

# Medium Term Financial Strategy 2025/26 – 2027/28

Report of the Finance and Resources Portfolio Holder

## Recommended:

1. That the Medium Term Financial Strategy for 2025/26 to 2027/28 be approved.
2. That the reallocation of earmarked reserves, as set out in paragraph 4.2.9 of the report, be approved.

## Recommendations to Council

### SUMMARY:

- This MTFS sets out the framework within which the 2025/26 budget will be prepared.
- It also sets out the expected medium term income and expenditure forecast 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 could 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 2025, once the Local Government Finance Settlement has been announced. These decisions can only be made by Full Council.

## **2 Background**

- 2.1 This MTFFS 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 MTFFS sets out how the financial management process will contribute to delivering those priorities.
- 2.2 The strategy starts by reviewing revenue reserves, which are a major element of the Council's overall financial stability.
- 2.3 It then sets out the most significant factors that will affect the Council's budget in 2025/26 and the following two years. Many of these factors are impacted by macroeconomic factors or demand levels that cannot be accurately forecast. The strategy addresses the risks those factors pose to the Council's financial stability and explains the mitigations that are recommended to ameliorate the impacts of any negative movement in them.
- 2.4 Explanations are provided as to the likely impacts of changes in assumptions. From this, a sensitivity analysis has been prepared to show the potential impacts of both positive and negative changes in those assumptions. This is set out in Annex 1 to the report.
- 2.5 The strategy then focuses in more detail on the work that will be required to set a balanced budget for 2025/26 and the timetable for delivering this.

## **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 MTFFS seeks to enable delivery of funding for projects that will enhance the lives of the communities we serve, building on work already undertaken across a range of community-based workshops.
- 3.3 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 base its decision making upon complete, reliable and timely financial information, and a full evaluation of all the financial and risk implications.

- (v) The Council will review its fees and charges and seek only to increase charges by amounts commensurate with forecast inflation rates and increases in the costs of providing those services, unless market conditions render this inappropriate.
- (vi) 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.
- (vii) 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.
- (viii) The Council will ensure that its published financial information is reliable and understandable.

## **4 Review of Revenue Reserves**

- 4.1.1 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.
- 4.1.2 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.
- 4.1.3 This strategy assumes that there will be no draws from reserves required to meet ongoing expenditure 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 (see para 5.3 for further detail on this).
- 4.1.4 A full review of all reserves will be undertaken during the budget process and the Head of Finance and Revenues will issue a report on the robustness of reserves alongside the final budget report in February 2025.

### **4.2 Review of General Fund and Equalisation Reserves**

- 4.2.1 Reserves are typically held for one of three purposes:
  - To mitigate unforeseen expenditure and volatility in key budget areas, such as changes to interest rates.
  - For use on future ring-fenced or specifically determined expenditure
  - To finance new or predicted future expenditure requirements
- 4.2.2 This review focuses on the reserves held to mitigate budget volatility, sometimes known as 'equalisation reserves'.
- 4.2.3 The following table sets out a summary of the reserves that are held to cushion the impact of future potential budget changes. These are in addition to a General Fund Reserve, which had a balance of £2.604M as at 31 March 2024.

Reserve Type Figures in £'000	Balance at 31/03/24	Planned Transfers 2024/25	Forecast Balance at 31/03/25
Income Equalisation Reserve	300	0	300
Budget Equalisation Reserve	821	0	821
Investment Equalisation Reserve	650	0	650
Pension Equalisation Reserve	745	0	745
<b>Total excluding Collection Fund</b>	<b>2,516</b>	<b>0</b>	<b>2,516</b>
Collection Fund Equalisation Reserve	6,321	3,983	10,304
<b>Total Equalisation Reserves</b>	<b>8,837</b>	<b>3,983</b>	<b>12,820</b>

- 4.2.4 The equalisation reserves were established to mitigate against volatility in key budget areas, which are known to be subject to changes largely outside the Council's control (e.g. interest rate fluctuations).
- 4.2.5 The Budget Equalisation Reserve was used to meet the costs of the 2023/24 pay award that exceeded the budget provision for the year. Council approved a draw of £477,000 for this purpose. A similar draw was taken in 2022/23. The only other draw from this reserve in 2023/24 was to meet the cost of interim staff (£47,000). With inflation now much more stable, and the 2024/25 pay award confirmed, draws for this purpose are less likely to be required in the near future. No further draws from this reserve are currently approved.
- 4.2.6 Setting aside the Collection Fund Equalisation Reserve, which is held to mitigate the impacts of a reset of business rates, no transfers to or from the above reserves are expected in the medium term. The ongoing risk of business rate reform is so significant that a dedicated reserve for this purpose is recommended to be retained.
- 4.2.7 It is recommended that the four equalisation reserves and General Fund balance are consolidated, enabling the release of balances to other areas that will help deliver Corporate Action Plan priorities.
- 4.2.8 The revised General Fund Balance will have a recommended operational balance of £3.0M and a recommended floor level of £2.5M. This would mean that the £2.516M earmarked reserves and £2.604M General Fund balance, totalling £5.12M will be consolidated into one reserve of £3M, with £2.12M to be reallocated.
- 4.2.9 It is recommended that the allocation of the above sum is:
- £1.12M to Regeneration Reserve
  - £1.00M to Asset Management Reserve

## **5 Medium Term Financial Strategy**

5.1 The following sections sets out the recommended approach to budgeting for the most significant budgetary elements. It is an overall strategy approach and does not focus on specific service budgets areas.

5.2 This section explores the potential impact of:

- Changes to retained business rates thresholds
- Investment income and the impact of changes to interest rates
- Inflation forecasts
- Government funding and Core Spending Power
- Council Tax charges and limits on increases
- Impacts of a changing climate
- The impact of the regeneration projects on the budget

### **5.3 Business Rates**

5.3.1 Despite years of uncertainty as to how and when a re-set of business rates baselines will occur, it is not expected that the new government will have time to make any significant changes ahead of the 2025/26 financial year.

5.3.2 There are strong short-term benefits to this Council in the re-set being delayed. However, the downside is that the longer it is delayed, the greater the cliff-edge that is faced.

5.3.3 The current assumption is a reasonable worst-case scenario, i.e. that all growth will be lost in 2026/27. The effects of this are offset by transitional support and use of reserves established for this purpose. This will continue to be monitored as the budget process progresses but is unlikely to have a material impact on the budget setting for 2025/26.

5.3.4 Further scenario planning around the impacts of a potential re-set will be undertaken after the new government's Budget at the end of October and any preliminary announcements related to local government funding for next year (and potential multi-year settlements).

5.3.5 The budget forecast allows for additional income in respect of a forecast 2% growth in the baseline.

5.3.6 Approximately £3M of growth is included in the base budget. Any growth above this level is transferred to the Collection Fund Equalisation Reserve.

### **5.4 Investment Income**

5.4.1 Overall income from cash investment returns has risen rapidly over the past few years.

5.4.2 Actual investment income in 2023/24 was £4.483M and the budget for 2024/25 is £4.178M. Interest rates have started to fall, and a slow reduction in base rate over the medium term is forecast. It is therefore likely that the final estimate for 2025/26 will be lower than the current figure.

- 5.4.3 To mitigate against the impact of falling interest rates and the planned use of reserves that will reduce cash balances, the MTFs assumes a base budget income of £3M in 2025/26 before reducing to £2.55M over the rest of the medium term (based on average portfolio of £85M at 3%).
- 5.4.4 An initial forecast suggests that an estimate in 2025/26 of £3.6M is achievable. The difference of £600,000 could be transferred to specific reserves or used to close the budget gap. Specific recommendations related to the investment income level to include in the budget will be updated throughout the budget process.
- 5.4.5 The Council's Treasury Adviser, Link Asset Services, has provided the following forecasts of interest rates:

	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Bank Rate	4.5%	4.0%	3.5%	3.25%	3.25%	3.25%	3.25%

- 5.4.6 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.

## 5.5 Inflation

- 5.5.1 After a period of high inflation in the economy, inflation rates have fallen considerably in recent months and CPI is now below 2.5%.
- 5.5.2 The Bank of England's [Monetary Policy Report \(May 2024\)](#) set out a forecast that inflation is expected to increase slightly over the remainder of 2024, before falling again to the 2% target (and possibly lower) where it is expected to stabilise throughout the following two years.
- 5.5.3 The base level of inflation built into the medium-term forecast is £850,000 in 2025/26, increasing incrementally over the following years.
- 5.5.4 Any variation between forecast and actual inflation levels is likely to have a knock-on impact on the projected budget gap.
- 5.5.5 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 £26M, a 1% pay award costs £260,000 per annum. This strategy makes no specific reference to a potential pay award for 2025/26.

## Government Funding and Core Spending Power

- 5.6 In recent years, the amount of grant received by the Council from central government has been determined using a Core Spending Power (CSP) calculation. CSP includes income from Council Tax, retained business rates and central grants.

- 5.7 No indicative settlement or principles for 2025/26 and beyond were included with the 2024/25 settlement. With the change in government in July, there is no certainty as to how departmental budgets will be set and the cascade of funding to local government. The national Budget is scheduled for 30 October and it is very unlikely that more information will be known before that date.
- 5.8 It is assumed that the retained business rates baseline will increase by inflation in 2025/26, and that the Council Tax charge will increase by £5. Amongst the speculation about funding levels is whether the New Homes Bonus will be continued.
- 5.9 The current MTFs assumes New Homes Bonus funding will cease in 2024/25 and that other grants will be stopped altogether. They were established as interim grants and, whilst included in the overall local government funding allocation, there is no commitment to sustain the funding.
- 5.10 This is likely to be a cautious view, particularly for the New Homes Bonus and other non-ringfenced grants. However, details of provisional funding amounts are unlikely to be known before December and plans must be made to manage cuts to this extent.

5.10.1 A summary of the forecast CSP shown in the following table.

	2023/24 CSP £'000	2024/25 CSP £'000	2025/26 forecast CSP £'000
Baseline retained business rates	2,470	2,586	2,638
Compensation for under-indexing business rates	421	491	491
Council Tax (including rolled up grants)	8,838	9,246	9,549
New Homes Bonus	1,200	230	0
Services Grant / Lower Tier Services Grant	93	16	8
Funding Guarantee Grant	1,356	2,646	1,323
<b>Total Core Spending Power</b>	<b>14,378</b>	<b>15,215</b>	<b>14,009</b>

5.10.2 Should any funding be received for the New Homes Bonus it will be transferred to reserves, in the same way as previous grants.

5.10.3 Any income from other non-ringfenced grants, such as the Funding Guarantee Grant, could be used to close the budget gap or be transferred to reserves. Recommendations relating to the most appropriate treatment will be made once the quantum and certainty of the ongoing funding is known, i.e. if the funding is for 2025/26 only, it will not be used to close the budget gap as it is unsustainable funding and could lead to larger budget pressures in later years.

## 5.11 Tax Base and Council Tax increases

- 5.11.1 The MTFs forecast assumes that Council Tax will be increased by £5 for a band D property in 2025/26 and each year 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.
- 5.11.2 If maximum increase levels remain at the higher of £5 and 3%, it would be possible to increase Council Tax by more than £5, but this is unlikely to have a significant impact on the budget gap.
- 5.11.3 The current Council Tax charge is still very low when compared with other authorities – continuing to be the 27<sup>th</sup> lowest out of the 164 district councils in England, and the 4<sup>th</sup> lowest in Hampshire. It is also £44, or 20%, lower than the average Council Tax payable in the rest of England.
- 5.11.4 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 other low-income, working-age households. A revision to the way the Council Tax Support scheme operates is currently the subject of a public consultation.
- 5.11.5 A Special Expenses Levy is charged in Andover. The charge is fully re-calculated on a triennial basis and is updated in each intervening year at a rate no higher than the main Test Valley precept. The charge was last re-calculated ahead of the 2023/24 financial year and so 2025/26 is the final year linked to that valuation. This strategy allows for a full recalculation in 2025 for inclusion in the budget for 2026/27.

## 5.12 Impacts of a changing climate

- 5.12.1 The Council has ambitious targets set out in its 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.
- 5.12.2 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.
- 5.12.3 Delivery of these actions will require substantial investment in both our existing asset base as well as seeking out new initiatives.
- 5.12.4 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.



5.12.5 For example, a detailed Asset Management Strategy is being developed that will consider factors such as climate sustainability for all Council-owned properties. It is likely that there will be occasions where decisions over cost and climate change delivery need to be made. This strategy ensures that that choice is available to Councillors, so that the cheapest option does not have to be taken by necessity.

### 5.13 Regeneration Programmes

5.13.1 The Council has approved Masterplans that will underpin the regeneration of both the south of Romsey town centre and Andover town centre. Delivery of this programme will require considerable Council resources and funding – both revenue and capital.

5.13.2 A funding strategy for four regeneration projects was approved by Council in February 2024. This was set in the context of being awarded £18.3M in Levelling-Up funding from the government.

5.13.3 The strategy identified that the use of reserves will be required in order to meet all of the requirements of these projects. The impact of using reserves is a depletion in the level of cash balances available to generate investment income. The forecast use of reserves for this purpose has been factored into the investment income forecast that is set out in paragraph 4.4.

5.13.4 An updated regeneration programme financial strategy will be presented in February 2025 alongside the final budget report.

#### Summary of assumptions affecting the budget

5.14 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.

5.15 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.

5.16 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).

5.17 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](#).

## 6 Budget Strategy for 2025/26

- 6.1 When the 2024/25 budget was approved by Council in February 2024, the forecast budget gap for 2025/26 was £321,900. The table below shows the movement in the budget gap since that time and sets out the remaining budget gap to be closed by February 2025.

	£'000
<b>Opening Budget Gap</b>	<b>322</b>
Savings / Income	(350)
Pressures	281
Credit from Collection Fund	(27)
Assumed inflationary increase in business rates baseline	(52)
<b>Current Budget Gap</b>	<b>174</b>

- 6.2 The accountancy team has undertaken an analytical review with budget holders, that has sought to review variances from prior years' outturn information to identify where there may be savings options, income generation capacity or potential budget growth that will be required to feed into the budget process.
- 6.3 A summary of those items is show in annexes 2 and 3 to the report.
- 6.4 In addition to those forecast changes, an additional £27,000 can be drawn from the Collection Fund in respect of increased Council Tax income from the 2023/24 financial year.
- 6.5 The other change to the forecast budget gap is the assumption that business rates baselines will be increased by inflation in 2025/26.
- 6.6 It is expected that there will be a number of areas that will require consideration as part of the budget process that are likely to lead to budget pressures. These cannot be quantified at this stage with reliable accuracy due to either uncertain timing of their impact or the budgetary implications arising from any changes. Some examples of these relate to:
- The roll-out of food waste collections. This could relate to either government funding not meeting the full cost of food waste roll-out in the medium term; or, in relation to 2025/26, any local decision to begin collections ahead of the mandated date.
  - Implications related to the Government's proposed planning reforms and the consequences for the Council's Local Plan and meeting any revised housing requirement.

- Roll out of an IT strategy which will see more costs move from capital expenditure for on-premises systems to revenue hosting services. The cost of this will depend on procurements taken for each software system.
- A reduction in income as a result of transfer of LLC1 searches to HM Land Registry.

6.7 Notwithstanding any pressures that may evolve from the above, the current budget gap to close for 2025/26 is £174,000. Whilst this represents a relatively small budget gap and is expected to be closed by February 2025, the position in the medium term is far less certain and focus should not be drawn from the need to retain financial stability beyond the coming year.

6.8 Budget holders and the accountancy team will prepare more detailed estimates over the coming months. An update on the budget process will be presented to Cabinet in January before the final proposals are presented in February.

6.9 Alongside this work, fees and charges for 2025/26 are scheduled to be reported to Cabinet in November. It is anticipated that increases will be limited to the forecast rate of inflation unless there is a clear justification for higher increases. The budgetary impact of any increases in charges will be included in the next budget update.

## 7 Capital

7.1.1 Alongside revenue estimates and 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.

7.1.2 The Council will maximise the utilisation of, and rate of return on, the tangible assets it holds on its balance sheet.

7.1.3 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.

7.1.4 The capital expenditure requirements for 2025/26 are scheduled to be reported to Cabinet in November. The revenue implications of any capital decisions will be considered as part of that report and any impact on the 2025/26 budget reported in January 2025 as part of the next budget update report.

7.2 The Capital Strategy will be updated in February 2025. The strategy will address the following key principles / questions:

- (a) How Corporate Action Plan 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.

7.2.2 Full details of the existing strategy can be found in the Cabinet report on 28<sup>th</sup> February 2024.

## **8 Medium Term Forecast**

- 8.1 This strategy focuses on the three-year period from 2025/26 to 2027/28. The forecast for 2025/26 has been discussed in detail in the earlier sections of this report.
- 8.2 Looking further ahead brings much more uncertainty as there is the potential for larger movements in the key assumptions and cumulative impacts affecting multiple financial years.
- 8.3 This is particularly the case for government grants and retained income from business rates. It is likely that some more information for 2026/27 will be known by the completion of the budget process.
- 8.4 At present, there is no evidence that supports a move from the current, prudent, assumption that:
  - All non-ringfenced grants will cease in 2025/26.
  - There will be a full re-set of business rates in 2026/27, with retained income reduced to baseline levels.
- 8.5 Overall, the budget gap is forecast to grow from £174,000 in 2025/26 by £2.125M in 2026/27. The reason for this is largely attributable to inflationary growth in the budget of £900,000 and the removal of government grants of £1.33M.
- 8.6 The forecast assumes that any losses in business rates income in 2026/27 will be offset by transitional arrangements introduced by the government, complemented by a draw from the Collection Fund Equalisation Reserve. It is considered highly unlikely that there will not be some form of damping or transitional arrangements to support Councils that lose out in any re-set.
- 8.7 This strategy therefore identifies that, whilst the position for the current budget round is expected to be stable, there is the potential for significant savings to be required in the next budget setting round. This position will be updated as soon as the provisional local government settlement is announced and the potential for multi-year settlements becomes clearer.

## **9 Overall Revenue Budget Summary**

- 9.1 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.
- 9.2 A sensitivity analysis based on an expected most likely case scenario using the assumptions, together with reasonable best and worst case scenarios is shown in Annex 1.
- 9.3 This financial strategy for the three year period to 2027/28 ensures that the financial resources of the Council continue to be aligned to the delivery of the Council's service and organisational priorities, whilst seeking to ensure adequate resources are retained for the ongoing delivery of key services.
- 9.4 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. Other mitigations have been deployed to restrict over-reliance on key income streams, such as investment income.
- 9.5 The forecast shows that a budget gap of £174,000 remains to be closed for 2025/26, with further increases of over £2.12M and £1.59M in 2026/27 and 2027/28 respectively.
- 9.6 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 2 to the report. These relate primarily to additional income and analysis of prior year activity when compared to base budget levels. Cabinet will decide on which options should be taken forward as recommendations to full Council as part of the budget setting process in February 2025. It is expected that this list will grow as the detailed estimates are prepared.
- 9.7 Annex 3 sets out a number of forecast unavoidable budget pressures that are expected to be required in 2025/26 and that add to the forecast budget gap. It is likely that further budget pressures will be identified as the budget process progresses and some examples of these have been set out in paragraph 6.6. 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.
- 9.8 Use of reserves for any purpose other than to mitigate potential losses from a business rates re-set is not recommended.

## **10 Consultations / Communications**

- 10.1 The information contained in this report will form the basis for future discussions about the 2025/26 budget.
- 10.2 The Budget Panel of the Overview and Scrutiny Committee has considered the main assumptions that are in the forecast and will continue to scrutinise the budget setting work as it progresses through the rest of the year.

10.3 A budget consultation with businesses will take place in the next three months.

## 11 Risk Management

11.1 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:

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Management of Risk</b>
Impact of Business Rates re-set – <b>AMBER</b>	Significant <b>C</b>	Critical <b>II</b>	Set aside an element of current growth income into an earmarked reserve to mitigate the impact of the re-set. Cap the maximum amount of business rates growth included in the base budget. Closely monitor government messages about the timing and extent of a re-set to enable detailed financial modelling to be undertaken.
Impact of new policy changes introduced by new government, such as those impacting Local Plan – <b>AMBER</b>	High <b>B</b>	Significant <b>III</b>	Monitor and respond to all government consultations that will impact delivery of Council services. Use reserves to ameliorate impact of major changes required at short notice.
Future resources less than assumed - <b>AMBER</b>	Moderate <b>D</b>	Critical <b>II</b>	Monitor announcements from government related to local government / public sector financing. Assess impact of Local Government Finance Settlement at the earliest opportunity. Assumption built-in for reduction in funding for non-ringfenced grants. Monitor collection rates for local taxation and rental income. Maximum income levels for investment income built into base budget to prevent over-reliance on this income stream.
Insufficient resources are identified to deliver masterplan objectives - <b>AMBER</b>	Significant <b>C</b>	Critical <b>II</b>	Regeneration Finance Strategy identified small potential deficit, which could be covered by reserves. This strategy will be updated in February 2025. Transfer to regeneration reserve included in base budget. Maximum external funding sources to be identified for each stage. Robust project planning and governance process. Regular review of forecast potential costs as each project progresses towards delivery.
Income targets are not achieved - <b>AMBER</b>	Moderate <b>D</b>	Significant <b>III</b>	Monthly monitoring of budgets and projections. Actual income performance is used in the forecasting of future years' budgets. Use of contingency or General Fund Reserve if necessary.

Inflation estimates vary from those assumed - <b>AMBER</b>	Moderate <b>D</b>	Significant <b>III</b>	This risk has reduced in the past year. Inflation levels have dropped to between 2-2.5% and are predicted to remain stable. Sufficient allowance for expected inflation levels built into budget forecast.
Savings anticipated from reviews are not delivered - <b>AMBER</b>	Moderate <b>D</b>	Significant <b>III</b>	Continue digital transformation efficiency focus. Closely monitor progress of budget / efficiency savings through monthly budget monitoring.
Future spending requirements are under-estimated - <b>AMBER</b>	Significant <b>C</b>	Significant <b>III</b>	Review Service Plans and spending projections. Closely monitor progress through budget / performance monitoring.
Increased demand for homelessness assessments and temporary accommodation - <b>AMBER</b>	High <b>B</b>	Significant <b>III</b>	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. Work with partners to maximise number of units available as temporary accommodation.

## 12 Resource Implications

12.1 Resource implications are contained within the Strategy itself.

## 13 Legal Implications

13.1 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.

## 14 Equality Issues

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

## 15 Conclusion and reasons for recommendation

15.1 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.

15.2 Whilst the position for 2025/26 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.

15.3 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.

Background Papers (Local Government Act 1972 Section 100D)

None

Confidentiality

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:	4	File Ref:	N/A
(Portfolio: Finance and Resources) Councillor M Flood			
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Report to:	Cabinet	Date:	2 October 2024