



## OPEN REPORT COUNCIL

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**Council – 29 February 2024**

### **MEDIUM TERM FINANCIAL STRATEGY 2024/25 TO 2028/29**

#### **Report of the Director of Resources (Section 151 Officer)**

##### **Report Author and Contact Details**

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##### **Wards Affected**

District-wide

##### **Report Summary**

This report seeks the Council's approval for the Medium-Term Financial Strategy for 2024/25 to 2028/29. The strategy is intended to set out the Council's strategic approach to the management of its finances and provide a framework within which decisions can be made regarding future service provision and council tax levels.

##### **Recommendations**

1. That approval is given to the Medium-Term Financial Strategy (MTFS) for 2024/25 to 2028/29, attached as Appendix 1 to this report;
2. That Council agrees that, when setting budgets for 2024/25 and beyond, spending should be focused on the Council's corporate priorities, wherever possible;
3. That approval is given to the approach set out in the Medium-Term Financial Strategy for achieving the savings required to set balanced budgets i.e. that:
  - I. Steps are taken in 2024/25 to identify measures required to enable a balanced budget to be set for the financial year 2025/26.
  - II. Savings for 2026/27 and beyond be put on hold pending the outcome of the government reviews of local authority funding (the Fair Funding Review) and business rates retention.

##### **List of Appendices**

Appendix 1 Medium-Term Financial Strategy 2024/25 to 2028/29

## Background Papers

Date	Description	Location
05/02/2024	Details of Final Local Government Finance Settlement for 2024/25	Local authorities' individual allocations can be found in the <a href="#">final 2024/25 Local Government Finance settlement</a>

### Consideration of report by Council or other committee

N/A

### Council Approval Required

Yes

### Exempt from Press or Public

No

## Medium-Term Financial Strategy 2024/25 to 2028/29

### 1. Introduction and Summary

- 1.1 The Council has a statutory duty to set a balanced budget. The Medium-Term Financial Strategy (MTFS) shown in Appendix 1 provides a forecast of the Council's financial position over the five years for 2024/25 to 2028/29. The MTFS shows the pressures that the Council faces and the impact of reductions in government funding, at a time when public expectations and pressures on service costs are increasing.
- 1.2 The MTFS explains that beyond 2025/26 there is great uncertainty relating to government funding and retained business rates income, as the government has not yet completed its reviews of local authority funding that are now expected to be implemented from 2026/27 onwards. This, and the absence of multi-year financial settlements (announcements of grant funding) from government makes financial planning very difficult at the current time.
- 1.3 The Medium-Term Financial Plan (MTFP) contained within the MTFS indicates that, with the proposed increase in council tax, there is a balanced budget for 2024/25. However, the MTFP also shows that there is a savings target of around £1.1m for 2025/26, that rises to £2.6m in 2026/27, £3.6m in 2027/28 and £3.9m in 2028/29. The changes from 2026/27 relate mainly to the forecast impact of government reviews of "Fair Funding" and business rate retention.
- 1.4 The MTFS sets out the Council's approach to meeting the corporate savings target and closing the budget gap over the medium term. Given the amount set aside in the General Reserve and other usable revenue reserves, the timing of the required savings, and the uncertainty surrounding external funding (arising mainly from the outcome of the anticipated level of the government's Fair Funding Review and its review of the Business Rates Retention scheme), the recommended approach to meeting the Savings Target and closing the budget gap is to:
- Take steps during 2024/25 to identify measures required to enable a balanced budget to be set for the financial year 2025/26. An action for this has been proposed in the new Corporate Plan, to be considered at the same Council meeting as this Strategy.
  - Place on hold any significant service reductions for 2026/27 and beyond pending the outcome of the government reviews of Council funding.
- It is expected that any savings will be focussed on low priority services.
- 1.5 The MTFS will assist in managing the Council's financial resilience in the medium- term. It indicates that significant savings are required over the medium term and the Council will have to become much more self-reliant in future, depending much less on government grants as a source of funding and more on income from council tax and business rates, or from its own fees and charges.

## 2. Key Issues

- 2.1 The current Medium Term Financial Strategy was approved in March 2021. At that time a budget gap of £144,000 had been closed for 2021/22 and a balanced budget was set for that year. The Medium-Term Financial Plan (MTFP) at the time illustrated that there remained a budgetary shortfall ranging from £300k to £600k for the subsequent four financial years. The 2021 MTFS set out an approach to addressing the shortfalls. There has since been an economic downturn, high inflation, higher interest rates and a cost-of-living crisis. These have had a significant impact on the Council's finances.
- 2.2 Medium Term Financial Planning remains very difficult. The uncertainties include:
- The future of government grants;
  - The outcome of the government's Fair Funding Review;
  - Business rates – the impact of the proposed changes to business rates including changes to the funding baseline and local share, funding of reliefs (especially Small Business Rate Relief), provision for appeals and the impact of revaluation exercises;
  - Rising inflation rates (which increase the cost of services);
  - The impact of the cost-of-living crisis, especially on collection rates for council tax, business rates and income from fees and charges;
  - The value of the pound, which could affect the cost of goods and services;
  - Increases in employer pension contributions;
  - Nationally agreed pay awards, increases in the National Living Wage and changes in the Apprentices Levy;
  - The impact of future welfare reforms, which could increase the cost of the Council Tax Support Scheme and Housing Benefit Overpayments;
  - Increases in demand for services;
  - Achievement of the savings required (see below);
  - Potential for a reduction in the cost of leisure services, as the Council's cost is expected to reduce over the life of the contract;
  - Potential costs to improve or replace assets, such as waste collection vehicles;
  - The impact of volatility in the markets for recycling materials.
- 2.3 The purpose of the MTFS is set out in section 2.1 of that document (Appendix 1). The Medium-Term Financial Strategy (MTFS) should provide a robust, consistent and sustainable approach to establishing and maintaining a stable and prudent financial basis on which improvement and transformation of the Council's services can progress within the resources that are available.
- 2.4 The MTFS identifies the estimated financial commitments of the Council alongside the likely level of resources available to it over the next five financial years. It provides a financial overview against which budgets will be set and aligned with Council priorities, to ensure the sustainability of the Council's budget.
- 2.5 The updated MTFS, shown in Appendix 1, includes:

- A statement of principles, including recommendations for the amount that should be retained in working balances and policies for under- or over-spends on the revenue account;
- Details of the Council's current financial position and outlook;
- An updated Medium Term Financial Plan (MTFP), which shows the corporate savings or additional income that are required to close the budget gap for each of the next five financial years;
- An explanation of the approach to achieving savings;
- A risk assessment.

2.6 The updated MTFP includes forecasts of the Council's income and expenditure over the next five years. Key assumptions are shown, which include:

- The Settlement Funding Assessment from the Government for future years will be as in the 2024/25 Final Local Government Finance Settlement (plus inflation) but with the removal of New Homes Bonus after 2024/25, the removal of the Funding Guarantee after 2025/26 and an adjustment for negative revenue support grant from 2026/27;
- Income from the second homes Council Tax premium of £200,000 p.a. from 2025/26;
- From 2024/25, Council Tax will increase by 2.99% each year and there will be growth of 195 band D equivalent properties a year. 2.99% is currently the maximum permitted increase, without a referendum. Officers recommend that this is the minimum necessary to achieve a sustainable financial plan;
- Business Rates will increase by CPI. A business rates baseline reset will take place in 2026/27. The council will remain a member of the Derbyshire Business Rates Pool. Any balance on the business rates collection fund will be offset by a transfer to or from the business rates fluctuations reserve

2.7 The Medium-Term Financial Plan demonstrates that, with the proposed increase in council tax, there is a balanced budget for 2024/25. However, the Medium-Term Financial Plan shows that there is a savings target of around £1.1m for 2025/26, that rises to £2.6m in 2026/27, £3.6m in 2027/28 and £3.9m in 2028/29. The changes from 2026/27 relate mainly to the forecast impact of government reviews of "Fair Funding" and business rate retention.

2.8 The MTFP sets out the Council's approach to meeting the corporate savings target and closing the budget gap over the medium term. Given the amount set aside in the General Reserve and other usable revenue reserves, the timing of the required savings, and the uncertainty surrounding external funding (arising mainly from the outcome of the anticipated level of the government's Fair Funding Review and its review of the Business Rates Retention scheme), the recommended approach to meeting the Savings Target and closing the budget gap is to:

- Take steps during 2024/25 to identify measures required to enable a balanced budget to be set for the financial year 2025/26. An action for

this has been proposed in the new Corporate Plan, to be considered at the same Council meeting as this Strategy.

- Place on hold any significant service reductions for 2026/27 and beyond pending the outcome of the government reviews of Council funding.

It is expected that any savings will be focussed on low priority services.

- 2.9 There are risks with this approach, that are set out in part 5 of the MTFS, which explains that these risks will be mitigated by robust budget monitoring, together with the use of reserves in the short term if the financial position is worse than expected.
- 2.10 As well the need to make savings (or generate additional income) to balance its revenue budget over the coming years, the Council's sources of finance for capital expenditure are becoming depleted. The Council's Capital Strategy (elsewhere on the agenda for this Council meeting) sets the framework for all aspects of the Council's capital expenditure; including planning, prioritisation, management and funding. The Strategy has direct links to the Council's Asset Management Plan and this Medium Term Financial Strategy (MTFS).
- 2.11 The MTFS includes a section on reserves and balances. It is necessary to retain sufficient reserves and balances to meet the Council's needs, which are consistent with the Council's priorities, but also to ensure that they are not excessive considering the opportunity costs of maintaining them. The principles for reserves and balances are set out in section 2.2 of the MTFS; the individual reserves are described and balances reviewed for adequacy in Appendix C of the MTFS.
- 2.12 It should be noted that balances on strategic reserves (especially those to fund the capital programme) are reducing. Appendix B shows that strategic reserves are forecast to reduce from £17 million at 31<sup>st</sup> March 2023 to £11 million at 31<sup>st</sup> March 2024 and £7 million at 31<sup>st</sup> March 2025; these reductions will increase the Reserves Sustainability risk and those for other measures related to risk balances. This indicates that the Council will have reduced ability and flexibility to respond to changes in delivery or demand without placing the organisation at risk of financial failure. This has been the case for many local authorities this year who have issued Section 114 notices or declared financial emergencies.
- 2.13 In addition to the above, there is a need to build up a reserve to be utilised when the Council's current fleet of waste vehicles require replacement in 4 years' time, or to plan for increased annual revenue costs at the end of the current contract if future vehicles are to be leased. The current vehicles were acquired in 2020/21 and 2021/22 at a cost of £3.6m. It would be prudent to set up annual contributions from the revenue account, if affordable, or to earmark a substantial sum from any increased government funding or revenue account underspend to build up the Waste Vehicles Reserve that has been established for this purpose and is forecast to have a balance of £500,000 at 31 March 2025. Any residual balance could be considered for a transfer to the Capital Programme Reserve or "Invest To Save" Initiatives, or to mitigate against future funding pressures.

- 2.14 Section 3.5 of the report illustrates the importance of income from Fees and Charges. For 2024/25 budgeted income from sales, fees and charges amounts to £8.7m and makes up 37% of all income, i.e. more than council tax (which generates 30% of income).
- 2.15 Section 3.7 of the MTFs includes a description of the Council's processes for setting and managing budgets. The Director of Resources, in conjunction with The Financial Services Team and the Corporate Leadership Team, will monitor performance against the Medium-Term Financial Strategy, the Medium-Term Financial Plan, Revenue Budget and Capital Programme

### **3 Options Considered and Recommended Proposal**

- 3.1 Other options for the level of council tax increase were considered and the impact of several options on the Council's income was discussed at member briefings. The recommended increase of 2.99% was chosen because:
- this is the maximum council tax increase permissible without the need for a referendum,
  - 2.99% was assumed by government when they issued the Local Government Finance Settlement,
  - taking this action now will give a higher starting point to assist in balancing the budget in future years,
  - the proposed increase of 2.99% is lower than current levels of inflation (CPI is currently 4%), and
  - a council tax freeze in 2024/25 would have meant taking around £212,000 from reserves, or making savings or raising income from other sources, of that magnitude to balance the budget.

### **4 Consultation**

- 4.1 There has been no direct public consultation on this Medium-Term Financial Strategy. However, during 2023 the Council carried out extensive consultation on its Corporate Plan and priorities. The responses from the consultation have been used to form the Corporate Plan (to be approved at this Council meeting) and to set spending priorities that are reflected in the budget proposals for 2024/25, in the Medium-Term Financial Plan and in this MTFs.

### **5 Timetable for Implementation**

- 5.1 The approved MTFs will take immediate effect, following approval at the Council meeting on 29<sup>th</sup> February 2024.

### **6 Policy Implications**

- 6.1 All the Council's aims and priorities, as contained in the Corporate Plan actions and targets for 2024/25 (to be considered elsewhere on the agenda for this Council meeting), and various service strategies, have been considered when determining the proposed revenue budget and capital programme and the Medium-Term Financial Plan.

- 6.2 To avoid an overspend against the revenue budget, or capital programme, no new projects or liabilities should be taken on without a full assessment of financial and staffing resources. The ability to add to the corporate plan will therefore be limited unless financial savings can be made in other areas and / or additional income can be generated. The same applies to staffing resources.
- 6.3 The Medium-Term Financial Plan has identified that significant savings will be required from 2025/26. The Medium-Term Financial Strategy sets out the approach to achieving these savings. To make savings to balance future budgets will mean that some services and activities must be reduced. This will require challenging decisions to be made and it will be important to ensure that spending plans are aligned to corporate plan priorities. In other words, savings will be directed to low priority service areas.

## **7 Financial and Resource Implications**

- 7.1 The uncertainties associated with medium term financial planning are set out in section 3.4 of the MTFS. They include changes to the rates of inflation and interest rates, shortfalls in income from fees and charges, changes to the Business Rates Retention Scheme and reductions in Government Grants.
- 7.2 The key risks and the mitigating actions and controls relating to the MTFS are set out in Section 5 of the MTFS.
- 7.3 The MTFS indicates that there is a forecast budget gap of around £1.1m for 2025/26, that rises to £2.6m in 2026/27, £3.6m in 2027/28 and £3.9m in 2028/29. The changes from 2026/27 relate mainly to the forecast impact of government reviews of “Fair Funding” and business rate retention.
- 7.4 The recommended approach to this budget gap is to :
- Take steps during 2024/25 to identify measures required to enable a balanced budget to be set for the financial year 2025/26. An action for this has been proposed in the new Corporate Plan, to be considered at the same Council meeting as this Strategy.
  - Place on hold any significant service reductions for 2026/27 and beyond pending the outcome of the government reviews of Council funding.

It is expected that any savings will be focussed on low priority services.

- 7.5 The financial risk in respect of the Council's medium-term financial position is assessed as “High”. However, the financial risk associated with the recommendations made in this report is assessed as ‘Medium’, as the MTFS itself is a tool to mitigate financial risks. There are risks associated with this strategy, which are described in part 5 of the MTFS. These risks will be mitigated by robust budget monitoring, together with contingency plans that will be used if the savings target is not achieved (or turns out to be greater than expected when the outcome of the government reviews is known).



## **8 Legal Advice and Implications**

- 8.1 The adoption of a Medium-Term Financial Strategy is one of the mechanisms available to the Council to fulfil its responsibilities to properly manage its financial resources and meet its statutory obligations. To maintain that equilibrium, the District Council needs to adopt a risk-based approach to decision making which balances the needs of the community and the ability of the District Council to deliver both statutory and discretionary services.
- 8.2 The report also sets out savings targets which are currently speculative and will be the subject of more detailed findings and reports in due course.
- 8.3 The overall legal risk is therefore assessed as 'Low to Medium'.

## **9 Equalities Implications**

- 9.1 There are no equalities implications arising directly from this report.

## **10 Climate Change Implications**

- 10.1 There are not any direct climate change implications arising from the recommendations of this report.

## **11. Risk Management**

- 11.1 Financial and legal risks are explained above. As identified in the report, the key risks result from the need to make savings or raise additional revenue income in the medium-term, and from a lack of available finance for the capital programme. Some of the savings that are required have the potential to damage the Council's reputation if not handled properly. This risk is considered to be Medium. The risk associated with financial sustainability is set out above; it has been reflected on the Council's Strategic Risk Register, together with some mitigating actions, and it assessed as 'High'.

## **Report Authorisation**

Approvals obtained from:-

	<b>Named Officer</b>	<b>Date</b>
Chief Executive	Paul Wilson	21/02/2024
Director of Resources (S.151 Officer)	Karen Henriksen	21/02/2024
Director of Corporate & Customer Services (Monitoring Officer)	Helen Mitchell	21/02/2024