

# Medium Term Financial Strategy

## 2024/25 – 2028/29

<b>1.0</b>	<b>BACKGROUND</b>
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 resources are targeted to the council's highest priorities and have the minimum impact on services.
1.2	The last MTFS was approved in January 2023 and covered the period 2023 to 2028. That strategy reflected the impact of austerity on council finances throughout the last decade, the outlook for public finances made in the Chancellor's Autumn Statement, the further delays announced for funding reform within the sector and the growing impact of inflation on the Council's cost base.
1.3	In the period since the MTFS, little has changed. The council still has a lack of clarity on its funding position, even for 2024/25; there has been no engagement from the government on the future of New Homes Bonus as promised in December 2022; the economy continues to stagnate with some forecasting a recession in 2024; the resultant outlook for public finances is bleak, particularly for unprotected departments such as local government; and inflation remains stubbornly persistent.
1.4	It is around this position of uncertainty, reduced funding and rising costs that this MTFS is based and highlights the reasons for a growing number of authorities either declaring a section 114 notice or highlighting why they are on the verge of declaring one. A section 114 notice indicates that the council's forecast income is insufficient to meet its forecast expenditure for the next year.
1.5	It should be noted that Tewkesbury Borough Council is not in immediate danger of issuing a section 114 notice given the short to medium term forecasts and the existence of a significant reserve to support the base budget, but the forecast budget gap over the medium term is significant and without meaningful progress to reduce that gap, both internally and externally, the ongoing financial sustainability of the Council will be called into question.
1.6	Despite the fog of uncertainty and issues highlighted, 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.

<b>2.0</b>	<b>FUNDING</b>
2.1	<p>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 Autumn Statement 2022 suggested much tighter public spending than previously envisaged. There is also the matter of a General Election to take place in either 2024 or January 2025 which further complicates financial projections.</p>
2.2	<p>Given the levels of uncertainty, it is difficult to forecast funding with any degree of assurance or accuracy. The following paragraphs describe a 'likely' scenario based on what the current government has told the sector over a number of years. However, there are numerous factors that contribute to this likely scenario and a change to one of those factors can produce very different outcomes. Therefore, section 2.15 looks at some of those variances and potential different funding scenarios to highlight the spectrum of hypothetical alternative outcomes for local government funding over the next five years.</p>
2.3	<p><u>Quantum of Funding</u></p> <p>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 current and next financial year and, given the current inflationary pressures, results in a real term cut in funding.</p> <p>Beyond March 2025, reliance for financial forecasting is placed upon the Autumn Statement 2022 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 continuing to look 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. More recently, the Institute for Fiscal Studies suggested that unprotected departments may need to shoulder cuts of up to 1.5% post 2025.</p> <p>Given the uncertainty around this forecast, particularly with an election before the next Spending Review, and the potential catastrophic impact on services of further cuts to local government funding, the MTFS has assumed that the slightly more generous position of a 0% change to 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.</p>
2.4	<p><u>Funding reform</u></p> <p>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</p>

	<p>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.</p> <p>The 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.</p> <p>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.</p> <p>The funding forecast at appendix A has made the assumption that the current proposals for the Fair Funding Review will be implemented in 2026/27 with a number of the current individual grants ceasing at that point and being rolled into a much reduced Revenue Support Grant. The change to allocation drivers will result in reduced funding for lower tier authorities, 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 in 2026/27 to the reductions in funding.</p> <p>The resultant impact highlights a reduction in Settlement Funding and other grants of £2.48m in 26/27, equivalent to a reduction of circa 48%. The reduction to funding continues the following year as the damping grant drops out before flatlining the year after.</p> <p>There is of course the possibility of different outcomes to the FFR or that it may not happen at all given that it will be seven years since the proposals were last discussed meaningfully. 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.</p>
2.5	<p><b><u>Business rates retention reset</u></b></p> <p>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. As with the FFR, it is more likely that the reset will actually occur in 26/27 given the impact of the General Election and would be based on outturn data for 2024/25.</p> <p>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 in 2013 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.</p> <p>Given the delay to the reset, Tewkesbury's retention levels will continue to grow and a total retention level of £2.64m has been assumed for 2025/26 which is an increase of £0.66m on current levels.</p> <p>At the point of reset, Tewkesbury's retention level is forecast to fall by £1.39m based on current assumptions resulting in a retained level of £1.25m in 26/27. There is no damping regime associated with this reduction of funding and it is not currently known when the following reset would take place. As a result, it is hard to place reliance on business growth within the Borough as a stable source of funding for the Council.</p>

2.6	<p><b><u>Business rates technical adjustments</u></b></p> <p>A further consideration on estimating business rates income will be the outcome from the consultation published by the Government on 28 September 2023 covering technical adjustments to the Business Rates Retention System in response to the Non-Domestic Rating Bill. The Non-Domestic Rating Bill, currently before Parliament, brings forward changes to the ways that business rates multipliers will be calculated and applied and could be implemented from 2024/25.</p> <p>As a consequence of the Bill changes, the Government are considering technical amendments to the Business Rates Retention System (BRRS) to maintain the accuracy of levy and safety net payments and future income compensation paid to local authorities for the impact of tax policy decisions. The consultation closed on 02 November 2023 with any changes likely to feed through to the 2024/25 Local Government Finance Settlement.</p>
2.7	<p><b><u>Funding Guarantee</u></b></p> <p>In the first couple of financial years of the decade, 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 given the roll over nature of funding settlements. However, the Finance Policy Statement from the 12<sup>th</sup> 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 at the 3% level, retained in 25/26 but at a 0% level to reflect assumptions around the next Spending Review and then scrapped in 26/27 with the introduction of funding reform.</p> <p>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. The calculation of CSP includes:</p> <ul style="list-style-type: none"> <li>• Settlement Funding Assessment (Baseline Funding Level and Revenue Support Grant);</li> <li>• compensation for not increasing the business rates multiplier;</li> <li>• Council tax;</li> <li>• New Homes Bonus;</li> <li>• Services Grant; and</li> <li>• Funding Guarantee</li> </ul> <p>It does not include business rates growth retention.</p> <p>With Tewkesbury's current CSP being circa £10.3m, the Council would expect to see an uplift in funding of over £0.3m in 24/25. Actual projections for funding over the next two years, excluding business rates growth, see increases of £0.41m (3.98%) and £0.14m (1.29%). Whilst funding increases are welcome and more than previous settlements, it should be noted that in all three years of the Funding Guarantee, increased resources have still been significantly below levels of inflations resulting in real terms reductions in funding.</p>
2.8	<p><b><u>New Homes Bonus</u></b></p> <p>The Finance Policy Statement 2022 confirmed that New Homes Bonus (NHB) would continue for a further year in 2023/24 and that it was the government's intention to consult with the sector and announce its future plans for NHB before the 24/25 finance settlement. At the time of writing, this is yet to happen and now looks unlikely.</p>

It is therefore assumed that NHB will continue in its current format – one year only reward – for one more year before being withdrawn in 25/26. This will mean that the final five years of the scheme will only have attracted one year only reward for each new home delivered rather than the six years originally designed. This is a substantial reduction in funding for this Council given the level of housebuilding taking place within the Borough. The Council might have expected to receive circa £5.78m in NHB funding for 24/25 if the original scheme was still in place rather than the £1.24m it is now expecting to receive.

The MTFS expects NHB to be withdrawn in 25/26 and the Funding Guarantee to be increased to partially compensate for this loss. It is not yet known whether the government will at some stage confirm plans for the future of NHB or if there might be a replacement scheme, as originally consulted on in Spring 2021.

## 2.9 Council Tax referendum thresholds

The Autumn Statement in 2022 confirmed council tax principles for the 2023/24 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. Given how low Tewkesbury's council tax is at £139.36 per annum for a Band D property, the largest increase the Council could levy under these principles is £5 throughout the MTFS period.

The projected level of council tax for a Band D property is illustrated in the table below.

	<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>28-29</b>
Forecast Council Tax	£139.36	£144.36	£149.36	£154.36	£159.36	£164.36
Increase (£)	£5.00	£5.00	£5.00	£5.00	£5.00	£5.00
Increase (%)	3.72%	3.59%	3.46%	3.35%	3.24%	3.14%

This forecast will mean that Tewkesbury falls further below the average council tax for a District as most other council's will be able to raise their tax by 3% which will generate more than £5 each year.

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 over £0.9m in the five years of the MTFS whilst the band d charge to council tax payers will increase from £139.36 to £164.36, an increase of £25 or 17.9% 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.

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**Tax base growth**

As highlighted earlier, the Borough continues to grow with substantial housebuilding taking place now and forecast into the future. Over the last five years, the number of properties within the Borough has grown by 3,506 or 8.6% and that trend continues as we approach 2024. That trend may slow down in the coming years due to economic factors but with the planning permissions in place there is still likely to be a high level of growth across the Borough with nearly 5000 new properties being forecast.

Converting properties into a tax base means placing each property into a valuation band; applying discounts, exemptions and premiums; deducting the Council Tax Reduction Scheme and then converting it all back to a Band D equivalent. The tax base then enables the calculation of how much council tax revenue will be raised from a certain charge.

The table below highlights the projections of properties and the tax base.

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Forecast total properties	44,016	45,024	45,893	46,837	47,899	48,944
Forecast tax base	36,781	37,624	38,349	39,138	40,026	40,899
Band D increase	970	842	726	789	887	873
Annual taxbase increase	2.71%	2.29%	1.93%	2.06%	2.27%	2.18%

The increasing tax base means that the council will collect around £600,000 more in council tax in five years time, even at the current council tax charge. It should however be noted that whilst each new property will deliver increased revenue, they will also demand increased services (see Section 4: Growth), the cost of which outweighs the increased revenue, given the low council tax charged by the Borough.

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**Delay to introduction of Extended Producer Responsibility for packaging (pEPR)**

The Government has deferred the introduction of Extended Producer Responsibility (pEPR) by a year to October 2025. Commentary included in the 2023/24 settlement indicated pEPR may have provided additional income to local authorities.

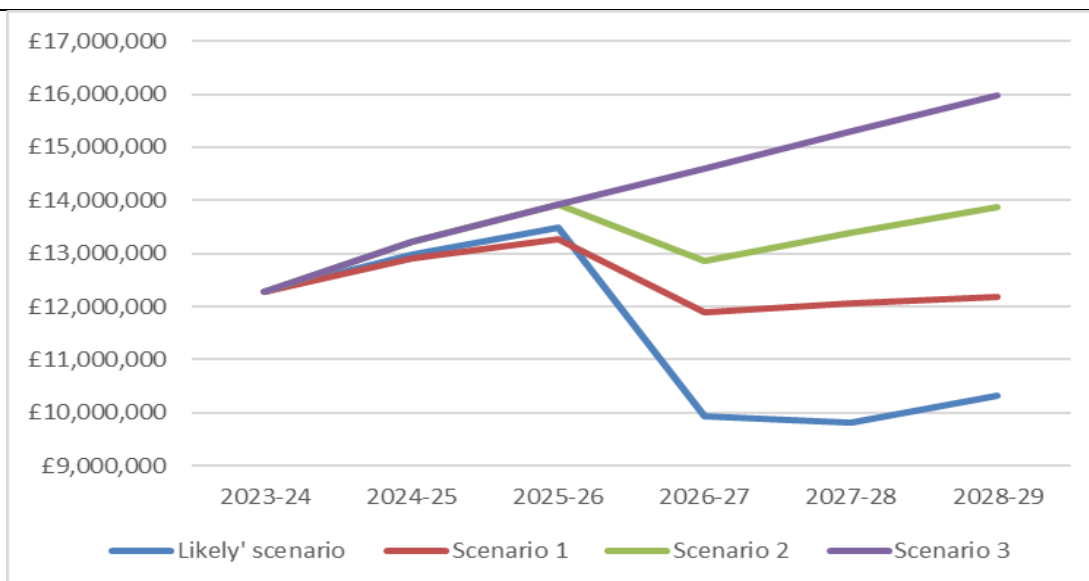
“2024-25 brings with it a significant new funding stream, subject to successful delivery of the Extended Producer Responsibility for packaging (pEPR) scheme as soon as is feasible within this financial year; local authorities can expect to receive additional income from the scheme whilst being asked to submit data relevant to their waste collection services. Alongside His Majesty’s Treasury and the Department for Environment, Food and Rural Affairs, we will be assessing the impact of additional pEPR income on the relative needs and resources of individual local authorities in the coming year.”

Given the delay and uncertainty to exactly how the scheme will work and whether there will be a net benefit to the council or not, the pEPR has not been included within the MTFs at this point. This will be kept under review until such time that it can be included with certainty in our financial projections.

2.1 2	<p><b><u>Total forecast resources</u></b></p> <p>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 growth of business rates retention and increases to council tax result in a steady increase in resources in the short term equivalent to £1.21m or 9.8%.</p> <p>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 £3.5m of funding is lost in 26/27, with further losses in 27/28 before a modest recovery in the final year.</p> <p>The table below summarizes the forecast position:</p> <table><tr><td></td><td><b>23-24</b></td><td><b>24-25</b></td><td><b>25-26</b></td><td><b>26-27</b></td><td><b>27-28</b></td><td><b>28-29</b></td></tr><tr><td></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td></tr><tr><td><b>Total Resources</b></td><td><b>12.28</b></td><td><b>12.99</b></td><td><b>13.49</b></td><td><b>9.94</b></td><td><b>9.82</b></td><td><b>10.33</b></td></tr><tr><td>Change in Total Resources (£m)</td><td>1.27</td><td>0.71</td><td>0.50</td><td>-3.55</td><td>-0.12</td><td>0.51</td></tr><tr><td>Change in Total Resources (%)</td><td>11.50%</td><td>5.74%</td><td>3.87%</td><td>-26.30%</td><td>-1.26%</td><td>5.23%</td></tr></table>		<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>28-29</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>Total Resources</b>	<b>12.28</b>	<b>12.99</b>	<b>13.49</b>	<b>9.94</b>	<b>9.82</b>	<b>10.33</b>	Change in Total Resources (£m)	1.27	0.71	0.50	-3.55	-0.12	0.51	Change in Total Resources (%)	11.50%	5.74%	3.87%	-26.30%	-1.26%	5.23%
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2.1 3	<p>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 seven 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.</p> <p>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 twelve 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 £6.72m in 2028/29. This is an increase of £3.17m or 89% and council tax as a percentage of overall funding has increased from 36.5% to 65.1% in this forecast.</p> <p>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 expected to diminish by £0.23m from its current level.</p> <p>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 £3.3m over this period and leave the Council with a negative Revenue Support grant of £0.06m. If funding reform is taken forward and has the impact as illustrated in the MTFS it will mean grant funding will fall by 101.2% between 2017/18 and 2028/29.</p> <p>Overall, total resources forecast for 2028/29 are set to be £1.95m less than the current year in cash terms.</p>																																			
2.1 4	<p><b><u>Real terms impact of funding forecast</u></b></p> <p>Whilst the forward forecast of resources highlights that cash levels of funding for 2028/29 will be significantly less than the current year and only £0.58m more than 2017/18 levels, that ignores the impact of inflation over that period.</p>																																			

	<p>Appendix C provides a graphical representation of what levels of funding may look like if the 2017/18 funding level simply uplifted by inflation each year. The forward forecast uses expected inflation levels for the Consumer Price Index Q3 as projected by the Bank of England in their November 2023 Monetary Report.</p> <p>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.</p> <p>However, the future projection highlights the impact of funding changes forecast in 2026/27. A funding gap of £3.7m emerges in 26/27 and increases to over £4m the following year before falling back to £3.7m. This means, that in real terms, the spending power of the council is forecast to reduce by 27% on 2017/18 levels and would be significantly higher if the austerity of the previous seven years had also been factored in.</p>
<p>2.1 5</p>	<p><u>Alternative scenarios</u></p> <p>As highlighted at 2.2, the previous sections describe the 'likely' scenario based on current government policy and announcements. Given the political and economic uncertainties as well as doubts over whether planned reforms would go ahead in their current guise given the age of them, there are a significant range of possible funding scenario's that could differ from the 'likely' scenario.</p> <p>There are some scenario's that could be worse than the 'likely' scenario that has been highlighted. This could be as a result of reduced public spending either generally or specific to unprotected departments, poor economic performance impacting on business growth or a reduced ability to grow local council tax levels. However, given the impact to local government services should the 'likely' scenario occur, there is more weight to the upside risk. Therefore, the focus on alternative scenario's within this MTFS is on improvements to the settlement.</p> <p>The chart below highlights three possible scenario's in comparison to the likely scenario. These are:</p> <ul style="list-style-type: none"> <li>• Scenario 1 – a 0% change to the Core Spending Power of the Council in the next five years. This reflects the position adopted by the government in settlements between 2021 and 2023 for Tewkesbury. In this scenario, grant funding is reduced as council tax income increases to provide a 0% change in CSP and the only increase in funding is from increased business rates retention. The planned Fair Funding Review has been removed in this scenario. A business rates reset is still forecast for 26/27.</li> <li>• Scenario 2 – a 3% change in the Core Spending Power of the Council. This follows the parameters of scenario 1 but allows for an overall increase of 3% in Core Spending Power. This is similar to the current year settlement but includes additional council tax income within the overall 3% uplift.</li> <li>• Scenario 3 – as per Scenario 2 but with no business rates reset in 26/27.</li> </ul>

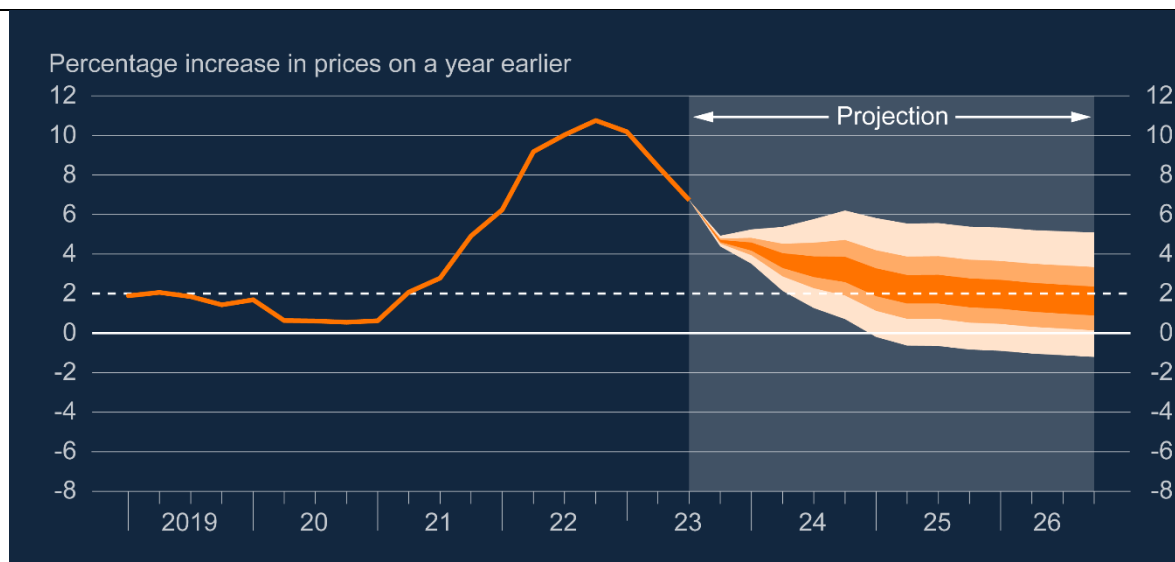




As can be seen, over the long term, even a freeze to core spending power results in a better funding position to the current 'likely' scenario. The other depicted scenario's highlight increasing resource levels with scenario 3 suggesting an increase of £3.69m or 30%.

The graph highlights a range of outcomes that could be possible with slight movements on assumptions. Given the amount of moving parts that form our funding projections, there are many more scenario's that could be constructed and added to the graph. Which, if any, will come to fruition, will not be known for some time yet and results in the Council's financial planning being based on unstable foundations.

2.1 6	<p><b>Summary</b></p> <p>As highlighted at the start of this strategy, given the uncertainty with all 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 this 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.</p>
<b>3.0</b>	<b>NET EXPENDITURE FORECAST</b>
3.1	<p>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.</p>
3.2	<p><b>Consumer Price Inflation forecast</b></p> <p>The recent Bank of England Monetary Policy Report in November 2023 highlighted the levels of Consumer Price Inflation over recent years and made a projection of future price increases. This is highlighted in the following graph.</p>



As can be seen, high levels of inflation have been affecting prices since late 2021 and whilst it appears that the peak of price inflation is now past and inflation is falling, it is unlikely that inflation will return to the Bank of England target level of 2% until at least the middle of 2025.

This will mean that the Council's budgets for the purchase of goods and services will need to increase significantly in the next two years in order to keep pace with inflation and ensure that the same level of inputs can be purchased to deliver our services. For the purpose of the MTFS, we use inflation forecasts for Q3 of the preceding year to forecast likely budget increases. Utilising the Bank of England projection, the following levels of price increase have been applied to relevant expenditure budgets:

	24-25	25-26	26-27	27-28	28-29
CPI Impact	6.93%	3.30%	2.13%	1.62%	1.75%

Similarly, CPI inflation forecasts have been applied to fees and charges projections where the Council has discretion over the charge levied to the customer.

### 3.3 Pay Awards

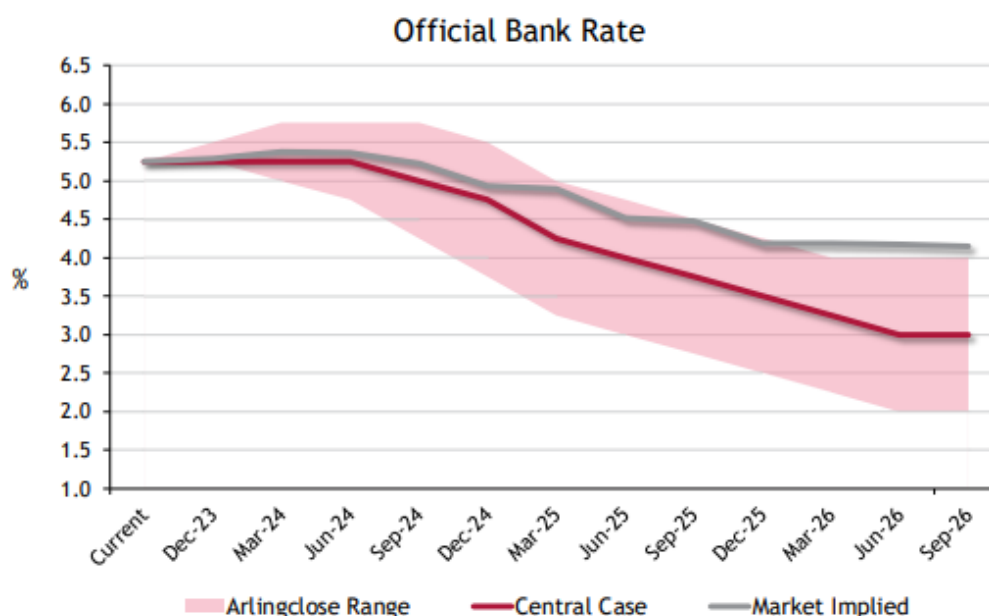
Assumed levels of employee inflation for all posts, based on the annual pay award (negotiated at national level and incorporated into contracts of employment), are shown in the table below.

	24-25	25-26	26-27	27-28	28-29
Salary inflation	4%	2%	2%	2%	2%

The level of salary inflation assumed is based on both the prevailing level of general inflation and the tightness of funding settlements to get to a balanced position of likely agreed pay award. A pay award reserve is in place to support any in year additional costs from excessive pay awards and to be replenished should pay awards be less than anticipated. This reserve will be utilized in 2023-24 to cover the recently agreed pay awards for 2023/24. The Council had budgeted for a flat increase of £1,601 per full time employee, but the agreed award has been finalized at £1,925 for the majority of staff.

### 3.4 Interest rates

The Bank of England once again froze the base rate in October 2023 following 14 consecutive rate rises between December 2021 and August 2023 which saw the base rate move from 0.1% to 5.25%. The council's treasury management advisors, Arlingclose, have forecast that this rate will be held until mid 2024 before slowly dropping off toward 3%. The following graph highlights this forecast as well as that of other market institutions.



Based on this projection of the base rate we forecast the likely return from treasury investments and the potential cost of any new borrowing. The three month money market rate is used as a blended rate to cover both short and long term interest rates. The table below highlights this blended rate that has been used for the purpose of the MTFS projection.

	24-25	25-26	26-27	27-28	28-29
3 month money market rate	4.89%	3.66%	3.00%	3.00%	3.00%

3.5 The previous three tables highlight the main inflationary assumptions contained within the medium term projection 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.

3.6 The MTFS cost projection also picks up any known and unavoidable cost increases. These are not the growth items where the Council has discretion but significant movement on costs, outside of the Council's control.

There are two items to highlight in this MTFS.

1. An increased cost of external audit provision totalling £66,500 or 95%. This increased cost reflects the additional work required to be undertaken by external audit but also the market conditions for the provision of this service.
2. An increased cost of £200,000 for the disposal of recycled materials as reported in the Q2 financial outturn report. The budget for the current year was reduced as

	the value the recycled materials had increased in the previous year. This has now been reversed and we are seeing lower values resulting in a higher gate fee for the disposal. A prudent estimate of this volatile cost stream has therefore been included within the MTFS																																			
3.7	<p>Applying these inflationary expectations and known cost variances 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 detailed forecast is shown in appendix D and highlighted below.</p> <table><tr><td></td><td><b>23-24</b></td><td><b>24-25</b></td><td><b>25-26</b></td><td><b>26-27</b></td><td><b>27-28</b></td><td><b>28-29</b></td></tr><tr><td></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td></tr><tr><td><b>Net budget</b></td><td><b>12.28</b></td><td><b>13.44</b></td><td><b>14.20</b></td><td><b>14.74</b></td><td><b>15.13</b></td><td><b>15.47</b></td></tr><tr><td>Change in net budget (£m)</td><td>1.26</td><td>1.16</td><td>0.75</td><td>0.54</td><td>0.39</td><td>0.34</td></tr><tr><td>Change in net budget (%)</td><td>11.45%</td><td>9.42%</td><td>5.61%</td><td>3.84%</td><td>2.62%</td><td>2.26%</td></tr></table>		<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>28-29</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>Net budget</b>	<b>12.28</b>	<b>13.44</b>	<b>14.20</b>	<b>14.74</b>	<b>15.13</b>	<b>15.47</b>	Change in net budget (£m)	1.26	1.16	0.75	0.54	0.39	0.34	Change in net budget (%)	11.45%	9.42%	5.61%	3.84%	2.62%	2.26%
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3.8	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, as well as the current year, given expected levels of inflation, employee pay awards and unavoidable cost increases. Nearly £2m additional cost will be faced between April 2024 and March 2026 due to rising costs before the council considers funding new ambitions or supporting growth within services.																																			
3.9	Over the course of the medium term, it is currently forecast that the net budget will increase from £12.28m to £15.47m, an increase of £3.18m or 25.9%.																																			
4.0	<b>GROWTH</b>																																			
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 circa 11.2%. 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. This of course, has the knock on effect of requiring larger support services to assist the increasing front line requirement.																																			
4.2	In addition to this, new requirements are being placed on the council each year. 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 emerging requirements. The requirement for 10% Biodiversity Net Gain on planning applications comes into force in January 2024 and is likely to require specialist input to ensure we are meeting our duties. Whilst some new burdens grant funding has been received to support this, there has not been any confirmation of ongoing funding from the government to meet this requirement and is therefore currently another example of a 'new' cost falling upon the council to fund.																																			
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 which continued the trend of previous years. The forthcoming year again sees a similar level of request being made with decisions yet to be made on the affordability and prioritisation of those bids.																																			

4.4	Therefore, it is prudent, for the purposes of the MTFS, to assume a level of growth each year over the period of the MTFS. Given the projections on both funding and the rising cost of providing services a 'managed' level of £0.2m per annum is included. Whilst it is expected that services and the ambitions of the Council may seek higher levels of growth, it will be an important part of the deficit reduction programme of the council to manage growth so that only unavoidable growth is included within the base budget. Funding for other growth requirements will need to be met from existing budgets as expenditure is further prioritized to meet the overall funding envelope available to the council and avoid heading towards the possibility of a section114 notice.																																																								
5.0	<b>FUNDING GAP</b>																																																								
5.1	<p>Combining the forecasts of the previous sections provides the overall projection of the Council's net budget position for the next five years. This is shown in the table below.</p> <table><tr><td></td><td><b>23-24</b></td><td><b>24-25</b></td><td><b>25-26</b></td><td><b>26-27</b></td><td><b>27-28</b></td><td><b>28-29</b></td></tr><tr><td></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td></tr><tr><td>Projected net expenditure</td><td>12.28</td><td>13.44</td><td>14.20</td><td>14.74</td><td>15.13</td><td>15.47</td></tr><tr><td>Projected growth</td><td>0.00</td><td>0.20</td><td>0.40</td><td>0.60</td><td>0.80</td><td>1.00</td></tr><tr><td><b>Projected total expenditure</b></td><td><b>12.28</b></td><td><b>13.64</b></td><td><b>14.60</b></td><td><b>15.34</b></td><td><b>15.93</b></td><td><b>16.47</b></td></tr><tr><td>Projected Funding</td><td>12.28</td><td>12.99</td><td>13.49</td><td>9.94</td><td>9.82</td><td>10.33</td></tr><tr><td><b>Funding Gap</b></td><td><b>0.00</b></td><td><b>0.65</b></td><td><b>1.10</b></td><td><b>5.40</b></td><td><b>6.11</b></td><td><b>6.14</b></td></tr><tr><td>% of net exp</td><td>0.00%</td><td>4.78%</td><td>7.56%</td><td>35.17%</td><td>38.35%</td><td>37.26%</td></tr></table>		<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>28-29</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	Projected net expenditure	12.28	13.44	14.20	14.74	15.13	15.47	Projected growth	0.00	0.20	0.40	0.60	0.80	1.00	<b>Projected total expenditure</b>	<b>12.28</b>	<b>13.64</b>	<b>14.60</b>	<b>15.34</b>	<b>15.93</b>	<b>16.47</b>	Projected Funding	12.28	12.99	13.49	9.94	9.82	10.33	<b>Funding Gap</b>	<b>0.00</b>	<b>0.65</b>	<b>1.10</b>	<b>5.40</b>	<b>6.11</b>	<b>6.14</b>	% of net exp	0.00%	4.78%	7.56%	35.17%	38.35%	37.26%
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5.2	As can be seen, the projected total level of expenditure by 28/29 is £16.47m inclusive of assumed growth in services. Of this expenditure, only £10.33m is provided by the expected funding available under the 'likely' funding scenario leaving a funding gap of £6.14m. 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 26/27 onwards, following the assumed funding reform and business rates reset, the funding gap jumps dramatically and continues to grow as funding remains stagnant whilst costs are expected to rise.																																																								
5.3	<p>Whilst the table in 5.1 depicts the potential deficit associated with the 'likely' funding scenario, the alternative funding scenarios have also been used to calculate alternative deficit projections. The table and graph below highlight these alternatives compared to the likely scenario and provide a spread of potential deficits facing the council in an uncertain future. As would be expected, given the different funding levels projected in the alternative scenario's, the range of potential deficits is quite wide ranging from the £6.14m already illustrated down to £0.5m under scenario 3.</p> <p>Alternatives deficits:</p> <table><tr><td></td><td><b>23-24</b></td><td><b>24-25</b></td><td><b>25-26</b></td><td><b>26-27</b></td><td><b>27-28</b></td><td><b>28-29</b></td></tr><tr><td></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td><td><b>£m</b></td></tr><tr><td>'Likely' scenario</td><td>0</td><td>0.65</td><td>1.10</td><td>5.40</td><td>6.11</td><td>6.14</td></tr><tr><td>Scenario 1</td><td>0</td><td>0.74</td><td>1.32</td><td>3.46</td><td>3.88</td><td>4.28</td></tr><tr><td>Scenario 2</td><td>0</td><td>0.42</td><td>0.68</td><td>2.47</td><td>2.54</td><td>2.59</td></tr><tr><td>Scenario 3</td><td>0</td><td>0.42</td><td>0.68</td><td>0.73</td><td>0.62</td><td>0.50</td></tr></table>		<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>28-29</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	'Likely' scenario	0	0.65	1.10	5.40	6.11	6.14	Scenario 1	0	0.74	1.32	3.46	3.88	4.28	Scenario 2	0	0.42	0.68	2.47	2.54	2.59	Scenario 3	0	0.42	0.68	0.73	0.62	0.50														
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	<div><p>Alternative deficit scenario's</p><table><caption>Estimated deficit values (£m) from the graph</caption><thead><tr><th>Year</th><th>Likely' scenario</th><th>Scenario 1</th><th>Scenario 2</th><th>Scenario 3</th></tr></thead><tbody><tr><td>2023-24</td><td>0.0</td><td>0.0</td><td>0.0</td><td>0.0</td></tr><tr><td>2024-25</td><td>0.5</td><td>0.5</td><td>0.5</td><td>0.5</td></tr><tr><td>2025-26</td><td>1.0</td><td>1.0</td><td>0.5</td><td>0.5</td></tr><tr><td>2026-27</td><td>5.5</td><td>3.5</td><td>2.5</td><td>0.8</td></tr><tr><td>2027-28</td><td>6.2</td><td>4.0</td><td>2.5</td><td>0.7</td></tr><tr><td>2028-29</td><td>6.2</td><td>4.5</td><td>2.5</td><td>0.6</td></tr></tbody></table></div>	Year	Likely' scenario	Scenario 1	Scenario 2	Scenario 3	2023-24	0.0	0.0	0.0	0.0	2024-25	0.5	0.5	0.5	0.5	2025-26	1.0	1.0	0.5	0.5	2026-27	5.5	3.5	2.5	0.8	2027-28	6.2	4.0	2.5	0.7	2028-29	6.2	4.5	2.5	0.6
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6.1	<p>The funding gap highlighted in the previous section is significant. A shortfall of £6.14m by 28/29, if crystalised, represents savings of 37.3% to be found against our expected total net expenditure. Even in the short term, savings of £0.65m and £0.45m will be challenging given the demands on local government and the savings and income generated in previous years.</p>																																			
6.2	<p>To help address this forecast gap, a Deficit Reduction Programme (DRP) has been drawn together. 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, to address the deficits in years 2 to 5 of the MTFS, which have not yet reached the stage of being actively taken forward, are summarized within the 'pipeline' actions.</p>																																			
6.3	<p>The DRP has worked well to support the council's financial position over the years of austerity and more recently. For the current year budget, over £1.3m of savings or additional income was identified and incorporated into the base budget. The level of savings and income ensured the council could invest heavily in its services in the current year with over £1.15m of growth approved despite the financial challenges that exist. Significant investment was made in services such as waste and recycling, the strategic local plan, IT &amp; Cyber and licensing. More recently, identified actions have enabled the repurposing of existing budgets to fund a new Climate Change Officer.</p>																																			
6.4	<p>As a result of this identification and delivery of these savings, the current DRP has been depleted with less live and pipeline actions than in previous years. Live actions, to support the 24/25 budget are reasonably placed with an estimated £0.63m identified as being deliverable. If the MTFS projections are accurate, this would mean that the budget deficit before growth could be met but any desired growth would need to be funded by reserves or further savings quickly identified.</p>																																			

6.5	<p>The actions currently identified for 24/25 include:</p> <ul style="list-style-type: none"><li>• Increased planning fees</li><li>• In-cab technology</li><li>• Reduced pension contributions</li><li>• S106 monitoring fees</li><li>• Trade waste cessation</li><li>• Service digitisation</li></ul>																																			
6.6	<p>Looking to the medium term and the pipeline actions, it is currently estimated that around £1.04m of further income or savings can be generated. Some of these actions are not as well developed as the live actions and will take further work to shape into actions to be taken forward. Some are also dependent on external factors, such as the development of the retail outlet at junction 9. The pipeline actions are summarized in the table at 6.8.</p>																																			
6.7	<p>Whilst £1.67m of potential savings and income have been identified at this stage, this still leaves a significant gap to reach the potential target of £6.14m and many further actions are likely to be needed. Renewed focus and drive is required from the whole organization to identify and commit to making cost reductions or income generation.</p> <p>To support this, the Chief Officer Group will recommence the review of the breadth and depth of services currently offered by the Council, engaging with service management to understand future challenges and opportunities in each area as well as across the council as a whole. This work was originally started in the Winter of 2022 but put on hold to allow for the management restructure and other priority targets to be delivered. It is envisaged that this piece of work will be ongoing given the financial challenges the Council faces with updates being provided to the Transform Working group and recommendations taken on to Executive Committee and Council if required.</p> <p>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 6.8 under future actions.</p>																																			
6.8	<p>Bringing together the live actions, pipeline actions and future potential actions a total of £3.63m may be generated to meet the forecast funding gap.</p> <table><thead><tr><th></th><th>Live DRP projects £m</th><th>Pipeline DRP projects £m</th><th>Future actions £m</th><th>Total £m</th></tr></thead><tbody><tr><td>Income</td><td>0.37</td><td>0.78</td><td>0.45</td><td>1.60</td></tr><tr><td>Employee cost base</td><td>0.10</td><td>0.10</td><td>0.20</td><td>0.39</td></tr><tr><td>Service efficiency &amp; digitalisation</td><td>0.10</td><td>0.06</td><td>0.56</td><td>0.72</td></tr><tr><td>Service cessation</td><td>0.07</td><td>0.00</td><td>0.30</td><td>0.37</td></tr><tr><td>Contractual arrangements</td><td>0.00</td><td>0.10</td><td>0.45</td><td>0.55</td></tr><tr><td><b>Total</b></td><td><b>0.63</b></td><td><b>1.04</b></td><td><b>1.96</b></td><td><b>3.63</b></td></tr></tbody></table>		Live DRP projects £m	Pipeline DRP projects £m	Future actions £m	Total £m	Income	0.37	0.78	0.45	1.60	Employee cost base	0.10	0.10	0.20	0.39	Service efficiency & digitalisation	0.10	0.06	0.56	0.72	Service cessation	0.07	0.00	0.30	0.37	Contractual arrangements	0.00	0.10	0.45	0.55	<b>Total</b>	<b>0.63</b>	<b>1.04</b>	<b>1.96</b>	<b>3.63</b>
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	<p>It should be noted that any service reviews / reduction in employee costs / potential redundancies would be the subject of detailed proposals and consultation with the affected staff and trade unions at the appropriate time and before any decisions are made.</p>																																			
6.9	<p>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</p>																																			

	<p>funding, in the order of £2.5m, 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.</p>
6.10	<p>Whilst the Council hopes for better funding settlements in the future, it will plan for the worst and look to establish a savings programme to close the full gap identified. As that programme is being developed and the government forms long terms plans to sustainably fund local government, the council may need to utilize reserves to balance the budget. The Council has £3m set aside to meet budget shortfalls and will look to boost this if in-year surpluses are achieved. It should however be remembered that the use of reserves is only a short term fix to budget deficits and cost reductions or income/funding increases will be needed to place the council on a sustainable long term footing.</p>