximately £24M, a 1% pay award costs £240,000 per annum. This strategy makes no specific reference to a potential pay award for 2024/25.

2.6 Impacts of a changing climate

- 2.6.1 The Council has ambitious targets set out in its new Corporate Plan and supporting Corporate Action Plan together with projects identified in the Climate Emergency Action Plan to address the impact that the Council has on the local environment.
- 2.6.2 The existing MTFS allowed for the financial impact of the change in vehicle fuel from diesel to hydro-treated vegetable oil from April 2023. This alone has seen a greater than 50% reduction in emissions but there is still much more that can be done.
- 2.6.3 Delivery of these actions will require substantial investment in both our existing asset base as well as seeking out new initiatives.
- 2.6.4 The timing and total cost of achieving this is far from certain, therefore the MTFS will need to be flexible to enable funding to be identified as projects come forward.

Regeneration Programmes

- 2.7 The Council has approved Masterplans that will underpin the regeneration of both the south of Romsey town centre and Andover town centre. Both of these projects will require considerable Council resources and funding – both revenue and capital.
- 2.8 An initial project in Andover, with an approved budget of £6.5M, has already received Council approval. Further projects are expected to come forward over the course of the MTFS period and will require further, significant, investment.
- 2.9 It is anticipated that a regeneration-specific financial strategy will be developed that will sit beneath the MTFS. This will take a longer term view of the potential costs of delivering all phases of regeneration programmes in Andover and Romsey, and the potential resources available to fund those programmes.

- 2.10 The strategy allows for the building of an earmarked reserve to meet the feasibility and development costs of project as they are developed. The reserve may also be able to contribute to future delivery phase costs, subject to resource availability at the time those decisions are taken. Council has also approved a top-slice of CIL funding to be ring-fenced for regeneration projects that will help address the funding gap.

Other factors affecting the budget

- 2.11 It is unlikely that any real detail will emerge from central government over the next month or so to help inform budget forecasts. However, focus will be held on news affecting local government that emanates from Westminster.
- 2.12 This MTFS includes a forward look over the next three years, to anticipate additional spending requirements, and the level of savings that will be needed. By anticipating financial pressures now, the Council will be in a better position to meet the challenges ahead in a way that ensures financial resources are targeted to the Council's highest priorities.
- 2.13 The financial forecasts that follow are based on a credible analysis of the most likely scenarios, but the medium term outcomes are inherently uncertain without answers to perennial questions about the potential re-set of business rates and lack of certainty of local government funding (including, the future, or otherwise, of the New Homes Bonus scheme).
- 2.14 The MTFS forecasts will be revised at least annually to reflect the most up to date issues, priorities and pressures faced by the Council. Further information on any aspect of the Council's finances can be obtained from the Council's [website](#).

3 Financial Management Principles

- 3.1 The Council has a duty to the public for the responsible use of their money. The Council will at all times conduct its financial affairs in a prudent, responsible manner, but also in a way that encourages innovation and achieves improvement.
- 3.2 The following specific principles underpin the Council's financial management arrangements:
- (i) The Council will conduct its financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body.
 - (ii) The Council will ensure that realistic budgets are prepared, based on realistic estimates, and ensure robust budget monitoring practices are in place.
 - (iii) The Council will ensure that consideration is given to addressing a changing climate in the decisions that it takes and in the procurement of goods and services.
 - (iv) The Council will work with partners in the public, private and voluntary sectors to maximise funding available to deliver strategic priorities.

- (v) The Council will base its decision making upon complete, reliable and timely financial information, and a full evaluation of all the financial and risk implications.
- (vi) The Council will review its fees and charges and seek only to increase charges by amounts commensurate with increases in the costs of providing those services, unless market conditions render this inappropriate.
- (vii) Before committing to additional expenditure, the Council will ensure that additional funding, improved income and/or savings are identified to meet the extra costs or that the budget growth is justified.
- (viii) The Council will maintain balances and reserves to enable it to respond effectively to unexpected events and opportunities, and sufficient to meet all known future liabilities. Reserves will not be used to support ongoing baseline expenditure.
- (ix) The Council will ensure that its published financial information is reliable and understandable.

4 Budget Strategy

Financial Strategy Aims

- 4.1 The Council's financial aims for the period covering the next three years are set out below. These aims are described in detail in this report and form the overarching aims for each budget setting year within the financial strategy period.
- To maintain a comparatively low Council Tax whilst delivering high quality frontline services.
 - To ensure that adequate resources are available for implementing the actions contained within the Corporate Action Plan.
 - To ensure that sufficient resources are available to maintain the Council's asset base and replace life-expired equipment.
 - To ensure that sufficient resources are available to deliver the required mitigations to risks included in the Corporate Risk Register.
 - To ensure that the Council's asset base is fit for purpose and that new capital needs are identified and met.
 - To ensure that the Council's core ongoing financial position remains stable.

Budgetary Assumptions

- 4.2 The budget over the duration of this Strategy is based on the following assumptions:

Revenue

- (a) The Test Valley element of Council Tax being increased annually by £5 in each of the next three years.

- (b) The Andover Special Expenses Levy being updated in 2024/25 and 2025/26 in line with the Test Valley precept, before being fully recalculated ahead of the 2026/27 financial year.
- (c) Bank interest rates to peak in 2024/25 before reducing in the medium term.
- (d) Inflation will reduce to approximately 5% by early 2024 and reduce further to approximately 2% by 2025/26.
- (e) Earmarked reserves to be used for one-off purposes only or to offset the impacts of the business rates re-set.
- (f) The Council continues to generate additional income and make cashable efficiencies every year to sustainably close forecast budget gaps.
- (g) A fundamental review of local government financing, including a re-set of business rates to take place ahead of the 2026/27 financial year.

4.3 Capital

- 4.3.1 The Council will maximise the utilisation of, and rate of return on, the tangible assets it holds on its balance sheet.
- 4.3.2 All capital expenditure will be funded in accordance with the principles contained in the Prudential Code for Local Authority Capital Finance. All decisions on capital expenditure will ensure that investment is prudent, sustainable and affordable, and that the full implications of all capital expenditure decisions are taken into account in the Council's revenue budget.
- 4.3.3 The Capital Strategy will be updated in February 2024.

4.4 Corporate Plan and Corporate Action Plan

- 4.4.1 In April 2023, Council approved a new Corporate Plan, *A Place for Everyone – supporting our communities to thrive*, covering the period from 2023-2027.
- 4.4.2 The Corporate Action Plan (CAP), which is the delivery document of the Corporate Plan, was approved by Cabinet on 23rd August 2023.
- 4.4.3 This MTFS is written in the context of these documents and its primary purpose is to ensure that resources are adequate for the delivery of CAP projects that have been approved.
- 4.4.4 This will inevitably require a combination of revenue and capital investment over the medium term. In many cases the exact amount of that investment is not yet known and therefore this strategy allows for the building of reserves to meet these future commitments.

4.5 Review of Reserves

- 4.5.1 Reserves are an integral part of the financial planning process. They are a way in which financial resources can be carried forward from one financial year to another and enable flexibility in financial planning over the medium term.

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- 4.5.2 The nature of most local services is that they require recurring funding to meet staff and running costs year after year. Reserves are a one-off, finite source of funding. They can cover a shortfall in funding for a specific period but, after they have been exhausted, the underlying shortfall will still be there. Solving this problem may require services to be adjusted to a level which is affordable within the level of funding available.
- 4.5.3 In previous years, the Council has managed to balance the budget and protect frontline services through a mixture of savings, efficiencies and additional income.
- 4.5.4 This strategy assumes that there will be no draws from equalisation reserves required to set a balanced budget in any of the following three years, with the exception of mitigation as a result of a business rates re-set, should that occur in this timeframe.
- 4.5.5 A summary showing the recent trends in reserve levels held by the Council is shown in the following table. A full breakdown of the different reserves held by the Council is published in the annual Statement of Accounts.

Usable Revenue Reserves	31/3/20	31/3/21	31/3/22	31/3/23	31/3/24
	£000s	£000s	£000s	£000s	£000s
Usable Revenue Reserves					Forecast
General Fund Balance	2,604	2,604	2,604	2,604	2,604
Future risk / budget equalisation	4,787	3,835	6,737	5,293	10,410
Ring-fenced for specific use	12,143	13,047	14,217	15,502	12,522
New or predicted growth	7,216	10,282	14,028	15,935	14,321
Coronavirus Timing Reserves	0	7,716	673	337	100
Total Usable Reserves	26,750	37,484	38,259	39,671	39,957

- 4.5.6 The above are cash-backed reserves that the Council can apply to future expenditure, subject to statutory conditions.
- 4.5.7 Reserve levels have remained relatively stable in recent years. The forecast increase in reserves held to mitigate future risk is largely down to the timing differences in the way that business rates retained income is accounted for and the potential that some will need to be repaid to the Collection Fund.
- 4.5.8 It is anticipated that other reserve levels will start to reduce over the medium term. This reflects the forecast use of accumulated reserves in the financing of major capital investments, particularly related to regeneration of town centres and waste reform.
- 4.5.9 The **General Fund Balance** represents a working balance to help cushion the impact of uneven cash-flows and minimise unnecessary temporary borrowing. It is reviewed annually by the Head of Finance and Revenues and, based on the forecast cash-flows identified in the MTFs, remains at a prudent level. Councillors are recommended to retain a minimum balance in the General Fund of £2.604M.

- 4.5.10 **Earmarked Reserves** are a means of building up funds to meet known or predicted liabilities. The Council maintains a number of revenue earmarked reserves that generally fall into one of the following categories:
- To mitigate the risk of future changes in budget requirements (often referred to as equalisation reserves)
 - For use on future ring-fenced or specifically determined expenditure
 - To finance new or predicted future expenditure requirements
- 4.5.11 Equalisation reserves are held to soften the impact of sudden changes in major income and expenditure headings. This is particularly useful where the Council has no direct control over the macro-economic factors behind, for example, inflation or the timing of a business rates re-set. The largest of these is held to mitigate forecast losses that could arise in the event of a re-set of business rates accounting arrangements.
- 4.5.12 The Council sets aside funding into service-specific earmarked reserves for a number of reasons. This could be because external grant income has been received and must be used for a specific purpose or to ensure that funding is available for the ongoing maintenance and replacement of Council assets.
- 4.5.13 The two largest examples, as at 31 March 2023, were £6.723M in developer contributions for the long term management of adopted open spaces and £2.728M to fund the Asset Management Plan in the current year.
- 4.5.14 The final sub-category of earmarked reserves is those held for future growth. The largest earmarked reserve the Council carries in its balance sheet is the *New Homes Bonus Reserve*. The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use.
- 4.5.15 The Council has not taken this grant into its base budget, but has instead used the reserve to fund projects that have a demonstrable community benefit, such as the Community Asset Fund and funding playground enhancements through the Asset Management Plan.
- 4.5.16 In recognition of the Council's major regeneration aspirations in Andover and Romsey, a Regeneration Reserve has been established. The balance on this reserve at 31 March 2023 was £2.267M. This reserve is used to fund feasibility and developmental work in preparation for deliver phases and to part-fund actual delivery (a £1M contribution towards the Western Avenue has been approved from this reserve).
- 4.5.17 As well as revenue reserves, the Council also maintains a **Capital Receipts Reserve** from the disposal of assets and transfers from the General Fund. The Capital Receipts Reserve can only be used to fund capital expenditure, to repay debt, or to fund credit arrangements subject to the de minimis level set out in the relevant regulations (currently £10,000). All transactions through this reserve are treated in accordance with the provisions of the Local Government Act 2003.

- 4.5.18 The Head of Finance and Revenues has carried out a detailed review of the Council's usable reserves and looking at current levels of balances, he considers that they will remain adequate for meeting the Council's needs over the medium term, provided that reserves are not used to support an underlying budget gap beyond the very short-term.

5 Financial Context

Business Rates

- 5.1 The Business Rates Retention Scheme allows Councils to retain a proportion of any growth in business rates income over the baseline amount. Baseline income levels have not been reviewed since this was introduced in 2013.
- 5.2 The amount of income that the Council retains is subject to year-on-year volatility linked to collection rates; appeals against rateable values; and periodic revaluation exercises undertaken by the Valuation Office Agency.
- 5.3 The most recent revaluation came into effect of 1st April 2023 and there is therefore an increased risk of new appeals in the current year, with the effects unlikely to be certain ahead of setting the budget for 2024/25.
- 5.4 Alongside this is also the threat of a full re-set by the government which could dramatically change the baseline income that the Council can retain.
- 5.5 As a consequence of the uncertainties identified above, a cautious approach has been taken as to the amount of retained business rates that have been built into the forecast for 2024/25.
- 5.6 The strategy assumes that there will be a full re-set of the business rates retained income system, effective from April 2026 and the medium term forecast considers how the Council can mitigate against the risks of this, including the potential for transitional arrangements.

Council Tax

- 5.7 Council Tax is one of the Council's main sources of income, generating more than £8.5M per annum.
- 5.8 The MTFs aims to keep Council Tax at a comparatively low level, taking into account spending priorities and Central Government funding. This should be set in the context of Central Government's expectations of local authorities and already low levels of Council Tax charged in the borough. The current Council Tax charge is still very low when compared with other authorities - the 27th lowest out of the 164 district councils in England, and the 4th lowest in Hampshire. It is also £43, or 20%, lower than the average Council Tax payable in the rest of England.

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- 5.9 The MTFS forecast assumes that Council Tax will be increased by £5 for a band D property in 2024/25 and throughout the medium term. There may need to be an adjustment to the budget forecasts after the government confirms the referendum principles which are usually published in January each year.
- 5.10 In making the assumption that the Council Tax level will increase by £5, it is recognised that the Council continues to maintain a generous Council Tax Support scheme, offering up to 100% relief from Council Tax for pensioners and households in receipt of certain benefits. Up to 90% relief is available for low-income working-age households.

Core Spending Power

- 5.11 Previous MTFS iterations have set out the impact of reduced levels of central government support received by the Council since 2010. There is no longer any Revenue Support Grant received as non-ringfenced funding for delivery of core services.
- 5.12 In more recent years, different revenue grants have been distributed by central government based on each council's Core Spending Power (CSP). This is broadly the amount generated locally from Council Tax and Retained business rates plus certain central grants, such as the New Homes Bonus.
- 5.13 The Local Government Finance Settlement for 2023/24 included a set of principles that will apply in 2024/25. This stopped short of providing indicative figures for the coming year; however, it did make clear that no Council will see a reduction in its CSP between 2023/24 and 2024/25.
- 5.14 The table below shows the current CSP and the amounts included in the forecast for the coming year. In the absence of any further detail at this time, it is assumed that all external grants will be rolled forward at their current levels.

	2022/23 CSP £'000	2023/24 CSP £'000	2024/25 forecast CSP £'000
Baseline retained business rates	2,382	2,470	2,470
Compensation for under-indexing business rates	243	421	421
Council Tax (including rolled up grants)	8,477	8,838	9,180
New Homes Bonus	2,105	1,200	1,200
Services Grant / Lower Tier Services Grant	541	93	93
Funding Guarantee Grant	0	1,356	1,356

Total Core Spending Power	13,748	14,378	14,720
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- 5.15 The position beyond 2024/25 is less certain. The potential impacts of changes to Core Spending Power in 2025/26 and beyond is discussed in more detail later in the report.

6 Key Budget Pressures and Influences

- 6.1 The largest source of cost pressure comes from inflation.
- 6.2 CPIH inflation remains at high levels, with the headline rate in August 2023 at 6.3%. This is a reduction when compared to the same time last year (August 2022 – 8.6%); however still remains some way above the 2% target rate. www.ons.gov.uk/economy/inflationandpriceindices - August 2023.
- 6.3 In its August monetary policy report, the Bank of England forecast that inflation is expected to reduce to around 5% by the start of 2024. This will then continue to slowly reduce throughout 2024 and reach the target level of 2% by early 2025.
- 6.4 With higher-than-average inflation expected to continue into the next financial year, the amount set aside for inflationary pressures has been increased in the forecast for 2024/25.

Revenue impact of the Capital Programme

- 6.5 The capital programme is currently financed by existing capital receipts, supplemented by specific grants and contributions. The balance on the Capital Receipts Reserve at 31st March 2023 was £7.9M.
- 6.6 All known revenue impacts from existing capital projects have been built into the medium term forecast. No allowance has been made for revenue impacts arising from future capital expenditure decisions.

Interest Rates

- 6.7 The Council's Treasury Adviser, Link Asset Services, has provided the following forecasts of interest rates:

	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Bank Rate	5.5%	5.5%	5.25%	4.75%	4.25%	3.75%	3.25%
5yr PWLB	5.3%	5.1%	4.8%	4.5%	4.2%	3.9%	3.6%
10yr PWLB	5.0%	4.9%	4.7%	4.4%	4.2%	3.9%	3.7%

25yr PWLB	5.2%	5.1%	4.9%	4.7%	4.5%	4.2%	4.0%
50yr PWLB	5.0%	4.9%	4.7%	4.5%	4.3%	4.0%	3.8%

- 6.8 These forecasts will continue to be reviewed over the next few months. It does show that borrowing is likely to be more expensive in the short term and therefore no new external borrowing is planned in the strategy.
- 6.9 Paragraph 2.4 set out the context for interest rates and the influence they have on the MTFs. The latest forecast income for 2024/25 from the Council's cash investment is £3.75M, some £1.2M more than included in the base forecast.
- 6.10 The above table shows that this income level is not expected to be sustainable, with rates forecast to drop within the next two years. It is therefore recommended that this additional income is used to meet one-off costs and to build reserves for known future commitments. The strategy recommends this is distributed as follows:
- £400,000 to the regeneration reserve.
 - £500,000 to meet additional costs that are forecast to be required over the medium term to deliver the updated Local Plan. The cashflows for this are uneven and difficult to forecast in any particular financial year. This provides sufficient capacity to meet expected costs over the medium term period.
 - £300,000 to be transferred to the Environmental Act reserve to build capacity for known future costs in respect of waste reform.

Potential Budget Pressures

- 6.11 The budget forecast for 2024/25 has built in the impact of new budget approvals that have been confirmed in the year.
- 6.12 The most significant pressure is related to inflation, where forecasts estimate that an additional £400,000 will be required in 2024/25 above existing baseline levels. This additional requirement is expected to be for the coming year only, with inflation levels forecast to drop throughout 2024.
- 6.13 Alongside the specific inflationary pressures, there are other known budget pressures that will affect the Council in future years but for which it is not yet possible to identify specific amounts. These are highlighted in the CAP and include:
- Regeneration of town centres. This a key priority of the Council and it will be necessary to invest heavily in these projects to see their successful implementation.

- Climate Emergency Action Plan. Capacity will need to be found to adequately finance projects coming forward that will help deliver the Climate Emergency Action Plan objectives.

Project Enterprise

- 6.14 Since 2014, the Council has completed eight commercial property investments; fourteen house purchases, refurbished and re-let a further seven houses; and delivered three regeneration projects on Walworth Business Park – the latter projects in partnership with our development partner, Kier Property Ltd.
- 6.15 The total cost of the property acquisitions to date is in excess of £36M, with an annual income in the 2022/23 financial year of £2.24M (more details can be found in the Project Enterprise Outturn report to Cabinet in June 2023).
- 6.16 The income derived from these investments has been critical to the Council's ability to set balanced budgets without reducing frontline services in recent years, during a time in which core spending power has been dramatically reduced.
- 6.17 CIPFA and government guidance has been tightened in light of nationally reported Council failures linked, in part, to over-investment and imprudent decision making. One impact of this is that local authorities are prevented from borrowing from the Public Works Loans Board where commercial investment acquisitions are approved as part of the capital programme.
- 6.18 The Council will continue to seek further opportunities for Project Enterprise acquisitions, whilst giving due consideration to the latest government and CIPFA guidelines. It is likely that this will mean future activity will be restricted to:
- Development / enhancement of land already owned by the Council
 - Domestic property acquisition that will be held to address local housing needs.

7 Overall Revenue Budget Summary

- 7.1 The Revenue Forecasts for 2024/25 to 2026/27 have been drawn up at a macro level. They do not constitute detailed budgets, which will continue to be prepared on an annual basis within the normal timescales. However, the costing of specific issues and evaluation of proposed developments has informed the forecast.
- 7.2 The forecast is based on an expected most likely case scenario using the assumptions shown in Annex 2. It should be recognised that there will not be sufficient resources to meet all the service delivery ambitions and priorities of the Council without the generation of savings or identification of additional income. This financial strategy for the three year period to 2026/27 should ensure that the financial resources of the Council continue to be aligned to the delivery of the Council's service and organisational priorities.

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- 7.3 The budget principles and guidelines outlined in this strategy will allow for a phased use of reserves to allow time to adjust to the potential re-basing of retained business rates income levels.
- 7.4 The forecast shows that a budget gap of £450,000 remains to be closed for 2024/25, with further increases of over £703,000 and ££1.38M in 2025/26 and 2026/27 respectively.
- 7.5 A reconciliation of the movement in the forecast budget gaps over the medium-term since the 2023/24 budget was approved in February is shown in Annex 1.
- 7.6 Details of efficiency savings and income generation proposals that have been identified in the early stages of the budget setting process are shown in Annex 3 to the report. These relate primarily to additional income and analysis of prior year activity when compared to base budget levels. Cabinet will then decide on which options should be taken forward as recommendations to full Council as part of the budget setting process in February 2024.
- 7.7 Annex 4 sets out a number of forecast unavoidable budget pressures that are expected to be required in 2024/25 and that add to the forecast budget gap. It is likely that further budget pressures will be identified as the budget process progresses. Any new pressures will be reported to Cabinet in the budget update following their identification, with a summary justification for the need and extent of the recommended funding requirements.
- 7.8 The review of reserves in para 4.5 sets out that the Council maintains a number of equalisation reserves to soften the impact of sharp changes to the core budget baseline. The most important of these is the Collection Fund Equalisation Reserve, which is held primarily to cushion the impact of the business rates re-set, when it eventually happens.
- 7.9 The provisional balance on that reserve at 31st March 2023 was £2.79M, with additional contributions expected in the current year. It has been assumed that an initial draw of up to £1.5M will be taken in 2026/27 if a business rates re-set adversely affects the Council. This draw would reduce to £1M and then £500,000 over the following two financial years to bring the new budget position into the base over a three year period.
- 7.10 Use of reserves for any purpose other than to mitigate potential losses from a business rates re-set is not recommended.

8 Achieving the Medium Term Financial Strategy

- 8.1 In recent years, the Council has been able to set a balanced budget through a combination of the following:
- Delivering savings through challenging budget holders to identify savings
 - Improving value for money
 - Service transformation

- Generating additional income through its asset base and the use of fees and charges
- Generating additional income through Project Enterprise

8.2 Whilst the current forecast for 2024/25 is expected to be manageable, the medium term position is far less certain with significant risk to one of the main sources of income (retained business rates); the need to finance major regeneration projects; and increasing costs of delivering refuse services potentially all impacting the budget over the period of this strategy.

8.3 Without further government support or the certainty of how a business rates re-set will affect our budgets, it is probable that the controlled use of earmarked reserves will be required to balance the budget over the medium term. This is not a sustainable position to maintain as reserves can only be used once. However, using reserves in a controlled manner over a defined period will enable the Council to take the time to deliver sustainable savings that continue to deliver the best outcomes for the citizens of Test Valley.

9 Capital Strategy

9.1 The Capital Strategy will be reviewed and updated in February 2024, but is unlikely to change significantly. The strategy will address the following key principles / questions:

- (a) How corporate priorities are used to prioritise bids for new projects and how this balances the ongoing capital need to maintain / repair existing assets through the Asset Management Plan
- (b) How the approved Capital Programme is financed in an affordable, financially prudent and sustainable way
- (c) How new bids are introduced to the Capital Programme based on an objective prioritisation and understanding of the revenue implications associated with new capital expenditure.
- (d) How progress of the approved Capital Programme will be monitored and reported to Councillors throughout the year.

9.2 Full details of the existing strategy can be found in the Cabinet report on 22 February 2023.

10 Corporate Objectives and Priorities

10.1 The Council has recently approved a new Corporate Plan that covers the years 2023-2027. This documents sets out the main priorities of the Council over the next four years. The MTFs is a key supporting strategy document that supports the goals and objectives of the Corporate Plan and the supporting Corporate Action Plan.

10.2 The new Corporate Plan sets out five priorities:

- **Sustainability** – developing lasting benefits for our communities
- **Connection** – building upon the identity, strengths, and ambitions of our communities

- **Environment** – a greener borough for our communities
- **Inclusion** – working together to create opportunities for our communities
- **Prosperity** – economic growth that impacts positively on our communities

10.3 The Council will ensure that budgets are directed towards these key priorities. The mechanism for achieving this is the Council’s Strategic Planning Framework (corporate clockwork), which includes a timetable for developing budgets and service plans to ensure that budgets are aligned to these priorities.

11 Consultations / Communications

11.1 The information contained in this report will form the basis for future discussions about the 2024/25 budget. It will go forward to the Budget Panel of the Overview and Scrutiny Committee for comments later in the year.

11.2 The budget consultation with businesses will take place in the next three months. The final form of the consultation is not yet decided, but is expected to be carried out online as has been successfully delivered in recent years.

11.3 Once the provisional Local Government Finance Settlement has been received in late December / early 2024 it will be necessary to update the current figures and to take account of the comments made by the Overview and Scrutiny Committee and the views of businesses.

12 Risk Management

12.1 A risk assessment has been completed in accordance with the Council’s Risk management process and has identified the significant (Red or Amber) risks shown in the following table:

Risk	Likelihood	Impact	Management of Risk
Impact of Business Rates re-set – AMBER	Significant C	Critical II	Set aside an element of current growth income into an earmarked reserve to mitigate the impact of the re-set. Closely monitor government messages about the timing and extent of a re-set to enable detailed financial modelling to be undertaken.
Future resources less than assumed - AMBER	Moderate D	Critical II	Revenue: Assess impact of Local Government Finance Settlement at the earliest opportunity. Assumption built-in for reduction in funding Monitor collection rates for local taxation and rental income. Capital: Schemes and projects kept on reserve list until resources are confirmed. Monitor the amount of future usable capital receipts.

ANNEX

Insufficient resources are identified to deliver masterplan objectives - AMBER	Significant C	Critical II	Regeneration Finance Strategy to be prepared by early 2024. Transfer to regeneration reserve included in base budget. Maximum external funding sources to be identified for each stage. Robust project planning and governance process.
Income targets are not achieved - AMBER	Moderate D	Significant III	Monthly monitoring of budgets and projections. Use of the Income Equalisation Reserve if necessary.
Inflation estimates vary from those assumed - AMBER	High B	Significant III	These factors have a large influence on the revenue budgets. Inflation currently at a higher level than it has been at for many years. Inflationary factors to be reviewed regularly. Additional inflation allowance built-in to forecast
Additional costs arising from contract re-negotiation due to inflation / supplier failure - AMBER	Significant C	Significant III	Ensuring that the Council's contracts are thoroughly reviewed to ensure that budgetary impacts are mitigated where possible. Additional inflation allowance built-in to forecast
Savings anticipated from reviews are not delivered - AMBER	Moderate D	Significant III	Continue digital transformation efficiency focus. Closely monitor progress of budget / efficiency savings through monthly budget monitoring. Use of the Budget Equalisation Reserve, if necessary.
Future spending requirements are under-estimated - AMBER	Significant C	Significant III	Review Service Plans and spending projections. Closely monitor progress through budget / performance monitoring.
Staffing budgets are not sufficiently controlled - AMBER	Moderate D	Significant III	Rigorous process is already in place for filling posts and managing vacancy targets.
Increased demand for homelessness assessments and temporary accommodation - AMBER	High B	Significant III	Review the impact of Universal Credit rollout and the Homelessness Reduction Act additional responsibilities. Monitor government support packages for refugee / asylum seekers for potential spike in unsupported costs.

13 Resource Implications

13.1 Resource implications are contained within the Strategy itself.

14 Legal Implications

- 14.1 The Council is required to set a robust and balanced budget under the Local Government Act 2003. This report is the first step towards achieving this aim for the 2024/25 budget.

15 Equality Issues

- 15.1 No equality issues have been identified in the prepared of this strategy document.

16 Conclusion and reasons for recommendation

- 16.1 This MTFS takes account of all known financial implications and makes various assumptions in projecting the budget forward for the next three years. However, the Council faces significant financial uncertainty resulting from volatility in macro-economic factors beyond its control. This clearly makes any accurate financial planning difficult to achieve.
- 16.2 Whilst the position for 2024/25 is expected to be manageable, significant savings will need to be found over the remainder of the medium term period and there is the possibility that the controlled use of reserves will be required in the short-to-medium term.
- 16.3 The MTFS is recommended for approval for the following reasons:
- to ensure that the Council has a strategic approach to the management of its finances, and
 - to enable available resources to be allocated to services in line with Council priorities over the medium term.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	5	File Ref:	N/A
(Portfolio: Finance and Resources) Councillor M Flood			
Officer:	Carl Whatley	Ext:	8540
Report to:	Cabinet	Date:	4 October 2023

MOVEMENT IN BUDGET GAP

	2024/25 £'000	2025/26 £'000	2026/27 £'000
Opening Budget Gap per budget report - February 2023	401	1,844	3,292
Additional cost of 2023/24 pay award	478	478	478
Additional inflation pressure	400	400	400
Surplus on Council Tax collection	(127)		
Remove transfers to equalisation reserves	(345)	(345)	(345)
Income generation proposals	(563)	(619)	(624)
Budget Pressures	162	152	152
Change to core spending grant assumption		(724)	
Assumed deferral of business rates re-set		(200)	(1,000)
Other changes	44	167	177
	450	1,153	2,530

BUDGET FORECAST 2024/25
SCENARIO PLANNER

	Budget Forecast Best 2024/25 £'000	Budget Forecast Middle 2024/25 £'000	Budget Forecast Worst 2024/25 £'000
Service Requirements	11,471.4	11,471.4	11,471.4
Unallocated Inflation	800.0	1,200.0	1,500.0
	12,271.4	12,671.4	12,971.4
<u>Corporate Requirements</u>			
Contingency Provision	339.9	339.9	339.9
Investment Income	(4,311.2)	(3,748.9)	(3,374.0)
Borrowing Costs	140.4	140.4	140.4
Small Business Rate Relief	(2,061.9)	(2,061.9)	(2,061.9)
Other Government Grants	(1,600.5)	(1,600.5)	(1,600.5)
New Homes' Bonus	(1,199.8)	(1,199.8)	(1,199.8)
Provision for NDR Levy	2,080.1	2,080.1	2,080.1
100% Retention of NDR from Renewable Energy	(505.1)	(505.1)	(505.1)
Net General Fund Expenditure	5,153.3	6,115.6	6,790.5
Contribution to Earmarked Reserves	3,349.5	3,349.5	3,349.5
Contribution to Asset Management Reserves	2,000.0	2,000.0	2,000.0
Contribution to Capital Reserves	3,645.0	3,645.0	3,645.0
Total General Fund Expenditure	14,147.8	15,110.1	15,785.0
Revenue Pressures	162.0	162.0	562.0
Income Generation & Savings Proposals	(800.0)	(563.0)	(350.0)
Revised Net Budget	13,509.8	14,709.1	15,997.0
SURPLUS / (SAVINGS) TO BE IDENTIFIED	1,749.1	(450.2)	(2,750.4)
General Fund Requirements	15,258.9	14,258.9	13,246.6

ASSUMPTIONS IN DEVELOPING THE BUDGET FORECAST

<u>Council Tax</u>			
Rate assumed	£5 increase	£5 increase	0.0%
Impact	262,300	262,300	0
<u>NNDR</u>			
Change in retained earnings assumption	1,000,000	0	(750,000)
<u>Investment Income</u>			
Income Levels	15%	0.0%	-10.00%
	4,311,235	3,748,900	3,374,010
<u>Inflation</u>			
	800,000	1,200,000	1,500,000
<u>Budget Pressures / Income Generation & Savings</u>			
Pressures	162,000	162,000	562,000
Income Generation and Savings	800,000	563,000	350,000
<u>Earmarked Reserves</u>			
No draws assumed			

SUMMARY OF SAVINGS & INCOME GENERATION PROPOSALS

Service	Function	Income Generation Option Proposed	2024/25 £'000	2025/26 £'000	2026/27 £'000
Prop & Asset Mgmt	Car Parks	Additional income from car park charges based on last year's actuals and profile variance to date in current year	93	93	93
Prop & Asset Mgmt	Rental Income	Additional income from property rents across the whole portfolio.	178	213	218
Legal & Dem	Legal Fee Income	Additional income based on previous years	5	5	5
Fin & Rev	Employee costs	Shared service & post regrade	15	15	15
Fin & Rev	Finance	Increase in government grant for transparency disclosures	8	8	8
Env Serv	EST Technical	Sale of glass and dry mixed recycling. Additional income in line with current market expectations	90	0	0
Env Serv	Waste Collection	Non-packaging income share from HCC	0	111	111
Env Serv	Garden Waste	Increase in income due to increase in number of subscriptions	10	10	10
Plan & Build	Planning	Expectation that fees for planning applications will increase by between 25-35% in 2024/25. This additional income takes into account current income levels being below amounts included in the budget	100	100	100
Comm & Leis	The Lights	Creation of Performing Right Society Fee charge to recover PRS costs	8	8	8
Comm & Leis	Sports Facilities	Increase in income from sports facilities	40	40	40
Various	Various	Various small savings across services	16	16	16
Total Income Generation Proposals			563	619	624

SUMMARY OF REVENUE PRESSURES

Service	Function	Item	2024/25 £'000	2025/26 £'000	2026/27 £'000
Strat & Innov	Project Management	Making a temporary Project Support Officer post permanent.	38	38	38
IT	Shared Service	Net salary pressure arising from additional resource in the IT shared service across both TVBC and WCC.	79	69	69
Strat & Innov	Communications	Increase in hours of a Communications Officer post to make full-time.	20	20	20
Comm & Leis	Events	Additional budget required to make Events Officer post full time.	25	25	25
Total Pressures			162	152	152

MEDIUM TERM FINANCIAL PLAN

	Budget Forecast 2024/25 £'000	Base Changes £'000	Budget Forecast 2025/26 £'000	Base Changes £'000	Budget Forecast 2026/27 £'000
Service Requirements	11,262.5	884.3	12,146.8	1,099.2	13,246.0
Inflation	1,200.0	800.0	2,000.0	800.0	2,800.0
Net Cost of Services	12,462.5	1,684.3	14,146.8	1,899.2	16,046.0
Corporate Requirements					
Contingency Provision	339.9		339.9		339.9
Investment Income	(3,748.9)	748.9	(3,000.0)	451.1	(2,548.9)
Borrowing Costs	140.4	(5.7)	134.7	(5.8)	128.9
Minimum Revenue Provision	208.9	4.7	213.6	4.8	218.4
Small Business Rate Relief & other S31 grants	(2,061.9)		(2,061.9)	2,061.9	0.0
Other Government Grants	(1,600.5)	724.1	(876.4)	724.2	(152.2)
New Homes' Bonus	(1,199.8)	1,199.8	0.0		0.0
Provision for NDR Levy	2,080.1		2,080.1	(2,080.1)	0.0
100% retention of NDR from Renewable Energy	(505.1)		(505.1)		(505.1)
Net General Fund Expenditure	6,115.6	4,356.1	10,471.7	3,055.3	13,527.0
Transfer to / (from) Earmarked Reserves	3,349.5	(2,818.3)	531.2	(2,588.3)	(2,057.1)
Transfer to Asset Management Reserves	2,000.0	(48.9)	1,951.1	(451.1)	1,500.0
Transfer to Capital Reserves	3,645.0	(500.0)	3,145.0		3,145.0
Total General Fund Expenditure	15,110.1	988.9	16,099.0	15.9	16,114.9
Revenue Pressures	162.0	(10.0)	152.0	0.0	152.0
Savings Options & Income Generation Proposals	(563.0)	(56.0)	(619.0)	(5.0)	(624.0)
Revised Net Budget	14,709.1	922.9	15,632.0	10.9	15,642.9
FURTHER SAVINGS TO BE IDENTIFIED	(450.2)	(702.9)	(1,153.1)	(1,377.1)	(2,530.2)
General Fund Requirements	14,258.9	220.0	14,478.9	(1,366.2)	13,112.7
Council Tax - TVBC	8,943.7	346.8	9,290.5	351.8	9,642.3
Council Tax - surplus from prior years	126.7	(126.7)	0.0		0.0
Business Rates - baseline	2,470.4		2,470.4		2,470.4
Business Rates - retained growth	2,718.1	(0.1)	2,718.0	(1,718.0)	1,000.0
Funding of General Fund Requirement	14,258.9	220.0	14,478.9	(1,366.2)	13,112.7