Medium Term Financial Strategy
2023/24 – 2027/28

1.0	**BACKGROUND**
1.1	The Medium Term Financial Strategy (MTFS) provides a financial framework for the council's strategic planning and decision making. The MTFS incorporates key factors such as the changes in Government funding, our spending plans and the level of savings and increased income that are likely to be needed. By anticipating financial pressures now, we can plan ahead early to meet the significant challenges in a way that ensures financial resources are targeted to the council's highest priorities and have the minimum impact on services.
1.2	The last full term MTFS was approved in January 2021 and covered the period 2021 to 2026, although an interim two year strategy was approved in June 2022. At the time of approval, there was much uncertainty around the local government funding system, the overall quantum of funding available to local government and the economic impacts from the exit of the European Union and the covid pandemic. This uncertainty was built upon a decade of austerity cuts to local government funding and the delays to funding reform originally earmarked for delivery some years ago.
1.3	In the period since the last full term MTFS, the Spending Review of October 2021 set a funding envelope for local government from April 2022 to March 2025. However, no progress has been made on the delivery of funding reform and the local government settlement continues to remain on a rollover footing. The recent Finance Policy Statement has attempted to provide some certainty for a two year period but many of the critical uncertainties remain.
1.4	In addition to the continued vagueness around local government finance, the country is facing severe economic challenges largely as a result of significant levels of inflation brought about by a range of factors including the war in Ukraine. As a result, economic forecasts suggest the country will be in recession throughout the next calendar year leading to a reduction in the expected levels of public spending from the next spending review onwards.
1.5	Despite this fog of uncertainty, it is imperative that the Council understands the potential financial challenges it may face so that it can take sound financial decisions. This strategy provides members with an update on the issues affecting our budget, the most likely funding scenario the Council will face in the medium term based on the current understanding of government policy and economic forecasts and describes some of the actions being taken to address the projected shortfall in funding.
2.0	**FUNDING**
2.1	The future of local government funding continues to remain uncertain with both the quantum of funding and the allocation of that funding being unclear. It has been a number of years since funding reform was first contemplated and scheduled for implementation but no progress has been achieved in delivering this ambition. In

	addition, whilst the Spending Review 2021 has set the funding envelope for a three-year period, no certainty exists beyond March 2025 and the recent Autumn Statement suggests much tighter public spending than previously envisaged. The following paragraphs highlight the funding issues facing local government.
2.2	<u>Quantum of Funding</u> The 2021 Spending Review provided government departments certainty of funding for the three years between April 2022 and March 2025. In terms of funding for local government, whilst there was significant additional funding in the first year, there was no additional funding in the second and third years outside of social care and some smaller grant funding pots. Therefore, the overall quantum of funding for local government, aside from social care, remains cash flat for the next two financial years and, given the current inflationary pressures, results in a real term cut in funding. Beyond March 2025, reliance for financial forecasting is placed upon the recent Autumn Statement and the announcement of 1% growth in public spending each year. This level of growth is very tight given the assumption of a return to normal levels of inflation of around 2% and would leave the public sector once again looking for savings in order to balance its budgets. This position could be worse for unprotected departments such as local government as other government spending commitments for areas such as the NHS will require increases above the 1% set for the public sector as a whole. This could result in cash reductions for local government during the next Spending Review period with some estimates concluding a 0.7% reduction in funding will be required. Given the uncertainty around this forecast, particularly with an election before the next Spending Review, and the potential impact on services of further cuts to local government funding, the MTFS has assumed that the slightly more generous 1% increase in departmental spending will be met. It should be noted however, that even at this level, this is likely to be another real terms cut in the spending power of local government.
2.3	<u>Funding reform</u> Funding reform is the term given to proposals to amend the allocation basis and grant regime of central government funding. The Fair Funding Review (FFR) was established a number of years ago to review how the overall quantum of funding for local government is allocated to individual authorities. Many of the drivers for allocating funding are over ten years old and reflective of a very different country. In the period since the commencement of the review, the number of individual grants from central government has grown and the 2021 census has highlighted a significant change to the population spread across the country. The recent Finance Policy Statement announced by Secretary of State on the 12th of December 2022 confirmed what had been widely predicted in that the funding reforms proposed would be postponed until after the next general election. As a result, no funding reform will take place until 2025/26 at the earliest with a more likely time frame for introduction being 2026/27. Whilst this is disappointing given that funding reform was originally set to be introduced from 2019, for Tewkesbury Borough Council the delay is beneficial as current funding reform proposals highlight a significant reduction in central funding for the council. It is expected that a ‘damping’ regime will accompany funding reform in order to manage the losses at individual councils although the value of this regime may not be significant.

	The funding forecast at appendix A has made the assumption that the current proposals for the Fair Funding Review will be implemented in 2025/26 with a number of the current individual grants ceasing at that point and the Revenue Support Grant element being increased by the accumulation of these individual grants. The change to allocation drivers will result in reduced funding for the lower tier although the population growth enjoyed by the Borough Council over the last ten years will provide some benefit. Assumptions have also been made about a limited damping regime that provides some moderate transitional relief to the reductions in funding. The resultant impact highlights a net reduction in funding of £1.71m in 25/26, equivalent to a reduction of circa 33%. The reduction in funding continues the following year as some of the damping grant drops out before a small recovery in central funding the year after. There is of course the possibility of different outcomes to the FFR or that it may not happen at all. It could also include other funding streams such as council tax and business rates. Therefore, it cannot be stated with any certainty that the outcome highlighted in this MTFS will actually occur but for the purposes of modelling the medium term, it has been deemed appropriate to include funding reform in its current shape.
2.4	<u>Business rates retention reset</u> As with the delays to funding reform, the reset of the business rate retention scheme has also been postponed to 25/26 at the earliest. The reset is an integral part of the current retention scheme and was originally scheduled to be delivered in 2020/21. When it is delivered, it will take the growth generated by local government as a whole since the inception of the retention scheme and will redistribute it based on the needs assessment within the Baseline Funding Level. When this does happen, Tewkesbury is likely to lose a significant level of funding. Given the delay to the reset, Tewkesbury's retention levels will continue to grow and a total retention level of £1.71m has been assumed for 2024/25 which is an increase of £0.44m on current levels. At the point of reset, Tewkesbury retention level is forecast to fall by £1.11m based on current assumptions resulting in a retained level of £0.6m in 25/26. There is no damping regime associated with this reduction of funding.
2.5	<u>Funding Guarantee</u> In the last couple of financial years, Tewkesbury has seen a 0% change to its Core Spending Power (CSP) as government funding has been reduced and council tax levels increased to compensate for that reduction. It had been widely expected that this 0% floor to local government funding would continue over the next two years given the roll over nature of funding settlements expected. However, the Finance Policy Statement from the 12th December 2022 proposed a new floor to local government funding being 3% of CSP. Currently this is only proposed as a one off but the MTFS modelling has assumed it is carried over into 24/25 before the next Spending Review and any funding reform in 25/26. The Funding Guarantee of 3% is based on all council's receiving at least a 3% uplift in funding as compared to their current year CSP. With Tewkesbury's current CSP being circa £10m, the Council would expect to see an uplift in funding of £0.3m which is very different to the expected reduction in central funding under the 0% principle. In addition to this, the government have made it clear that this calculation excludes any decision on council tax levels so if the Council were to increase its

	band D tax by £5 as per current referendum thresholds this would result in additional funding being available of £0.18m. The Funding Guarantee takes into account the movement on a number of funding streams including: • increase in Settlement Funding Assessment (Baseline Funding Level and Revenue Support Grant); • increase in compensation for not increasing the business rates multiplier; • increase in council tax yield based on taxbase increase only; • change in New Homes Bonus; • deletion of Lower Tier Services Grant (LTSG); and • reduction in Services Grant as a result of the reversal of the national Insurance increase. Where an increase is less than 3%, the authority will receive a Funding Guarantee payment. In order to fund this guarantee the current LTSG will be repurposed and spare cash within the New Homes Bonus scheme will be allocated. This is a significant change in short term funding assumptions and perhaps can be seen as recognition of the funding problems affecting lower tier councils.
2.6	New Homes Bonus The Finance Policy Statement confirmed that New Homes Bonus (NHB) will continue for a further year in 2023/24 (with the probability that there will be a further year in 2024/25). Again, there are no legacy payments associated with the award of NHB which means that the reward is paid for one year only. 2023/24 will be the fourth consecutive one year only allocation of NHB. The MTFS model assumes continued one off payments of NHB in 23/24 and 24/25 with its removal as a funding source in 25/26. The levels of funding in the next two years are enhanced given increased local house building, a reduction in empty properties and the continued increase in the national average council tax level used to calculate the bonus. The Finance Policy Statement also confirmed the government's intention to announce its future plans for NHB before the 24/25 finance settlement. It is not yet known whether those plans will include a replacement scheme. As highlighted in the previous paragraph, spare monies within the NHB scheme are now being utilized to fund the Funding Guarantee.
2.7	Council Tax referendum thresholds The Autumn Statement in 2022 confirmed council tax principles for the forthcoming year and it has been assumed that these will be carried forward throughout the MTFS period. Greater freedom for tax increases was announced with the core principle increasing from 2% to 3% and the Adult Social Care Levy increasing from 1% to 2%. For District Council's, the referendum principle has been amended to the greater of 3% or £5. This does cause issues for the 31 lowest charging authorities given that their £5 increase in tax will be less than the 3% increase that can be made by the other 150 Districts, who's average increase, if they all increased by 3% in 23/24, would be £6.46. It remains to be seen whether the government correct this anomaly. As in previous years, there is a clear expectation from government that local authorities will use the full freedom of their council tax raising powers. All

	government estimates of funding and Core Spending Power assume that council tax is increased by the highest amount possible before a referendum is required. Given this, and the significant deficit generated by further funding cuts and increasing costs, the MTFS has assumed a continued increase in council tax band D of £5 per annum throughout the MTFS period. The increased council tax generates additional ongoing funding of between £0.18m and £0.2m per annum whilst the band d charge to council tax payers will increase from £134.36 to £159.36, an increase of £25 or 18.6% over the five year period. Given how low Tewkesbury's council tax currently is (eight lowest District in England) it is expected that even with these forecast increases, Tewkesbury will remain in the bottom quartile for council tax charged.
2.8	Total forecast resources

The combination of the assumptions made in the previous paragraphs is detailed within appendix A which provides the funding forecast for the next 5 years. As can be seen, the roll over nature of the next two settlements plus the impact of the Funding Guarantee and increases to council tax result in a steady increase in resources in the short term equivalent to £1.25m or 11.4%.

However, in the third year of the MTFS, the expected impact of funding reform and Business Rates retention reset has a significant detrimental bearing on available funding even after allowing for damping protection. The MTFS depicts a scenario where over £2.5m funding is lost in 25/26, with further losses in 26/27 before a modest recovery in the final year.

The table below summarizes the forecast position:

	22-23	23-24	24-25	25-26	26-27	27-28
	£m	£m	£m	£m	£m	£m
Total Resources	11.02	11.74	12.27	9.76	9.41	9.77
Change in Resources (£m)	0.22	0.73	0.53	-2.51	-0.34	0.36
Change in Resources (%)	2.07%	6.60%	4.48%	-20.46%	-3.53%	3.81%

2.9 Aged profile of funding

To illustrate the expected levels of funding over the next five years, a graphical representation is included at appendix B. This summarizes the funding streams into four headings so that the movement on each of these can be seen but also shows the level of total resources available. The chart also includes information from the previous five years as well as the forecast five years and the current year to provide a comprehensive overview of the resources that have been, and will likely be, available to the council.

The chart clearly highlights the growing level of dependency on council tax to finance the activities of the council. The assumed £5 increase in council tax over the eleven years highlighted in the appendix together with a growth in the tax base results in total council tax income increasing from £3.56m in 2017/18 to £6.37m in 2027/28. This is an increase of £2.81m or 79% and council tax as a percentage of overall funding has increased from 36.5% to 65.1% in this forecast.

The chart also highlights the volatile nature of business rates funding with a contraction in funding during the pandemic before a recovery ahead of the system reset. As a result of this volatility, business rates retention is only expected to grow by £0.49m over the eleven year period.

As with business rates, grant funding has fluctuated over the period but will reduce dramatically over the final three years of the forecast as a result of the Fair Funding

	Review. Grant funding is forecast to reduce by £3.28m over this period and leave the Council with less than £0.5m of ongoing funding from this funding stream. If funding reform is taken forward and has the impact as illustrated in the MTFS it will mean grant funding will fall by 87.7% between 2017/18 and 2027/28. Clearly the figures would be even higher if we look back to 2010. Overall, total resources forecast for 2027/28 are set to be on a par with 2017/18 in cash terms at around £9.77m.
2.10	<u>Real terms impact of funding forecast</u> Whilst the forward forecast of resources highlights that cash levels of funding for 2027/28 will be similar to 2017/18 levels, that ignores the impact of inflation over that period. Appendix C provides a graphical representation of what levels of funding should have been in place had the 2017/18 funding level simply been uplifted by inflation each year. The forward forecast uses expected inflation levels for the Consumer Price Index Q4 as projected by the Office of Budget Responsibility in their November 2022 Economic and Fiscal Outlook. As can be seen in Appendix C, funding levels increased by far more than inflation in the early years as the Council benefited from increased funding from New Homes Bonus, business rates retention and council tax whilst inflation remained low. However, the future projection shows funding failing to keep up with high levels of inflation and then the gap widening dramatically after 25/26 even though negative inflation is now projected. By 2027/28 a gap of £2.87m exists between forecast funding and what the inflated 2017/18 settlement would have been worth in real terms.
2.11	<u>Summary</u> As highlighted at the start of this strategy, given the uncertainty with most aspects of the current funding regime, many assumptions have been needed to be made in order to provide a medium term projection. It is unlikely that all of those assumptions will become reality and it is inevitable that his projection will change. However, these assumptions are the best information we have to work with at the current time and therefore are the basis for our assessment of future financial challenges for the authority.
3.0	**NET EXPENDITURE FORECAST**
3.1	The opposite side to funding projections is an estimate of the Council's net expenditure requirements over the medium term. Taking the current core budget of the Council, a forecast of expenditure to maintain the current services of the Council is made using a number of assumptions about inflationary impacts. The assumptions made are highlighted below.
3.2	Assumed levels of employee inflation, based on the annual pay award, are shown in the table below. The assumed pay award for April 2023 follows that in the current year with a constant monetary amount being award to each scale point rather than a percentage uplift. After that, the assumption returns to a percentage uplift. All other pay factors such as national insurance and pension rates are expected to remain constant in the MTFS following the reduction in NI rates in November 2022. 2023/24 2024/25 2025/26 2026/27 2027/28 £1,601 3% 2% 2% 2% Expenditure on goods and services is uplifted by expected levels of CPI inflation. The table below utilizes the forecast of the Office of Budget Responsibility in their

November 2022 Economic and Fiscal Outlook and highlights the expected Q4 inflation levels.

2023/24	2024/25	2025/26	2026/27	2027/28
11.10%	3.80%	-0.10%	-1.30%	1.20%

The assumed return from treasury investments and any new borrowing requirement is taken from the forecast 3 month rate provided by our treasury advisors Arlingclose. Expected levels of return are shown in the table below.

2023/24	2024/25	2025/26	2026/27	2027/28
4.39%	3.94%	3.50%	3.00%	3.00%

The previous three tables highlight the main inflationary assumptions although there are a number of more specific assumptions for certain expenditure and income lines such as the expected cost of utilities that have seen dramatic increases over the last twelve months. There are also specific calculations for items such as the Minimum Revenue Provision.

3.3 Applying these inflationary expectations to our current core budget allows a forecast to be made over the medium term about levels of expenditure which are likely to be required to provide our current services, at current service standards, over the next five years. The forecast discounts any potential cost savings as a result of service efficiencies as these are contained within the Deficit Reduction Programme further on in the MTFS. The detailed forecast is shown in appendix D and highlighted below.

	22-23 £m	23-24 £m	24-25 £m	25-26 £m	26-27 £m	27-28 £m
Net budget	**11.02**	**11.77**	**12.58**	**12.98**	**13.21**	**13.50**
Change in net budget (£m)		0.75	0.81	0.40	0.23	0.29
Change in net budget (%)		6.80%	6.88%	3.15%	1.80%	2.20%

3.4 As can be seen from the table, there is a significant rise in the cost of providing current services in each of the next two years given expected levels of inflation and employee pay awards. Even with negative overall inflation, costs continue to rise largely based on the assumption of a 2% pay award which is in line with the CPI target. It has been felt prudent to continue to expect a 2% pay award given that the current year pay settlement and settlements over an extended period of time have been suppressed and pressure to return levels of pay closer to real terms levels are likely to continue.

3.5 Over the course of the medium term, it is currently forecast that the net budget will increase from £11.02m to £13.50m, an increase of £2.48m or 22.5%.

4.0 GROWTH

4.1 As highlighted in the previous section, the cost of providing current services is set to increase significantly. In addition to this, it should be expected that our services will need to continue to grow to meet the increasing demands on the Council. This is as a result of the projected growth in the size of the Borough where the number of domestic dwellings could increase by 5000 units in the time frame which would be a growth of circa 11.5%. As a result of this, services such as waste and recycling, housing, planning, revenues and benefits could all require an increase in capacity to meet the extra demand generated by a bigger Borough.

4.2 In addition to this, new requirements are being placed on the council each year to deal with. In recent years, areas such as cyber security, General Data Protection

Regulations and climate change have resulted in additional resources needing to be found by the Council to meet the requirements.

4.3 Given both of these factors, it would therefore be right to assume a continued demand for growth of the budget over the coming years. For the current year, over £1.5m of ongoing growth was requested and £0.45m was approved for inclusion in the budget. The forthcoming year again sees a similar level of request being made with it likely that a similar level of approval will be required to meet critical needs. There a prudent figure of £0.5m of growth per annum has been included within the MTFS projection. This adds a further £2.5m to expected levels of expenditure resulting in a total net cost in 2027/28 of £16.0m.

5.0 FUNDING GAP

5.1 Combining the forecasts of the last three section, provides the overall projection of the Council's net budget position for the next five years. This is shown in the table below.

	22-23	23-24	24-25	25-26	26-27	27-28
	£m	£m	£m	£m	£m	£m
Projected net expenditure	11.02	11.77	12.58	12.98	13.21	13.50
Projected growth requirements	0.00	0.50	1.00	1.50	2.00	2.50
Projected total expenditure	11.02	12.27	13.58	14.48	15.21	16.00
Projected Funding	11.02	11.74	12.27	9.76	9.41	9.77
Funding Gap	**0.00**	**0.53**	**1.31**	**4.72**	**5.80**	**6.23**

5.2 As can be seen, the projected total level of expenditure by 27/28 is £16.0m of which only £9.77m is provided by the likely funding available leaving a funding gap of £6.23m. The early years of the MTFS provide smaller funding gaps as a growth in funding partly offsets the rising cost of core services and new growth demands. However, from 25/26 onwards, following the assumed funding reform, the funding gap jumps dramatically and continues to grow as funding remains stagnant whilst costs are expected to rise.

6.0 DEFICIT REDUCTION PROGRAMME

6.1 The funding gap highlighted in the previous section is significant. A shortfall of £6.23m by 27/28 represents savings of 38.9% to be found against our expected total net expenditure in year. Even in the short term, savings of £0.53m and £0.78m will be challenging given the demands on local government and the savings and income generated in previous years.

6.2 To help address this forecast gap, a Deficit Reduction Programme (DRP) has been drawn together and shared with Transform Working Group. The DRP highlights the actions which are currently being progressed by the Council to save money or generate income and presents them in the form of 'live' actions to address the following year budget gap. Longer term actions, which have not yet reached the stage of being actively taken forward, are summarized within the 'pipeline' actions.

6.3 Live actions are generally progressing well and if all were to be delivered, around £1.9m of additional income or savings could be generated and used to close the budget gap in the next couple of years. It is however unlikely that all will be delivered, particularly with some outside of the council's control, such as an increase to planning fees, but the Council is currently in a good place to deliver the funding

	needs in the short term. The detail of the 'live' actions are shown at appendix E whilst confirmation of their delivery will occur in the next two budget proposals.
6.4	Looking to the medium term and the pipeline actions, it is currently estimated that around £1.30m of further income or savings can be generated. These actions are not as well developed as the live actions and will take further work to shape into actions to be taken forward. It is also likely that further actions will be identified and developed over the course of the MTFS. The pipeline actions are summarized in the table at 6.6.
6.5	Whilst £3.2m of potential savings and income have been identified at this stage, this still leaves a significant gap to reach the target of £6.23m and many further actions are likely to be needed. To support this identified need, Corporate Leadership have begun a review of the breadth and depth of services currently offered by the Council and are engaging with service management to understand future challenges and opportunities in each area as well as across the council as a whole. It is envisaged that this piece of work will take place over the next six months with recommendations being made to the new council. Whilst no decisions have been made at this stage and no hard costings undertaken, a very high level estimate of the types of savings that may be achievable is included in the table at 6.6.
6.6	Bringing together the live actions, pipeline actions and future potential actions a total of £4.21m may be generated to meet the forecast funding gap.

Summarised action	Live DRP projects	Pipeline DRP projects	Future actions	Total
Income	1.18	0.74	0.00	**1.92**
Employee cost base	0.39	0.00	0.00	**0.39**
Service efficiency	0.28	0.46	0.00	**0.74**
Property returns	0.06	0.10	0.10	**0.26**
Service rationalisation - discretionary	0.00	0.00	0.30	**0.30**
Service rationalisation - statutory	0.00	0.00	0.50	**0.50**
Service rationalisation - overheads	0.00	0.00	0.10	**0.10**
Government funding	0.00	0.00	2.00	**2.00**
Total	**1.91**	**1.30**	**3.00**	**6.21**

6.7	Even with the additional savings that may be presented by a root and branch review of the Council, it is unlikely that sufficient savings or income will be found to close the funding gap in its entirety. The Council will be reliant on the government providing more funding, in the order of £2m, to ensure the future sustainability of the organization. This could be in the form of a different direction to funding reform, greater retention of local business rates, a replacement New Homes Bonus scheme, greater freedom for council tax setting or simply more funding in total to support local government than currently envisaged. It is hoped that the 3% Funding Guarantee introduced for 2023/24 is the first sign that the government is aware of the funding issues affecting District Councils and further support will be available over the course of this Medium Term Financial Strategy.