

Medium Term Financial Strategy Update

2025/26 – 2029/30

3 December 2024

Report of Chief Finance Officer

PURPOSE OF REPORT

To provide an update on the Council's Medium Term Financial Strategy forecasts for 2025/26 to 2029/30 and outline the approach to balancing the budget.

This report is public.

RECOMMENDATION OF PORTFOLIO HOLDER FOR FINANCE & RESOURCES

That Cabinet considers :

- (1) The draft future years estimates as set out in the report as the latest information available, accepting that this is an interim position.
- (2) Agrees that the update be referred on to December Council for information.
- (3) Notes the Council Tax Base for 2025/26 as set out in paragraph 3.12.

1.0 INTRODUCTION

- 1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.
- 1.2 This report sets out:
 - An updated budget gap analysis taking account of the latest funding outlook and other information on expenditure and income pressures.
 - A summary of the budget framework strategy
- 1.3 It is critically important that all Members understand that the position reported is an interim update of the baseline position and primarily for information. It contains a series of estimates and assumptions that are based on the latest information available. These are highly likely to change over the coming months as we work through the budget process. It does not include any interventions through the Council's agreed Outcomes Based Resourcing process, or any impact the Local Government Finance Settlement due mid-December may have.

2.0 UPDATED BUDGET GAP ANALYSIS

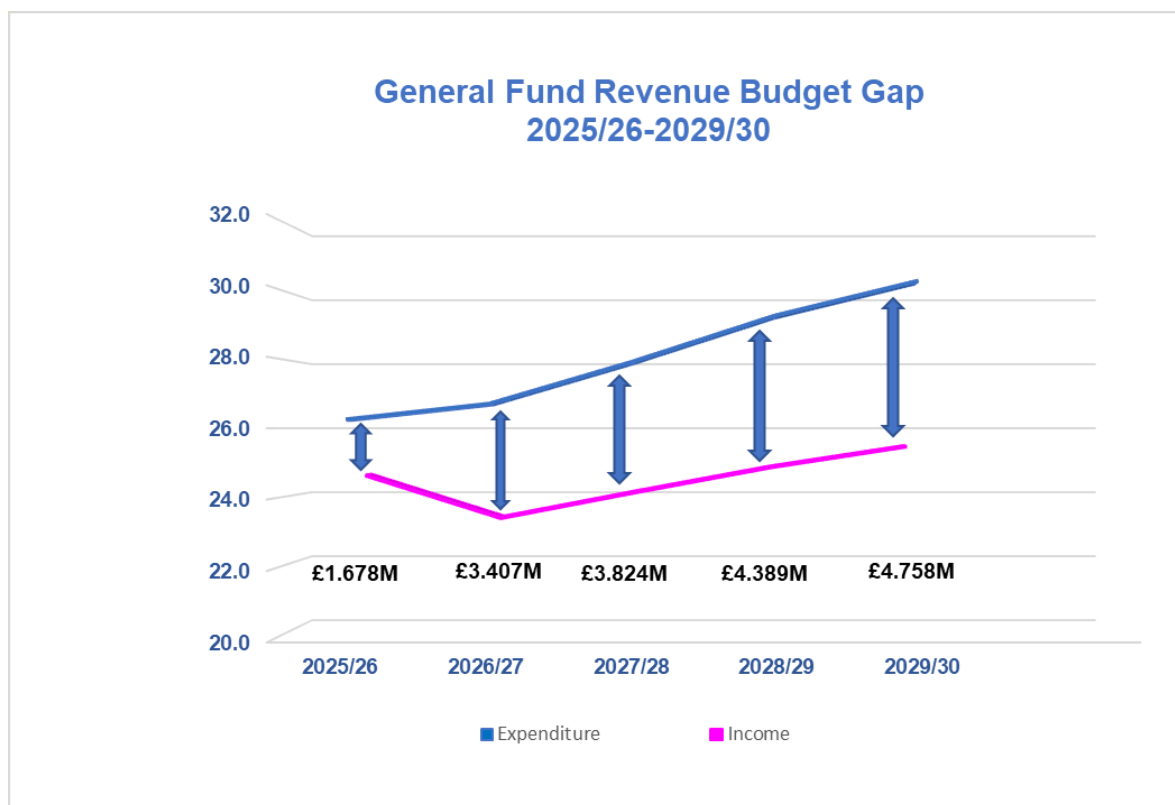
- 2.1 Officers have been working with budget holders and Senior Leadership Team to update the Council's Medium Term Financial position. The review considered latest available information around government funding, other income streams as well as forecast expenditure levels incorporating known budget pressures. It aims to provide a baseline position.

2.2 As noted above, this baseline forecast is subject to change when more up to date information becomes available and does not reflect the ongoing work being done by Cabinet and Senior Leadership Team in regard to any Outcomes Based Resourcing (OBR)/Fit for the Future (FftF) proposals, nor does it reflect the revenue impact of any proposed further revisions to the capital programme made after the after Capital Programme Mid Year Review report was approved by Council on 13 November 2024. It sets a baseline position without any further interventions in the Budget setting process. The interventions and actions being undertaken include:

- A range of income and efficiency proposals aiming to significantly reduce the 2025/26 budget gap, to be brought forward in the upcoming Budget and Policy Framework.
- An ongoing OBR/FftF process which includes the examination of every area of its budget and matching resources more closely with its priorities. The OBR/FftF programme includes looking at ways the Council can do things differently by utilising technology and being more efficient, as well as considering areas in which it can generate more income.

More details on OBR/FftF are given in section 6.0 of this report.

2.3 The current budget gap for the next five years to 2029/30 is summarised in the graph below. The graph below assumes no intervention, but it does highlight the scale of the challenge facing the Council, the reasons for which are outlined in the report.



3.0 GOVERNMENT FUNDING PROSPECTS

3.1 Members will be aware that Local Government funding has changed significantly over recent years. Significant reductions in central funding have taken place and as a result the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from some assets and services to fund net expenditure. It is, therefore, important to provide regular estimates of these key funding streams.

Autumn Statement

3.2 Government announced its Autumn Statement on 30 October and a number of announcements will have a significant impact on the net financial position of the Council. The key issues are as follows :-

- the government is increasing the rate of employer National Insurance contributions (NICs) from 13.8% to 15% and reducing the per-employee threshold at which employers become liable to pay National Insurance (the Secondary Threshold) from 6 April 2025 to £5,000 – this could possibly be offset by a government contribution however this amount hasn't been confirmed at the time of writing this report
- the national living wage (NLW) will increase by 6.7% to £12.21 per hour from April 2025. This represents an increase of £1,400 to the annual earnings of a full-time worker on the NLW and is expected to benefit over 3 million low paid workers across the UK
- at the Budget, the government has fixed the envelope for Phase 2 of the Spending Review, which will conclude in the late spring. It will deliver a new settlement for public services, marking a fundamental change in how the government approaches public spending, supports growth, and delivers public services
- the government is also committed to pursuing a comprehensive set of reforms to return the sector to a sustainable position. This will include reform of the approach to allocating funding through the LGFS, starting with a targeted approach to allocating additional funding in 2025-26, ahead of a broader redistribution of funding through a multi-year settlement from 2026-27. The government will set out further details through an upcoming local government finance policy statement
- a significant reform to the Right to Buy scheme which will impact the Housing Revenue Account

3.3 With regard to the first two points above, these have been included into the latest projections presented where possible, although the potential NIC contribution has not and could lead to a reduced budget gap when known. For information, the NIC increase has created a strain of c.£0.5M on the general fund.

3.4 The Autumn Statement itself only provides useful headline messages regarding Local Government's funding prospects over the next few years but it does not provide information at individual Authority level. The level of detail required for Councils to finalise their budgets will not be available until the announcement of the Local Government Finance Settlement. It is understood that this is likely to be published in the week before Christmas.

3.5 A further update will be produced for all Members once the Settlement has been announced and its impact assessed. This will be reported into January's Cabinet and Council meetings.

Local Government Finance Settlement

3.6 Given that the Settlement announcement is imminent, and the current level of uncertainty, there is little benefit to be gained from spending significant time on modelling different funding scenarios; real information is needed at this stage in the process.

3.7 Nonetheless, some preliminary high-level work has been done to update the budget scenarios, in order that we do not lose sight of the potential risks and the challenge created by the underlying position.

3.8 This has taken the updated budget position and reflected several assumptions such as general inflation, the Local Government Pay Award and prospects for retained Business Rates, Council Tax yield and New Homes Bonus.

Council Tax

3.9 Council Tax is the Council's primary source of funding and is calculated by multiplying the tax base, the number of eligible residential properties (expressed in band D equivalents), by the level of the district council precept which is determined each year.

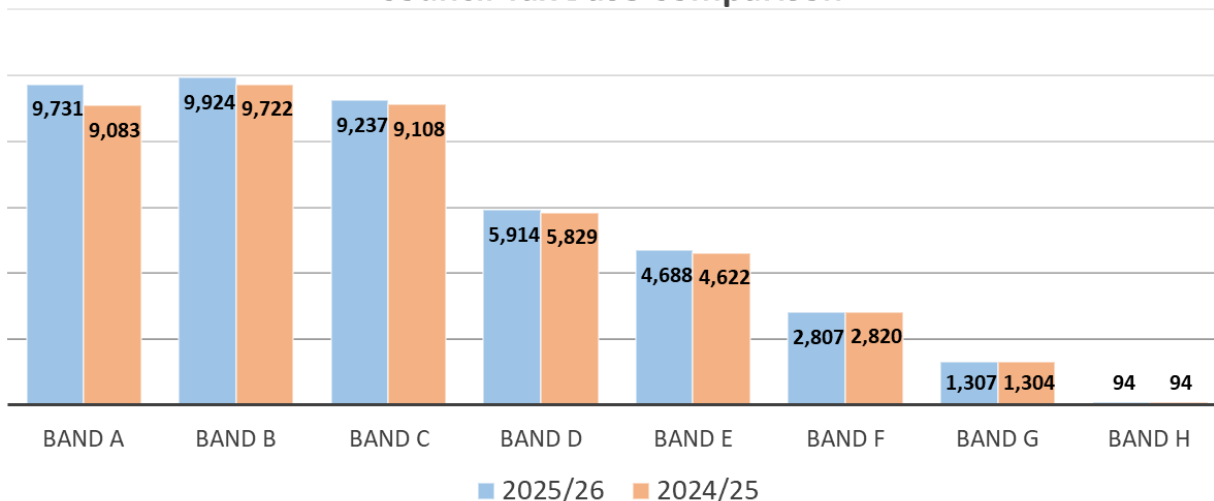
3.10 The tax base for 2025/26 has been calculated as 43,702 Band D equivalent properties after

allowing for a collection rate of 98.68%, the same as in previous years. This equates to a negligible increase in the tax base from 42,583 in 2024/25. This increased number of Band D equivalents when compared to the forecast in 2024/25 is largely due to :-

- new properties built in the area;
- holiday lets which have been brought back into council tax when they should meet the business rates criteria;
- a reduction in exempt accounts due to a review of student exemptions;
- an increase in eligibility for the Council Tax Reduction Scheme.

From 2026/27 1% growth in the Tax base has been used for forecasting purposes.

Council Tax Base Comparison



3.11 The Government’s referendum criteria which limits increases in the Council’s element of Council Tax currently remains unchanged at 3% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by 2.99%, the maximum allowed before triggering a referendum, in each of the next three years.

3.12 The table below sets out Council Tax forecasts for the next four years including a sensitivity analysis showing the potential impact on council tax yield of different scenarios:

	Actual 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
Council Tax Band D 2.99% increase	£256.63	£264.30	£272.20	£280.34	£288.72	£297.35
Council Tax Band D (£5 increase)	£256.63	£261.63	£266.63	£271.63	£276.63	£281.63
Tax base (1% growth from 2025/26)	42,583	43,702	44,139	44,580	45,026	45,476
Council Tax Income (based on 2.99%)	£10,610,019	£11,550,439	£12,014,641	£12,497,672	£12,999,967	£13,522,428
Previous MTFS		£11,367,000	£11,824,000	£12,300,000	£12,794,000	£13,177,000
Difference Increase or (Decrease)		£183,439	£190,641	£197,672	£205,967	£345,428
Scenario 1 – No increase in Council tax over period of MTFS		£-151,756	£-496,603	£-859,329	£-1,238,924	£-1,506,374
Scenario 2 – Council Tax Band D (£5 increase)		£66,754	£-55,213	£-190,623	£-338,400	£-369,462
Scenario 3 – 1.5% increase in tax base growth & 2.99% increase from 2025/26)		£-108,715	£250,248	£321,748	£399,927	£614,985

Business Rates

- 3.13 Business Rates is now a fundamental part of the local government finance settlement and, along with Council Tax, accounts for the majority of local government financing. There are currently several significant uncertainties which make forecasting and planning extremely difficult, these are set out below.
- 3.14 The Chancellor's autumn statement set out a number of changes in which business rates were chargeable. To summarise :-
- for 2025/26, eligible retail, hospitality and leisure (RHL) properties in England will receive 40% relief (previously 75%) on their business rates liability. RHL properties will be eligible to receive support up to a cash cap of £110,000 per business;
 - for 2025/26, the small business multiplier in England will be frozen at 49.9p. The government will lay secondary legislation to freeze the small business multiplier. The standard multiplier will be updated by the September 2024 CPI rate to 55.5p;
 - the government intends to introduce permanently lower multipliers for Retail, Hospitality and Leisure (RHL) properties from 2026/27, paid for by a higher multiplier for properties with Rateable Values above £500,000;
 - removing Charitable Rate Relief from Private Schools – The existing mandatory business rates relief of 80% for private schools with charitable status will end from 1st April 2025
 - English local authorities will be fully compensated for the loss of income and administration costs resulting from these business rates measures.
- 3.15 Officers are currently working through the implications of the above and the figures presented in this report do not include any updated projections in respect of business rates. It is recognised and appreciated that this is an extremely important component of the net financial position of the Council and Members are asked to note that the changes could be significant.
- 3.16 Further information which will inform the estimates will become available during December and January and updates will be provided as a clearer picture emerges. Further monitoring for 2024/25 will also be undertaken to inform the forecast surplus or deficit for the year.

4.0 MEDIUM TERM FINANCIAL STRATEGY – CURRENT PROSPECTS TO 2029/30

- 4.1 Total operational changes included in the base budget for 2025/26 currently amount to an increase in expenditure of £0.243M and are provided in the General Fund Revenue Budget Projections 2025/26 - 2029/30 table at paragraph 4.3.

MTFS Planning Assumptions

- 4.2 Within the current base budget there are several principles and key assumptions underpinning the proposed revenue strategy. The table below lists the major assumptions that have been made within the MTFS. Members should note these assumptions are highly likely to change as we move through the budget cycle

	2025/26	2026/27	2027/28	2028/29	2029/30
Council Tax Base Growth	1.00%	1.00%	1.00%	1.00%	1.00%
Council Tax Increase	2.99%	2.99%	2.99%	2.99%	2.99%
Council Tax Collection Rate	98.67%	98.67%	98.67%	98.67%	98.67%
Fees & Charges	0.00%	2.30%	2.10%	2.10%	2.00%
Pay Award	2.50%	2.50%	2.50%	2.50%	2.50%
Employer Pensions Contribution	16.30%	16.30%	16.30%	16.30%	16.30%
Utilities (based on 24/25 projected outturn)	0.00%	0.00%	0.00%	0.00%	0.00%
Other inflation	2.60%	2.30%	2.10%	2.10%	2.00%
Interest Rate – investments	3.50%	3.13%	3.00%	3.00%	3.00%
Interest Rate – new borrowing	3.90%	3.80%	3.80%	3.80%	3.80%

4.3 General Fund Revenue Projections 2025/26 – 2029/30

General Fund Revenue Budget Projections 2025/26 to 2029/30

For Consideration by Cabinet 03 December 2024

	2025/26	2026/27	2027/28	2028/29	2029/30	
	£'000	£'000	£'000	£'000	£'000	
Revenue Budget/Forecast as at 28 February 2024	26,007	27,235	27,899	29,390	30,272	
Budget Changes (Operational)						
Pay Award Savings	(718)	(843)	(968)	(1,093)	(1,218)	
National Insurance Contributions Rebate	489	475	465	464	463	
Restructuring Savings	(190)	(195)	(200)	(205)	(210)	
Building Control	52	53	54	55	56	
Housing & Property R&M	113	113	113	113	113	
Business Rates	68	69	69	69	69	
Water Charges	52	52	52	52	52	
Bridge Maintenance	48	0	0	0	0	
Vehicle R&M	83	83	83	83	83	
Trade Refuse Waste Disposal	135	135	135	135	135	
Revenues & Benefits Administration	85	85	85	85	85	
SALC Income	102	102	102	102	102	
Planning Income	160	0	0	0	0	
Fees & Charges Inflation	404	404	404	404	404	
Festival Market Income	50	35	35	35	35	
Commercial Property Rent	238	45	55	(28)	(28)	
Interest Payable	(613)	78	78	78	87	
Interest Receivable	(198)	(161)	(73)	(73)	(73)	
Minimum Revenue Provision (MRP)	(248)	(1,202)	(692)	(616)	(454)	
Minor Variances	131	132	197	162	232	
	Latest Budgetary Position	26,250	26,695	27,893	29,212	30,205
Predicted Budget Changes:						
National Insurance Contributions Rebate	??	??	??	??	??	
Commercial & Corporate Property Review	??	??	??	??	??	
Local Government Settlement	??	??	??	??	??	
Outcomes Based Resourcing Proposals:						
<u>Fit For The Future</u>						
Catering Review	??	??	??	??	??	
Digitalisation	??	??	??	??	??	
Fleet Review	??	??	??	??	??	
OBR Assets	??	??	??	??	??	
Re-Imagining The Museums	??	??	??	??	??	
Salt Ayre Leisure Centre	??	??	??	??	??	
Support Services Review	??	??	??	??	??	
Waste Management	??	??	??	??	??	
<u>Growth/(Savings) Proposals</u>						
Environment & Place	??	??	??	??	??	
Governance	??	??	??	??	??	
Housing & Property	??	??	??	??	??	
People & Policy	??	??	??	??	??	
Planning & Climate Change	??	??	??	??	??	
Resources	??	??	??	??	??	
Sustainable Growth	??	??	??	??	??	
Corporate Accounts	??	??	??	??	??	
Other Items	??	??	??	??	??	
Revenue Impact of Capital Programme Review (MRP & Interest)	??	??	??	??	??	
Revenue Impact of Capital Programme Review (Ongoing Revenue)	??	??	??	??	??	
General Fund Revenue Budget	26,250	26,695	27,893	29,212	30,205	
Core Funding:						
Revenue Support Grant						
Prior Year Council Tax (Surplus)/Deficit						
Prior Year Business Rates (Surplus)/Deficit						
Net Business Rates Income	(13,205)	(11,464)	(11,769)	(12,029)	(12,270)	
Council Tax Requirement	13,045	15,231	16,124	17,183	17,935	
Estimated Council Tax Income - (Increases based on 2.99% for 2025/26 then max allowable)	11,367	11,824	12,300	12,794	13,177	
Resulting Base Budget (Surplus)/Deficit	1,678	3,407	3,824	4,389	4,758	
Incremental Deficit as Percentage of Net Revenue Budget	6%	13%	14%	15%	16%	

4.4 To reaffirm, the baseline forecast deficit positions above are subject to change when more up to date information becomes available and does not reflect the ongoing work being done by Cabinet and Senior Leadership Team in regard to any OBR/FtF proposals, nor does it reflect the revenue impact of any future revisions to the capital programme.

5.0 PROVISIONS, RESERVES AND BALANCES

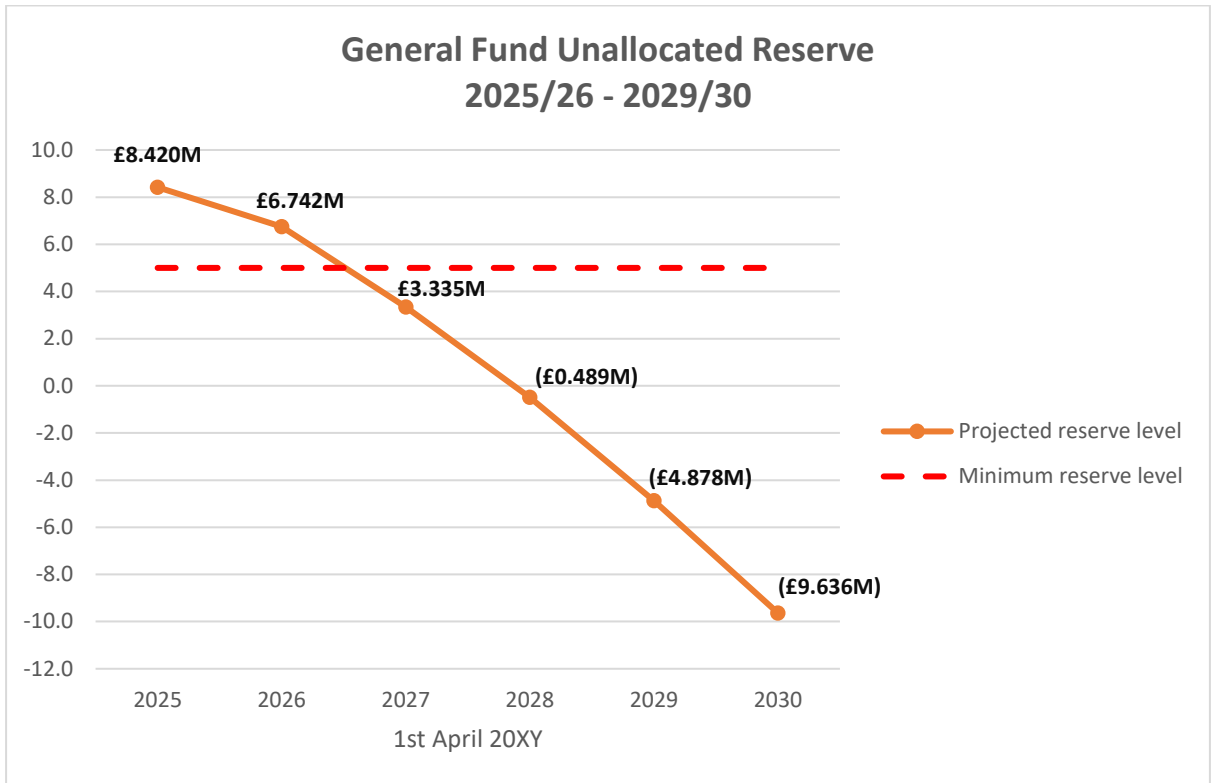
5.1 A Council's reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. Councils generally hold two types of reserves, "Unallocated" to meet short term unexpected cost pressures or income reductions and "Earmarked". These can be held to provide for some future anticipated expenditure for identified projects (particularly in respect of corporate priorities), address specific risks such as business rates, provide up-front costs which specifically result in future efficiencies, cost savings or increased income, or to hold funding from other bodies, mainly Government, for specified purposes.

5.2 As noted above, reserve levels and their usage are an important part of the budget framework. It is important that the Council maintains a healthy level of reserves in order to maintain financial resilience. The Council's minimum level of General Fund balance currently stands at £5M, at the advice of the s151 Officer.

5.3 The Council's Outturn Report 2023/24 showed the Council's Unallocated General Fund Balance as £10.327M. As reported to Cabinet elsewhere on this agenda (Delivering Our Priorities: Q2 2024/25 report), the projected level of the unallocated reserve is expected to reduce to £8.420M by 31 March 2025.

Without significant intervention by the Council the General Fund budget gaps will remain and unallocated balances will be required to fund them. Whilst the required level of reserves is assessed annually the forecast deficits are of such a size that available unallocated reserves will be expended within 2 years, as illustrated in the tables below.

		2025/26	2026/27	2027/28	2028/29	2029/30
		£'000	£'000	£'000	£'000	£'000
General Fund Unallocated Balance						
BALANCES		<i>£M</i>	<i>£M</i>	<i>£M</i>	<i>£M</i>	<i>£M</i>
	Balance as at 1 April 2025-29	(8.420)	(6.742)	(3.335)	+0.489	+4.878
	In Year allocations	+0.292	+0.097	+0.000	+0.000	+0.000
	Forecast (Under)/Overspend	+1.386	+3.310	+3.824	+4.389	+4.758
	Other Adjustments	+0.000	+0.000	+0.000	+0.000	+0.000
	Projected Balance as at 31 March 2025-29	(6.742)	(3.335)	+0.489	+4.878	+9.636
	Reserves	(6.742)	(3.335)	+0.489	+4.878	+9.636
Less Recommended Minimum Level of Balances	5.000	5.000	5.000	5.000	5.000	
Available Balances	(1.742)	+1.665	+5.489	+9.878	+14.636	



- 5.4 In addition to the General Fund Unallocated Reserve the Council holds some further non-ringfenced reserves. These include the Business Rates Retention (BRR), and the renewals reserve. The table below shows the position were these also to be utilised to support the budget deficit.
- 5.5 However, Members should be aware that whilst the BRR can be utilised to support the general fund its main function is to manage fluctuations within with Business Rates Retention regime. It contains several technical entries such as provision for appeals against business rating values. The appeals are independently managed by the Valuation Office Agency (VOA) and so the outcome is out of the Council's control. As a result the movement in the BRR can be significant depending on the volume and value of any appeals. The reserve is also there to manage routine surpluses and deficits encountered during the normal administration of the business rates system. It is therefore recommended that the use of this reserve is treated with extreme caution.

	31-Mar-26 £M	31-Mar-27 £M	31-Mar-28 £M	31-Mar-29 £M	31-Mar-30 £M
Unallocated Reserve (includes budget deficit)	-6.742	-3.335	0.489	4.878	9.636
Business Rates Retention Reserve	-12.176	-11.576	-11.076	-11.076	-11.076
Renewals Reserve	-1.880	-2.372	-2.864	-3.356	-3.848
Other Non-Ring Fenced Reserves	-1.437	-1.442	-1.447	-1.452	-1.457
Balance carried forward	-22.235	-18.725	-14.898	-11.006	-6.745

- 5.5 Whilst reserves can be used to manage the current financial crisis, as the tables clearly show, funding of the forecast deficits from reserves is **NOT** a viable option. Addressing the underlying structural issues within the Council's budget requires significant interventions from Cabinet, Senior Leadership Team, and Council to address the forecast deficit levels.

6.0 OUTCOMES BASED RESOURCING (OBR) / FIT FOR THE FUTURE (FftF)

6.1 The Council has embarked on a programme called Outcomes-Based Resourcing (OBR)/Fit for the Future (FftF) that will see it examine every area of its budget and match resources more closely with its priorities. The OBR/FftF programme includes looking at ways the council can do things differently by utilising technology and being more efficient, as well as considering areas in which it can generate more income.

6.2 The Council embarked on its OBR/FftF process in 2022/23, as set out in the Council Plan, with its intention to ensure that funds are allocated according to a set of predefined outcomes, or priorities to ensure that funds are directed toward the Council's key ambitions and statutory functions and away from areas which contribute less or not at all against the predetermined objectives.

6.3 The proposed actions through the OBR/FftF process currently include:

- Application of alternative funding to deliver key Council outcomes
- Detailed review and sensitivity analysis on all key and significant income streams
- Further rationalisation work on the Council's asset base
- Expansion of the investment to reduce cost principle
- The potential use of capital receipts to finance existing projects
- Capitalisation of transformation costs where appropriate
- Exploration of closer working and collaboration with other Councils, Public Sector Bodies and Partner Institutions
- Challenging existing cost base through the application of zero-based budgeting principles

6.4 Given the size of the ongoing financial issues the Council faces this fundamental reshaping of the Council's services and realigning against its priorities through the OBR/FftF process will be key to shrinking the estimated budget gap and securing the financial sustainability of the Council going forward. It is imperative that the work, or similar principles, continues. The application of OBR/FftF across the Council will be a significant piece of work and to fully achieve its stated aims will take an estimated further 12 to 24 months.

6.5 Cabinet and Senior Leadership Team have agreed on principles and common goals as they continue to work through the OBR/FftF process.

- We need to continue to tackle the structural deficit over the short, medium and long term
- We need to use reserves carefully to transition
- We want to continue to deliver services that residents/ businesses need and rely on
- We want to achieve positive outcomes for our district

6.6 However, if these are not successful and the deficit is not closed, then balances will be required to make up the difference.

7.0 BALANCING THE BUDGET TO 2029/30

7.1 A number of workshops have already been held between Cabinet and Senior Leadership Team to explore proposals from the OBR task groups and these will be ongoing throughout the budget process.

7.2 Savings were identified during the 2023/24 and 2024/25 budget processes which have contributed towards addressing the structural deficit. However, the continuation of the application of OBR across the Council is an ongoing and significant piece of work and will

continue to have a particularly important part to play in driving down budget gaps from 2025/26 to achieve a position of financial sustainability.

- 7.3 Capital proposals have been reviewed by Capital Assurance Group and passed on to Cabinet who have given an initial steer on which proposals they would like to see worked up further. This work is ongoing and the revenue impact of MRP and interest charges will be included in future update reports to Members.

8.0 DETAILS OF CONSULTATION

- 8.1 Given the size of the challenges faced by the Council and the need for fundamental change in service delivery, enhanced consultation with relevant internal and external stakeholders on the budget will be undertaken prior to Budget Council in February. Consultation on council housing matters will be undertaken through the District Wide Tenants' Forum.

9.0 OPTIONS AND OPTIONS ANALYSIS

- 9.1 As the report is for consideration and alternative options are put forward, the Cabinet could make supplementary recommendations regarding any matters.

10.0 CONCLUSION

- 10.1 It must be reiterated that the current forecasts **do not** include any interventions by Cabinet, Senior Leadership Team or the outcomes of the Local Government Settlement. Whilst some savings have been delivered, the forecasts show that potential annual and cumulative budget deficits still remain over the next 5 years and continue to need to be addressed. In light of this, balancing the budget both in the short and the medium term remains a tough task and ***all Members must work together and recognise that they will face a number of difficult but key decisions as part of the forthcoming budget and over the coming financial years which will affect the manner in which it delivers its services.***

RELATIONSHIP TO POLICY FRAMEWORK

Performance, project, and resource monitoring provides a link between the Council Plan and operational achievement, by providing regular updates on the impact of operational initiatives against strategic aims.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

None identified at this stage

FINANCIAL IMPLICATIONS

As set out in the report

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has authored this report and his comments are reflected within its contents however he would draw Members attention to the following commentary within the report.

It must be reiterated that the current forecasts **do not** include any interventions by Cabinet, Senior Leadership Team or the outcomes of the Local Government Settlement. However, the forecasts clearly highlight potential annual and cumulative budget deficits over the next 5 years and the perilous position the Council still faces, a position shared nationally across the public sector. In light of this, balancing the budget both in the short and the medium term will be a tough task and ***all Members must work together and recognise that they will face a number of difficult but key decisions as part of the forthcoming budget and over the coming financial years which will affect the manner in which it delivers its services.***

LEGAL IMPLICATIONS

No specific legal implications arising from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments

BACKGROUND PAPERS

none

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Ref: N/A