

4 October 2023

Report of the Interim Executive Director Resources**Medium Term Financial Strategy****Purpose**

To provide further information on the latest Medium Term Financial Strategy (MTFS) forecasts.

Recommendations

That Members consider the updated forecast and underlying financial position.

Executive Summary

At its meeting on 8th August 2023, Corporate Scrutiny Committee received the Quarter 1 Corporate Performance report including the updated MTFS forecasts as at 30 June 2023.

Updates to the MTFS are considered quarterly by Corporate Management Team, Corporate Scrutiny Committee and Cabinet on a quarterly basis – based on the financial information contained within the MTFS approved by council in February each year (following the detailed discussions held and information reported during the budget process) but informed by and in light of any developing financial issues as they arise (as detailed in the report).

As a result of the updated forecast at quarter 1, July 2023, the forecast projections now identify General Fund balances of £3.7m by 2025/26 (compared to £1.1m as part of the approved MTFS forecast in February 2023), a shortfall of £0.7m by 2026/27 (compared to a shortfall of £4.1m), a shortfall of £4.8m by 2027/28 (compared to a shortfall of £9m), with a shortfall of £9.5m by 2028/29.

Under the best case scenario, General Fund balances are forecast at £4.3m by 2025/26, £1.1m by 2026/27, with a shortfall of £2.9m by 2027/28, and £6.9m by 2028/29.

Under the worse case scenario, General Fund balances are forecast at £0.3m by 2025/26, with a shortfall of £5.3m by 2026/27, £10.7m by 2027/28, and £16.6m by 2028/29.

As members will be aware, savings are usually considered annually as part of the budget process. This update is the first step in reviewing the MTFS forecast during July as part of the Qtr 1 financial healthcheck report for Corporate Scrutiny and Cabinet - in light of the latest information available - including any further indications from government and those from the LGF Settlement for 23/24 & indications for 24/25. This will then inform the scale of the cost reductions needed as part of the budget process – **managers will again be asked to identify further areas for potential savings and growth opportunities for consideration by Members as part of the budget process.**

With the ongoing uncertainty around the fair funding review and business rates reset, it makes it difficult to plan in the longer term - which is what we have experienced for the past 10 years as the review has been deferred numerous times and now is a question of if rather than when it could happen.

A further consideration is the potential scale and scope of any government funding reductions, which need to be forecast. **There needs to be a balance between hoping for the best and**

planning for the worst - which would include consideration of cost efficiencies, increased income and ultimately service reductions. Therefore it is suggested that the focus be on achieving a balanced 3 year MTFS, pending further clarification regarding the planned reforms to local government finance.

Housing Revenue Account

With regard to the Housing Revenue Account, a 5 year MTFS was approved by Council including significant investment in meeting future housing needs to sustain the HRA in the longer term.

As a result of the updated forecast at quarter 1, July 2023, the forecast projections now identify HRA balances of £1.5m by 2025/26 (compared to £2.8m as part of the approved MTFS forecast in February 2023), £1.3m by 2026/27 (compared to £2.4m), £1.2m by 2027/28 (compared to £2.2m), with balances of £1m by 2028/29.

Under the best case scenario, HRA balances are forecast at £3.5m by 2025/26, £4.3m by 2026/27, £5.3m by 2027/28, and £6.2m by 2028/29.

Under the worse case scenario, HRA balances are forecast at £1.4m by 2025/26, £1.2m by 2026/27, £1m by 2027/28, and £0.9m by 2028/29.

However, this does not include the anticipated cost pressures for the HRA capital programme arising from the ongoing work in updating the 30 year HRA business plan. Previous indications from the modelling are a potential shortfall over 30 years of £42m plus a significant and unsustainable increase in HRA debt levels arising from the capital programme pressures (of over £200m over 30 years).

Options Considered

None

Resource Implications

The latest forecasts are detailed below.

General Fund

	General Fund						
MTFS Projections 2022/23 - 2028/29	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Projected Balances per MTFS Council February 2023	(9,170)	(7,962)	(5,865)	(1,101)	3,577	8,506	8,506
Revised Stress Tested Forecasts:							
Best Case Revised Forecast Balances - July 2023	(9,615)	(9,097)	(7,970)	(4,275)	(1,094)	2,387	6,446
Central Case Revised Forecast Balances - July 2023	(9,615)	(9,097)	(7,678)	(3,691)	205	4,351	9,020
Worse Case Revised Forecast Balances - July 2023	(9,615)	(8,179)	(5,519)	(290)	4,851	10,241	16,157

Housing Revenue Account

	Housing Revenue Account						
MTFS Projections 2022/23 - 2028/29	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Projected Balances per MTFS Council February 2023	(4,431)	(3,608)	(3,331)	(2,849)	(2,434)	(2,152)	
Revised Stress Tested Forecasts:							
Best Case Revised Forecast Balances - July 2023	(2,762)	(1,802)	(2,744)	(3,485)	(4,314)	(5,298)	(6,222)
Central Case Revised Forecast Balances - July 2023	(2,762)	(1,802)	(1,738)	(1,470)	(1,268)	(1,198)	(1,047)
Worse Case Revised Forecast Balances - July 2023	(2,762)	(1,802)	(1,711)	(1,414)	(1,183)	(1,084)	(902)

Legal/Risk Implications Background

There remains a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation - arising from the Fair Funding Review, review of the Business Rates Retention (BRR) scheme, reset of the Business Rates baseline and the ongoing uncertainty over the funding for the New Homes Bonus scheme.

While we are aware of these forthcoming change, little to no information is available on the potential impact for individual Councils' finances.

We will therefore need to consider the approach to forecasting and planning for these uncertainties balancing the risk to the MTFS against the need for savings and potential service reductions.

The Key Risks are:

- Future Government financial support and Revenue Support Grant levels for future years - the budget setting process has faced significant constraints in Government funding in recent years - following years of austerity.

On 12th December 2022, the Secretary of State for Levelling Up, Communities and Local Government published a written ministerial statement which was accompanied by a policy statement on the 2023/24 local government finance settlement and assumptions about the 2024/25 local government finance settlement.

This statement came ahead of the 2023/24 provisional local government finance settlement announcement, which was published in December 2022, detailing local authority-level figures for 2023/24.

The Government has set out some planning assumptions for the 2024/25 local government finance settlement as follows:

- The Review of Relative Needs and Resources ('Fair Funding Review') and a reset of Business Rates growth will not be implemented in the next two years.
- The council tax referendum principles will continue the same as 2023/24.

- Revenue support grant will continue and be uplifted in line with baseline funding levels (assumed now to be now based on September 2023 CPI), while social care grants will increase as set out in the table above.
- Business rates pooling will continue.
- The Government will set out the future position of New Homes Bonus ahead of the 2024/25 local government finance settlement.

This settlement represents a 'holding position' until the next Parliament, aiming at stability. The ruling out of a business rates reset, or a fair funding review, means that the funding distribution will stay fairly stable (with the exception of Extended Provider Responsibility funding). But this means that the big questions about the future of the funding system remain unaddressed one way or another.

While this means the Council will be able to retain its business rate growth for 2023/24 and 2024/25, it also means that the uncertainty continues and potentially the Council still faces losing this growth from 2025/26.

There is a high risk that these reforms will have a significant effect on the Council's funding level from 2025/26.

- There are also further uncertainties arising from current cost pressure and inflationary increases which have compounded the likely price increases for supplies that are required for building or construction/maintenance works.

In addition, and following the mini budget on 23rd September, there are cost pressures due to the financial markets' response to the contents of that budget. There have been significant increases in interest rates, and it can be expected that this will have a negative effect on the price of goods and services but a positive effect from the return from the Council's Treasury investments.

Energy efficiency is likely to be a significant feature across all of our property portfolio including Council Housing. The commitment to achieve zero carbon within our own operations will present difficulties when considering our historic buildings like the Assembly Rooms, Castle and Town Hall. It is likely that investment in the property portfolio will be needed which has not yet been quantified and will need to be considered in future, in line with the Corporate Capital Strategy objectives.

It is anticipated that amendments to the Decent Homes Standard will look at building safety and energy efficiency for Council Housing. The cost is likely to be significant and could mean exploration of new ways of funding such as the application of service charges and as included within the 2022/23 capital programme, through grants available.

An increase in the cost of repairs has been included in the MTFS due to the current market cost pressures. The RICS through their Building cost indicator service (BCIS) are predicting increasing tender prices over the next 5 years so this is likely to impact on existing contracts. There is the risk that if costs continue to increase in excess of CPI, contractors will seek further uplifts. The impact on planned work is that less work will be done, this will extend the renewal period for key components which will increase demand on responsive repairs. The volume of responsive repairs is unlikely to change.

Income from the commercial/industrial portfolio has held up during the pandemic, but underlying market issues and the increase in online shopping (increased by the pandemic) mean that there is an immediate risk in relation to the income achievable from the Council's commercial property portfolio, which could result in a significant loss of income.

- For 2021/22 a 1.75% increase in Local Government pay was agreed. For 2022/23, an offer of a £1,925 increase on all pay points has been subject to union ballot and has

been agreed. Future years remain uncertain but a 4.0% increase has been assumed for 2023/24 with annual increases of 2.5% p.a. from 2024/25.

- Challenge to continue to achieve high collection rates for council tax, business rates and housing rents – in light of the welfare benefit reforms and the impact of the current cost pressures on economic conditions and uncertainty.

Equalities Implications

None

Environment and Sustainability Implications (including climate change)

None

Background Information

- a) The Government's **Fair Funding Review (FFR)** of the distribution methodology includes:
 - a. changes to the needs assessment (which will determine each Council's share of the national funding for Local Government – it is likely that this will reflect the impact of Social Care demands and that funding will be redistributed to Unitary and County Councils to the detriment of District Councils);
 - b. treatment of relative resources (to determine how much each Council can fund locally through income from fees and charges and council tax);
 - c. any transitional arrangements to protect Councils from significant reductions in funding – and the impact from their unwinding.
- b) **Spending Review** – where the total spending allocation for Government Departments will be set – including national control totals for Local Government spending. It sets UK Government departments' resource budgets.
- c) The ongoing **review of the Business Rates Retention (BRR) scheme** –work on the design of the new system including the impact of 'rolling in' grants such as Housing Benefit administration and Hew Homes Bonus.
- d) The planned **reset of the Business Rates baseline** for each Council could mean redistribution of the growth, or a proportion of such, achieved since 2013.
- e) **New Homes Bonus scheme** - review planned on operation of the scheme including local growth in housing numbers and share of the national pool (including the 'deadweight' for which Councils no longer receive grant).

Report Author

Joanne Goodfellow - Interim Executive Director Finance

List of Background Papers

Quarter One 2023/24 Performance Report, Corporate Scrutiny Committee, 8th August 2023.

This page is intentionally left blank