

CABINET

Medium Term Financial Strategy

2025/26 – 2029/30

11 February 2025

Report of Chief Finance Officer

PURPOSE OF REPORT				
To provide an update on the Council's Medium Term Financial Strategy (MTFS) forecasts for 2025/26 to 2029/30				
Key Decision		Non-Key Decision	X	Referral from Cabinet Member
Date of notice of forthcoming key decision				

RECOMMENDATION OF COUNCILLOR HAMILTON-COX

1. That Cabinet

- (1) Considers the draft future years budget estimates as set out in the report as the latest information available.
- (2) Agrees that the update be referred on to Council 26 February 2025 for information. A final consolidated medium term financial strategy will be agreed by the s151 officer in consultation with the portfolio holder before being presented to Full Council in March.

1.0 INTRODUCTION

- 1.1 The previous reports on this agenda considered the annual process for setting the Council's revenue and capital budgets for 2025/26. This report sets out the context in which future decisions on resource allocation and budgeting will be taken.
- 1.2 The Medium-Term Financial Strategy (MTFS) sets out how Lancaster City Council will manage its finances to deliver against its corporate priorities, whilst protecting its financial standing and responding to the many challenges it faces. A final consolidated medium term financial strategy will be agreed by the s151 officer in consultation with the portfolio holder before being presented to Full Council in March. This will in turn inform the future budget setting process.

2.0 GOVERNMENT FUNDING PROSPECTS

Local Government Finance Settlement

- 2.1 The Government released the final local government finance settlement on 3 February 2025. The final settlement included an additional £0.258M (£0.206M general fund and £0.052M HRA) in respect of the 'Employer NIC Contributions Grant' which is to contribute towards both the general fund and HRA additional staffing cost burden as a result of the forthcoming rises. The main aspects of the settlement are set out below:

- The calculation of Core Spending Power

- The level of Council Tax increase (excluding social care) beyond which a referendum is required increased to 3% or £5 whichever is the greater for 2025/26
- Continuation of a number of funding streams including Revenue Support Grant, which was originally due to cease in 2020/21, Services Grant, although at a reduced level and New Homes Bonus. The future of New Homes Bonus in its current form remains uncertain

2.2 A summary of the provisional settlement for Lancaster City Council is provided in table 1 below.

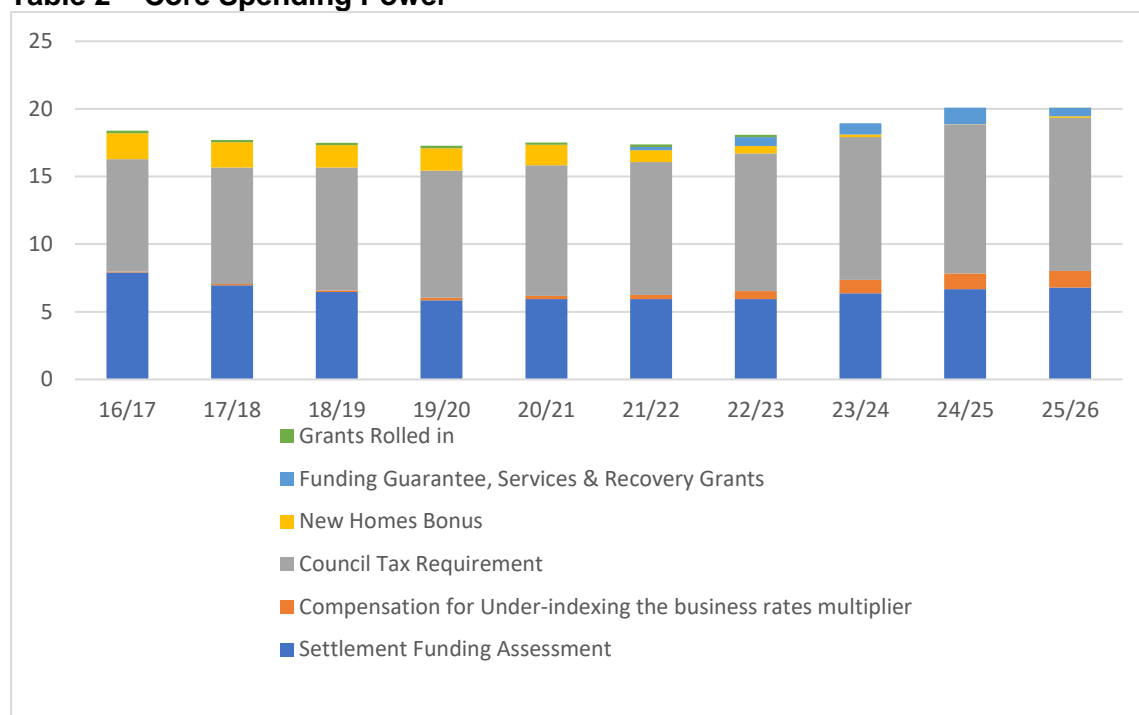
Table 1 – Provisional Settlement allocations for Lancaster City Council

	Final Settlement £'M	LCC Forecast £'M	Difference £'M
Revenue Support Grant	0.460	0.000	0.460
New Homes Bonus	0.137	0.010	0.127
Funding Guarantee/Services Grant	0.000	1.229	(1.229)
Domestic/Recovery Grants	0.637	0.000	0.637
Employer NIC Contributions Grant	0.206	0.000	0.206
Total Government Funding	1.440	1.239	0.201

2.3 As table 1 shows, the provisional settlement allocates £0.201M more resources from Central Government than anticipated. However, if the 'Employer NIC Contributions Grant' is excluded then this would result in a forecasted reduction of £0.005M for the 2025/26 revenue budget. The impact of the provisional settlement and its effect on retained business rates is examined separately in Section 3. In addition, a number of additional pressures have been identified, many mirroring the wider economic environment. These pressures are reflected in the current budgeted position.

Core Spending Power

2.4 Core Spending Power (CSP) is a measure used by the Government to set out the resources available to a Council to fund service delivery. It combines certain grants payable to the Council together with estimates of Business Rates and Council Tax, these estimates are based on Government assumptions. CSP is used by the Government to make comparisons of the resources available to different Councils. As such, it is not necessarily the actual funding a Council will receive to fund service delivery.

Table 2 – Core Spending Power

Further analysis of the provisional settlement when considered against 2024/25 is provided in the following table :-

Table 3 – Core Spending Power (Breakdown)

	2024/25 £'M	2025/26 £'M
Compensation for under-indexing the business rates multiplier	1.162	1.209
Council tax requirement excluding parish precepts	11.005	11.315
Domestic Abuse Safe Accommodation Grant	-	0.034
Employer NIC Contributions Grant	-	0.206
Funding Guarantee	1.189	-
New Homes Bonus	0.010	0.137
Recovery Grant	-	0.603
Services Grant	0.040	-
Settlement Funding Assessment	6.682	6.804
Grand Total	20.088	20.308

2.5 On the basis of the final settlement, the Council's CSP for 2025/26 will increase from £20.09M to £20.31M, or 1.1%, when compared to CSP in 2024/25, and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average CSP for all Councils in England of 7.9% and in real terms is deemed to be a significant reduction on previously received amounts creating additional pressure to the net financial position of the general fund.

This is compounded even further that the above analysis includes Employer NIC contributions which when excluded reduces the Council's CSP for 2025/26 to £20.10M, or 0.07% against a previously reported average 6.0%, which again is deemed to be a significant reduction in real terms.

3.0 COUNCIL TAX AND BUSINESS RATES

Council Tax

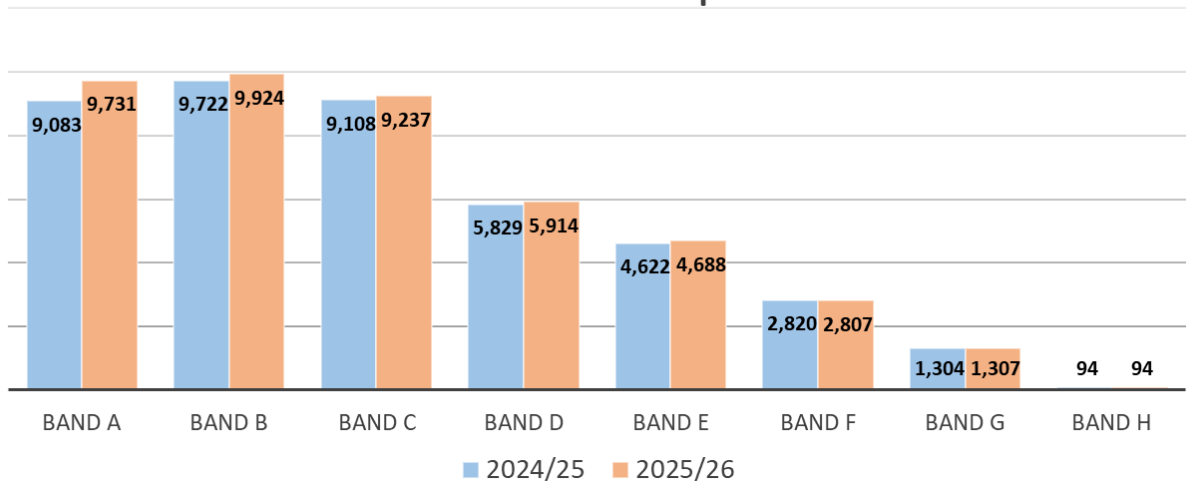
3.1 Council tax is a primary source of the Council's funding and is calculated by multiplying the tax base by the number of eligible residential properties (expressed in band D equivalents), and the level of the district council precept which is determined each year. Growth in housing numbers inevitably increases the taxbase and, therefore, Council Tax income.

3.2 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 significant increase in the tax base from 42,583 (2.6%) 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



3.3 The Council recognises the impact that Council Tax has on its residents and will always take their ability to pay into consideration when setting Council Tax levels. It provides a 100% Local Council Tax Support Scheme. However, the Council should adopt an approach where local sources of funding are maximised as far as is reasonably practicable to do so.

3.4 Government's referendum criteria limits increases in the Council's element of Council Tax to 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.

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

Table 4: Council Tax Forecasts

	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

- 3.6 The Council is expected to benefit from prior year surpluses to the collection fund account in respect of council tax. This amount is currently valued at £0.280M and is included within the council tax requirement calculation in 2025/26.

Business Rates

- 3.7 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. The Council uses its business rates retention reserve to mitigate against significant fluctuations in income levels and provide some budgetary stability.
- 3.8 Since the Medium Term Financial Strategy Update reported on 3 December 2024, work has been undertaken on business rates modelling as further information has become available, particularly in respect of the changes to the small and the standard business rates multipliers and the consequent impact on Section 31 grant adjustments. Details of the calculation of the adjustment required was release in guidance which accompanied the National Non Domestic Rates (NNDR1) form issued after the provisional finance settlement. This has been used to determine the amount of the adjustment based on data in respect of the rateable value of heraditaments on the small and standard business rates multiplier from initial information supplied by the revenues team.
- 3.9 The Council is required to submit its annual business rates return (NNDR1) to the Government by the end of January in which it estimates business rates income for 2025/26 and the estimated deficit or surplus as at the end of 2024/25.
- 3.10 The inherent risk associated with the NNDR1 is that the final outturn surplus or deficit position differs substantially from the estimate, and this has indeed been the case at the Council in recent years. Members will recall that the Business Rates Retention Reserve (BRRR) is used to manage the impact of surpluses and deficits and also to manage fluctuations in income levels in order to provide budgetary stability and smooth out year on year peaks and troughs. As part of the 2024/25 budget setting process, a contribution of £0.130M to the BRRR and a contribution of £0.820M to the unallocated reserve were included within 2025/26 and these contributions remains in place. All detailed contributions are included within the general fund net financial postion.

- 3.11 The Council is expected to benefit from prior year surpluses to the collection fund account in respect of business rates. This amount is currently valued at £0.636M and is included within the council tax requirement calculation in 2025/26.

Heysham Power Stations

- 3.12 Members will be aware of decommissioning plans for the Heysham 1 and Heysham 2 nuclear reactors which will have a significant impact on the Council’s finances. Currently the rateable value of the reactor’s accounts for a substantial proportion of the Council’s total rateable value. Central Government operates a “safety net” system to protect those Councils which see their year-on-year business rate income fall by more than 7.5 per cent. Given the Council’s exposure it is expected that it will inevitably fall into a safety net scenario and will need to rely on the Business Rates Retention Reserve to smooth operational shortfalls in the short term. This is currently expected to arise in 2027/28 in line with the current decommissioning date for Heysham 1 of March 2027. EDF Energy have indicated that there may be some scope to extend generation and are keeping this under review being unable to provide any certainty at this stage.

Green Energy Disregard

- 3.13 The Council receives rating income from renewable energy schemes within the district, largely in relation to Walney Sub-Station. The value of this income is included as £4.004M in 2025/26 (£3.970M for 2024/25). A majority of the income currently falls outside of the main rate retention scheme, and so the Council retains the full benefit from it. Whilst it is evident that this 100% disregard will continue into 2025/26, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

- 3.14 The table below provides Business Rates forecasts for the next five years in comparison to previously reported figures and the resultant net impact on the General Fund budget gap.

Table 5 – Business Rates Forecast

	2025/26	2026/27	2027/28	2028/29	2029/30
	£'M	£'M	£'M	£'M	£'M
Retained Business Rates	13.946	13.641	11.577	11.884	12.146
Previously Reported	13.205	11.464	11.769	12.029	12.270
Net impact on General Fund Budget Gap	0.741	2.177	(0.192)	(0.145)	(0.124)

- 3.15 It should be noted that the Government have recently announced changes to come into effect from 1 April 2026 with regard to increasing the number of multipliers and introduction of new thresholds. As full details aren’t yet available, the above information has been prepared on the existing rateable values and currently known multipliers. Further work will be undertaken when the systems offer the capability to output updated projections and will be included within the 2026/27 budget process.

Baseline Reset

- 3.16 The Government have also proposed to reset the baseline but haven’t announced a timeline for this. The above analysis doesn’t factor in any potential impact this may have on future projections and further information will be reported as appropriate when it becomes available.

4.0 GENERAL FUND PROJECTIONS

4.1 Table 6 below outlines the current forecast budgetary position for 2025/26 to 2029/30

Table 6: General Fund Revenue Projections 2025/26 to 2029/30

	2025/26	2026/27	2027/28	2028/29	2029/30
	£'M	£'M	£'M	£'M	£'M
Revenue Budget Forecast as at 28 February 2024	26.007	27.235	27.899	29.390	30.272
Base Budget Changes					
Operational Base Budget Changes	1.260	0.742	0.700	0.436	2.430
Commercial & Corporate Property Review	1.541	1.053	0.856	0.299	0.888
Food Waste Collection (pEPR)	(0.764)	0.000	0.000	0.000	0.000
	28.044	29.030	29.455	30.125	33.590
Outcomes Based Resourcing Proposals					
Savings & Income Proposals	(0.051)	(0.138)	(0.216)	(0.215)	(2.160)
Growth Proposals	0.026	0.027	0.027	0.028	0.029
Impact of Review of the Capital Programme (MRP & Interest)	(1.001)	(0.425)	0.074	0.036	0.315
Impact of Review of the Capital Programme (Ongoing Revenue)	(0.076)	(0.126)	(0.226)	(0.226)	(0.266)
	26.942	28.368	29.114	29.748	31.508
Impact of Provisional Local Government Finance Settlement	0.259	0.381	0.375	0.370	0.365
General Fund Revenue Budget	27.201	28.749	29.489	30.118	31.873
Core Funding					
Revenue Support Grant	(0.460)	(0.460)	(0.460)	(0.460)	(0.460)
Prior Year Council Tax (Surplus)/Deficit	(0.280)				
Prior Year Business Rates (Surplus)/Deficit	(0.636)				
Net Business Rates Income	(14.275)	(13.641)	(11.832)	(12.145)	(12.411)
Council Tax Requirement	11.550	14.648	17.197	17.513	19.002
Estimated Council Tax Income					
(Increase Based on 2.99% for 2025/26 then maximum allowable)	(11.550)	(12.015)	(12.498)	(13.000)	(13.522)
Resulting Base Budget (Surplus)/ Deficit	0.000	2.633	4.699	4.513	5.480

4.2 The table shows that, despite of the work undertaken by Officers and Members to balance the budget for 2025/26, there still remains a significant challenge, with the Council facing a shortfall of £2.633M in 2026/27 leading to an estimated total shortfall of £5.480M in 2029/30. This position is further outlined in section 6.

Budget Principles and Assumptions

4.3 Within the revenue budget there are several principles and key assumptions underpinning the proposed revenue strategy. These are:

- i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources
- ii. No long-term use of balances to meet recurring baseline expenditure
- iii. Resources will be targeted to deliver corporate outcomes and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments

4.4 Table 7 below, lists the major assumptions that have been made within the MTFs.

Table 7: 5 Year MTFS Planning Assumptions

	2025/26	2026/27	2027/28	2028/29	2029/30
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%
Business Rates Multiplier: Small Business Rates	Frozen	Frozen	Frozen	Frozen	Frozen
Business Rates Multiplier: Standard	1.60%	2.00%	2.00%	2.00%	2.00%
Fees & Charges	2.60%	2.30%	2.10%	2.10%	2.10%
Inflation – Pay	2.50%	2.50%	2.50%	2.50%	2.50%
Employer Pensions Contribution	16.30%	16.30%	16.30%	16.30%	16.30%
Electricity	25p/kWh	25p/kWh	25p/kWh	25p/kWh	25p/kWh
Gas	5p/kWh	5p/kWh	5p/kWh	5p/kWh	5p/kWh
Inflation – Insurance	10.00%	10.00%	10.00%	10.00%	10.00%
Other inflation	2.60%	2.30%	2.10%	2.10%	2.10%
Interest Rate – investments	3.50%	3.50%	3.50%	3.50%	3.50%
Interest Rate – new borrowing	3.90%	3.90%	3.90%	3.90%	3.90%

Savings and Income Generation Proposals

- 4.5 The budget savings, or income growth identified as part of the 2024/25 budget discussion, relate to several areas where actions are being undertaken by the Council and are incorporated within the MTFS. Some of the key areas are summarised by Service in the table below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2025/26 item on the agenda.

Table 8: Directorate Summary Savings & Growth Proposals

	2025/26	2026/27	2027/28	2028/29	2029/30
	£'M	£'M	£'M	£'M	£'M
Environment & Place	(0.005)	(0.030)	(0.030)	(0.030)	(0.030)
Housing & Property	(0.013)	(0.049)	(0.124)	(0.124)	(0.124)
People & Policy	0.026	0.027	0.027	0.028	0.028
Planning & Climate Change	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)
Sustainable Growth	0.012	(0.014)	(0.017)	(0.016)	(0.017)
Total (Savings)/Growth	(0.025)	(0.111)	(0.189)	(0.187)	(0.188)

- 4.6 Failure to deliver these savings will place additional pressure on the Council's resources and so as part of the Council's quarterly monitoring process (Delivering our Priorities), progress by Budget Holders against these targets will be monitored and reported to Members via Cabinet and Budget & Performance Panel.

Revenue Impact of Capital Programme Budget Process & Review

- 4.7 Cabinet and Strategic Leadership Team have considered new schemes for inclusion in the Capital Programme via the submission of strategic outline followed by full business cases during the budget process. The Council's previous Capital Programme has also been reviewed with a view to repositioning and reprofiling several capital schemes. This has altered the impact that capital projects have on revenue due to Minimum Revenue Provision (MRP) and interest costs, whilst some schemes will generate ongoing revenue implications. Details of the movement of estimated additional expenditure or savings since the programme approved 28 February 2024 are detailed in the table below:

Table 9: Revenue Impact of Capital Programme Budget Process & Review

	2025/26	2026/27	2027/28	2028/29	2029/30
	£'M	£'M	£'M	£'M	£'M
MRP & Interest	(1.001)	(0.425)	0.074	0.036	0.315
Ongoing Revenue	(0.076)	(0.126)	(0.226)	(0.226)	(0.226)
Total Impact	(1.077)	(0.551)	(0.152)	(0.190)	0.089

5.0 CAPITAL INVESTMENT AND FINANCING

Capital Investment

- 5.1 Through its capital programme the Council plans net investment of £28.497M between 2025/26 and 2029/30 with a further £17.740M currently planned up to 2034/35. This investment will support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Housing and Regeneration as well as investing in existing property, facilities, and equipment to deliver services, or to meet legislative requirements.
- 5.2 The current programme is split between approved schemes, that is those which have a fully formed business case in line with Treasury Green Book requirements, and those still under development for which a provision has been made whilst work is undertaken to fully work up schemes. Schemes classified as Under Development have had strategic outline business cases approved in principle by Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Assurance Group, and then by Cabinet.
- 5.3 Schemes which are in this section of the Capital Programme which will require significant capital expenditures and borrowing will need a business case to demonstrate that income arising from the capital investment can cover all borrowing costs and delivering a positive return to the Council's revenue budget.
- 5.5 Summary details of the current 5-year capital programme are given at table 10 below, with the total in the final column referring to 2025/26 to 2029/30 only.

Table 10: Capital Programme

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
	£'M	£'M	£'M	£'M	£'M	£'M	£'M
Approved Schemes							
Environment & Place	0.545	8.196	2.061	0.257	2.238	0.560	13.312
Housing & Property	2.514	2.935	0.462	0.351	0.494	0.052	4.294
Planning & Climate Change	1.100	5.533	-	-	-	-	5.533
Resources	2.097	0.286	0.351	0.326	0.181	0.176	1.320
Sustainable Growth	0.351	0.730	0.030	0.030	0.000	0.000	0.790
Schemes Under Development	-	3.008	0.240	-	-	-	3.248
Total Net Capital Programme	6.607	20.688	3.144	0.964	2.913	0.788	28.497

Capital Financing

- 5.6 The Council's Capital Financing Requirement (CFR) is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's

CFR is set to increase from the current estimated 2024/25 position of £101.17M to £117.96M in 2025/26 before decreasing in 2029/30 to £103.09M.

Table 11: Capital Financing Requirement

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
CFR – Non Housing	64.50	68.13	85.96	84.75	81.00	79.32	75.25
CFR – Housing	34.08	33.04	32.00	30.96	29.92	28.88	27.83
Total CFR	98.58	101.17	117.96	115.71	110.91	108.20	103.09
Movement in CFR							
Non Housing	0.93	3.63	17.83	-1.21	-3.75	-1.67	-4.07
Housing	-1.05	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	-0.12	2.59	16.79	-2.25	-4.79	-2.71	-5.11

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	3.59	6.54	20.75	3.14	0.97	2.91	0.79
Less MRP/VRP and other financing movements	-3.71	-3.94	-3.96	-5.39	-5.76	-5.62	-5.90
Net Movement in CFR	-0.12	2.59	16.79	-2.25	-4.79	-2.71	-5.11

- 5.7 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase by £25.88M over the next three years from its estimated current position of £57.97M to £83.84M at the end of 2026/27 in order to finance the Council's capital ambitions. It is then forecast to reduce slightly year on year reflecting repayments of the HRA self-financing loan. See table 12 below.

Table 12: Forecast Borrowing Position

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
External Debt							
Debt at 1 April	59.01	57.97	63.93	78.89	83.85	83.81	83.77
Expected Change in Debt	-1.04	4.96	13.96	3.96	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	57.97	63.93	78.89	83.85	83.81	83.77	83.73
The Capital Financing Requirement	98.58	101.17	117.96	115.71	110.91	108.20	103.09
(Under) / over borrowing	-40.61	-37.24	-39.07	-31.86	-27.10	-24.43	-19.36

- 5.8 This level of borrowing is assessed for affordability, sustainability, and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council following consultation with Budget & Performance Panel. Council will be asked to formally approve the annual Treasury Management Strategy.

- 5.9 The Council is required to repay an element of the accumulated General Fund CFR each year through a revenue charge known as the minimum revenue provision (MRP) together with the interest charges associated with the borrowing. Council is asked to formally approve the MRP policy annually as part of the Treasury Management Strategy.
- 5.10 Tables 13 and 14 provide forecast levels of annual capital financing charges and their respective proportion of the revenue budget.

Table 13: Revenue Impact of Capital Decisions

	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
MRP	2.912	2.924	4.357	4.717	4.586	4.856
Interest	1.241	1.534	2.184	2.192	2.201	2.210
Total	4.153	4.458	6.541	6.909	6.787	7.066

Table 14: Ratio of Financing Costs to Net Revenue Stream

	2023/24 Actual %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %	2029/30 Estimate %
General Fund	17.98	19.21	17.82	24.97	25.19	24.16	23.89
HRA	17.52	15.78	15.40	14.69	14.01	13.82	13.19

- 5.11 As can be seen based on current General Fund capital programme and accompanying borrowing estimates, debt financing costs within the General Fund are set to increase to just over a quarter of the Council's annual net revenue budget. Levels will, therefore, need to be closely monitored and the impact on affordability of new capital schemes carefully considered as part of the business case assessment and governance processes. Estimates within the HRA are currently seen to decrease as the borrowing undertaken as part of HRA self-financing is repaid.
- 5.12 The financing of capital projects can be from a variety of sources, such as external grants, the use of reserves, and the application of capital receipts. A significant workstream for the OBR Assets Group is to review and realign the Council's existing asset base to identify those assets which no longer met the Council's objectives and may be able to generate a capital receipt. However, the OBR process does provide a priority order for the use of capital receipts. Firstly, to fund transformation costs, that is costs that are associated with service transformation and delivery of efficiencies. Secondly, investment to reduce costs, which is not necessarily investing in a new asset; and given the levels of current financing costs, giving consideration to financing existing short life assets such as ICT and vehicles to reduce the MRP burden on the General Fund. Finally, the use of receipts to fund other schemes within the Capital Programme.

6.0 THE SHORT & MEDIUM-TERM BUDGET GAP

- 6.1 Government funding and income forecasts covered previously within this report, together with the budget expenditure, savings and income estimates that have been calculated as part of the 2025/26 revenue budget process provide an updated forecast of the budget gaps over the next three years. This is shown below in the graph and Table 16 below:-

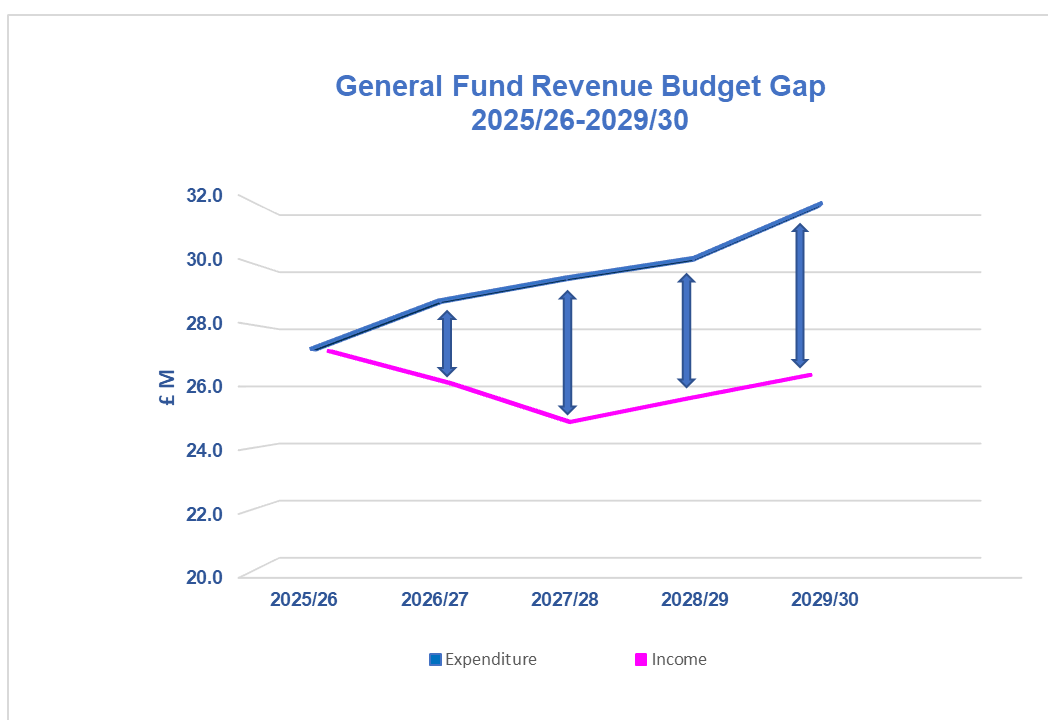


Table 15: Cumulative Deficit as Percentage of Revenue Budget

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Net Revenue Budget	27.201	28.749	29.489	30.118	31.873
Budget Gap (Incremental)	0.000	2.633	4.699	4.513	5.480
% of Net Revenue Budget (Incremental)	0%	9%	16%	15%	17%
Budget Gap (Cumulative)	0.000	2.633	7.332	11.845	17.325
% of Net Revenue Budget (Cumulative)	0%	9%	25%	39%	54%

6.2 The forecast gaps are structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive, and this is compounded year on year. This position represents a significant challenge over the short and medium term. It is imperative that the Council's OBR process continues and this will be fundamental in driving down budget gaps from 2026/27 and beyond and in realising financial sustainability.

6.3 It should be noted that this forecast is based on a series of estimates and assumptions and so is subject to change when more up to date information becomes available. However, it provides Members with a clear view of the extent of the challenge facing the Council over the coming years.

7.0 PROVISIONS, RESERVES AND BALANCES

7.1 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. The level, purpose and planned use of reserves are important factors for the Council as part of the MTFS.

7.2 Councils generally hold two types of reserves, "Unallocated" to meet short term unexpected cost pressures or income reductions and "Earmarked". The latter can be held to provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities, address specific risks such as the previously identified upcoming pressures on business rates retention reserve resulting from the decommissioning of H1 & H2, or to fund

transitional arrangements resulting from the OBR process. They may also provide up-front funding for measures which specifically result in future efficiencies, cost savings or increased income, or to hold funding from other bodies (mainly Central Government), for specified purposes.

7.3 By their nature reserves are finite and, within the existing statutory and regulatory framework, it is the responsibility of the s151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use. In accordance with the s151 Officers advice the minimum level of General Fund unallocated reserve is £5M.

7.4 The graph and Table 15 below provide details of our current forecast level of General Fund Balances including the impact of funding the forecast deficit from this reserve.

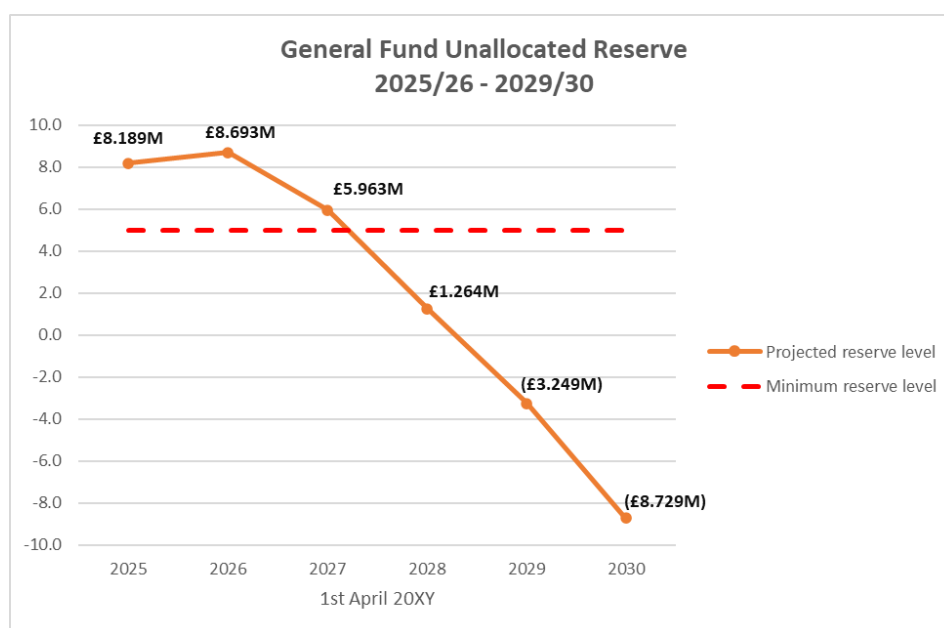


Table 15: Estimated Level of General Fund Unallocated Reserves

	2024/25 £'M	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Balance as at 1 April 2024-29	(10.327)	(8.189)	(8.693)	(5.963)	(1.264)	3.249
In Year allocations	2.460	(0.504)	0.097	0.000	0.000	0.000
Forecast (Under)/Overspend	(0.322)	0.000	2.633	4.699	4.513	5.480
Projected Balance as at 31 March 2025-30	(8.189)	(8.693)	(5.963)	(1.264)	3.249	8.729

7.5 The graph and Table 16 below provide details of our current forecast level of all available Council reserves. The analysis excludes a number of essentially ring-fenced reserves such as s106, reserves held in perpetuity, revenue grants unapplied & elections. It does include reserves such as Business Retention and Renewals Reserves.

7.6 The Business Rates Retention Reserve is a mandated reserve, its purpose is to manage the risk of fluctuations in business rates income, including changes in the Council's appeals provision and movements in forecast prior year surpluses or deficits. Whilst the transfers can be made to the general fund it is required to be maintained at a prudent level to manage the risks with business rates and not to support ongoing budget deficits. On this basis the graph below is used to underline the seriousness of the current situation against the Council's entire resource not only the general fund.

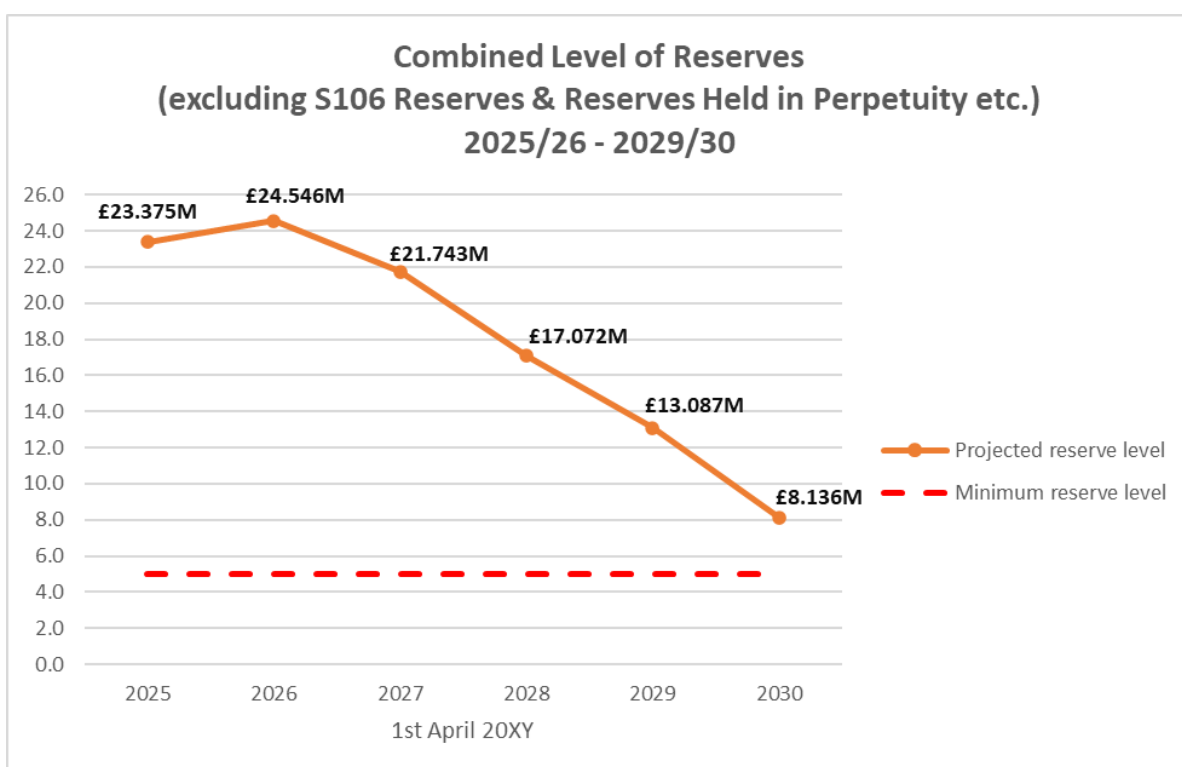


Table 16: Estimated Combined Level of Reserves
(excluding Ringfenced Reserves, S106 Reserves & Reserves Held in Perpetuity etc)

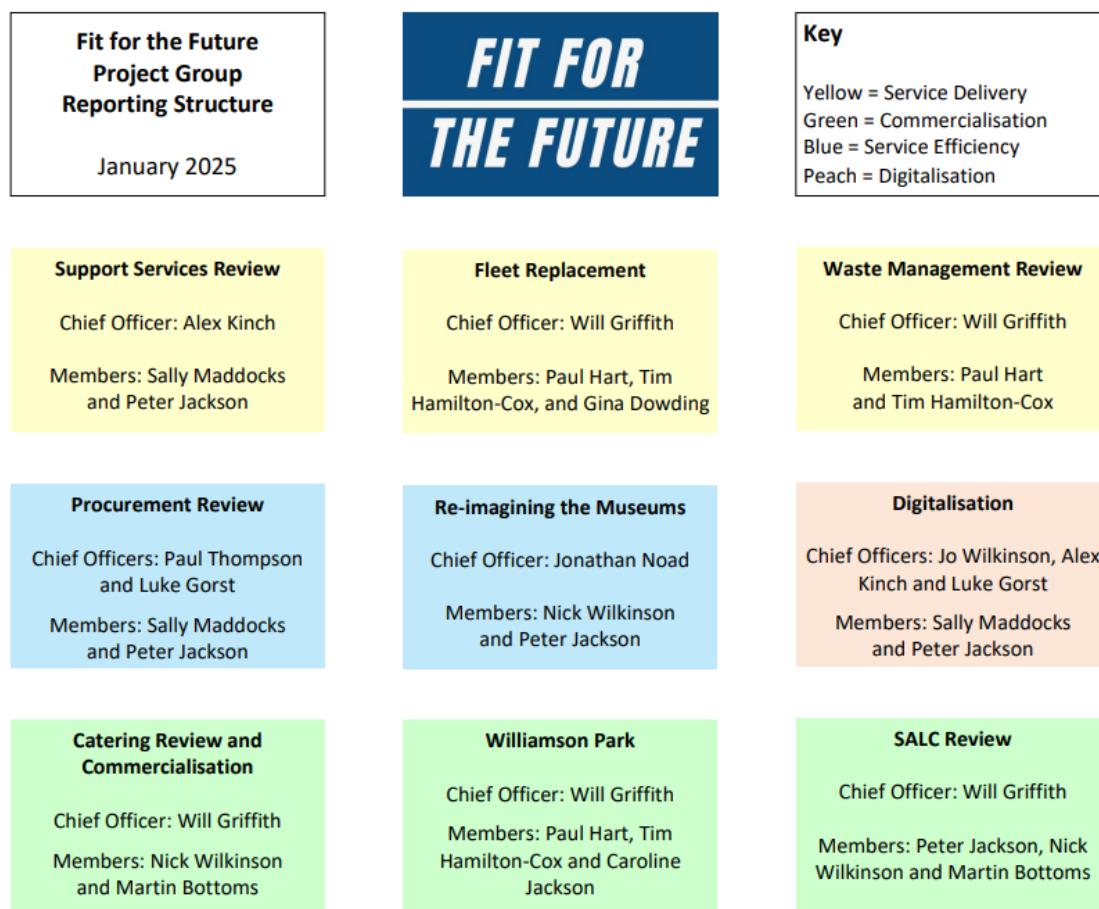
	2024/25 £'M	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Unallocated Reserve	(7.867)	(8.693)	(8.595)	(8.595)	(8.595)	(8.595)
Other Non-Ring Fenced Reserves	(1.242)	(1.137)	(1.173)	(1.210)	(1.246)	(1.283)
Business Rates Retention Reserve	(12.064)	(12.344)	(11.744)	(11.244)	(11.244)	(11.244)
Renewals Reserve	(1.880)	(2.372)	(2.864)	(3.355)	(3.847)	(4.339)
Forecast Cumulative Deficit Funded From Reserves	(0.322)	0.000	2.633	7.332	11.845	17.325
Projected Balance as at 31 March 2025-30	(23.375)	(24.546)	(21.743)	(17.072)	(13.087)	(8.136)
Less Recommended Minimum Level of Balances	+5.000	+5.000	+5.000	+5.000	+5.000	+5.000
Available Balances	(18.375)	(19.546)	(16.743)	(12.072)	(8.087)	(3.136)

7.7 Whilst this position represents a marginal improvement on the reported position in February 2024, these tables clearly highlight the significant pressure the Council's reserves are under should funding from reserves be required due to the forecast level of overspend in future years not being addressed.

8.0 BALANCING THE BUDGET TO 2029/30

8.1 The Council embarked on its OBR process in 2022/23 with its intention to ensure that funds are allocated according to a set of predefined outcomes, or priorities in order 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.

8.2 The table below shows the operational structure of OBR – Fit for the Future process and its governance processes along with the key Member and Senior Officer involvement. The process is split into task groups each charged with a discreet area of responsibility.



8.3 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 process will be key to shrinking the estimated £5.480M budget gap and securing the financial sustainability of the Council going forward. It is imperative that the OBR work, or similar principles continues. The application of OBR 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. In light of this, balancing the budget both in the short and the medium term will be a tough task and all Members must recognise that despite the hard work undertaken to date they will face a number of difficult but key decisions over the coming financial years which will affect the manner in which services are delivered.

8.4 Cabinet and Senior Leadership Team have agreed on principles and common goals as they continue to work through the OBR – Fit for the Future 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

8.5 The proposed actions through the OBR – Fit for the Future process currently include:

- Exploration of closer working and collaboration with other Councils, Public Sector Bodies and Partner Institutions
- 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

8.6 Many of the financial pressures identified within the Councils General Fund are also present within the Housing Revenue Account (HRA). A full update on the HRA budget and financial outlook will be considered alongside the General Fund revenue budget including options to ensure that the service's 30-year business plan is viable and that its ongoing budget is balanced, whilst delivering value for money to tenants.

9.0 DETAILS OF CONSULTATION

9.1 As this paper is for noting only no formal consultation has been undertaken.

10.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

10.1 The risks to the Council are contained throughout the report and as the report is for noting, no alternative proposals have been put forward.

11.0 CONCLUSION

11.1 The Council continues to face unprecedented levels of financial and economic uncertainty as a result of National and International concerns. Local Government funding remains a key challenge for the Council as well as local issues such as those surrounding decommissioning plans for Heysham power station. This hampers the degree of confidence with forecasts can be made and inevitably some key estimates and assumptions are likely to change in the coming months.

11.2 Despite the work to date by Officers and Members to deliver on the Council's OBR programme, a significant budget gap remains which cannot be met from Council reserves. The overall size of the challenge the Council faces in addressing its underlying structural deficit and in formulating a balanced budget over the medium and longer term must be recognised as does the need to deliver considerable future savings.

11.3 The Council continues to deliver high-quality frontline services to the District's residents. Continued focus on the application of Outcomes Based Resourcing principles such as strategic prioritisation, service transformation and continuous improvement will play a significant part in achieving the level of savings required. ***The Council must, however, recognise that it will face a number of key decisions over the next financial year 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

S151 OFFICER COMMENTS

The s151 Officer has authored this report and his views are reflected within.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

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