

**REPORT TO:** Executive Board

**DATE:** 16 November 2023

**REPORTING OFFICER:** Operational Director, Finance

**PORTFOLIO:** Corporate Services

**SUBJECT:** Medium Term Financial Strategy 2024/25 – 2026/27

**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 To establish the Council's Medium Term Financial Strategy for the period 2024/25 to 2026/27.

## **2.0 RECOMMENDATION: That**

- 1) the Medium Term Financial Strategy presented in Appendix 1, be approved;**
- 2) the 2024/25 base budget be prepared on the basis of the underlying assumptions set out in the Strategy;**
- 3) the Reserves and Balances Strategy presented in Appendix 2 be approved; and**
- 4) the award of Council Tax Support for 2024/25 remains at the 2023/24 level of 21.55%.**

## **3.0 SUPPORTING INFORMATION**

3.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending. It has been based on information that is currently available. The most recent Public Sector Spending Review was published at the end of October 2021, setting Government Departmental Expenditure Limits for the following three financial years. The growth of 3.3% set out in the Spending Review was subsequently increased to 4.8% for 2023/24 at the Local Government Finance Settlement in February 2023. It is unclear whether the 2024/25 Grant Settlement will use the previously agreed growth of 3.3%, or whether this will be reviewed within the context of continued high inflation. Details of the 2024/25 Local Government Finance Settlement are expected to be released in late December 2023 on a provisional basis, with a final settlement expected in January 2024.

- 3.2 The uncertainty regarding 2024/25 financial resources means the financial information included within the MTFFS is based on a large number of assumptions and best estimates. The financial forecast will be updated as and when further information is known.
- 3.3 There is considerable uncertainty surrounding Local Government Funding in 2024/25 and beyond. The Fair Funding Review, which changes how funding is apportioned between councils, was originally proposed in 2016 and has been repeatedly delayed. There has been no confirmation from Government as to when or whether this will be adopted. The proposed Business Rates Baseline Reset and a move to 75% Business Rates Retention have also been postponed indefinitely by Government.
- 3.4 High inflation is impacting upon Council services during 2023/24, with significant cost increases being incurred for utilities and social care contracts. The proposed officers' pay award for 2023/24 is in excess of the level predicted when this years' budget was set and will add to these inflationary pressures.
- 3.5 Appendix 1 details the Medium Term Financial Strategy from 2024/25 – 2026/27 which has been produced using a prudent estimate of the financial conditions over the course of the next three years.
- 3.6 Although the projections in the Strategy must be treated with a considerable degree of caution, they show there is continued need to implement a significant level of budget savings over the next three years.
- 3.7 The Strategy provides initial guidance to the Council on its financial position into the medium term. It assumes the achievement of budget savings proposals totalling £4.051m relating to 2024/25 and 2025/26, which Council approved on 1<sup>st</sup> February 2023. In addition, the Strategy also assumes the achievement of budget savings proposals arising from the Transformation Programme approved by Council.
- 3.8 Adopting a prudent view, the Strategy identifies that further revenue budget savings of approximately £3.743m, £0.495m and £1.347m are required over the next three years. As a result, a total of £5.586m will need to be removed from the Council's budget, by reducing spending or increasing income. This represents 4% of the 2023/24 net budget.

#### **4.0 POLICY IMPLICATIONS**

- 4.1 The MTFFS represents the “finance guidelines” that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

## **5.0 FINANCIAL IMPLICATIONS**

5.1 The MTFS provides a guide to projected funding resources and spending requirements over the three year term. The grant amounts included in the MTFS are based on the latest information provided by Government. As new information comes to light the forecast of future income streams will be updated. Decreases to funding resources will create further budget pressures for the Council in delivering its key objectives.

## **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

6.1 The revenue budget and capital programme support the delivery and achievement of all the Council's priorities. Reductions of the magnitude identified within the Strategy may have a negative impact upon the delivery of those priorities.

## **7.0 RISK ANALYSIS**

7.1 The MTFS is a key part of the Council's financial planning process, and as such minimises the risk that the Council fails to achieve a balanced budget.

7.2 The financial forecast is presented on a prudent basis but there is continued uncertainty around Government support, funding levels and the high cost of inflation. This will be reviewed on a constant basis to help mitigate the increased level of risk.

## **8.0 EQUALITY AND DIVERSITY ISSUES**

8.1 There are no direct equality and diversity issues.

## **9.0 CLIMATE CHANGE IMPLICATIONS**

9.1 There are no direct climate change issues.

## **10.0 REASON FOR THE DECISION**

10.1 To seek approval for the Council's Medium Term Financial Strategy for 2024/25 to 2026/27.

## **11.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

11.1 The alternative option of not maintaining a Medium Term Financial Strategy has been considered. However, this would not follow good financial management practice, as the Medium Term Financial Strategy is a key element in informing the Council's financial planning and budget setting processes.

## **12.0 IMPLEMENTATION DATE**

12.1 The Medium Term Financial Strategy 2024/25 to 2026/27 will be implemented from 1st April 2024.

## **13.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<b>Document</b>	<b>Place of Inspection</b>	<b>Contact Officer</b>
Local Government Grant Settlement 2023/24	Revenues and Financial Management Division, Halton Stadium, Widnes	Steve Baker

# Appendix 1

## Medium Term Financial Strategy 2024/25 – 2026/27

### 1.0 Introduction

- 1.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending covering the period 2024/25 to 2026/27. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.
- 1.2 The MTFS represents the "finance guidelines" that form part of the medium-term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and other Strategies.
- 1.3 Beyond 2023/24 there is great uncertainty regarding the funding of local government. A number of major reviews to local government finance have been repeatedly delayed and there has been no firm commitment by the current Government as to whether these reviews will go ahead.
- 1.4 The following measures will continue to be considered throughout the period covered by the MTFS:
  - **Fair Funding Review** – This is a review of how cumulative local government funding should be apportioned between councils. The last review was in April 2013 and since then cuts made to local government have been made on a percentage basis. This approach has had the impact of protecting those authorities less reliant on Government grant funding, whilst those councils which are more reliant (such as Halton) have had to deal with larger cuts in funding on a per head basis. The Fair Funding Review was due to be implemented in the 2021/22 financial year but was postponed due to the impact of Covid-19.

To date, only one indicative formula, relating to Adult Social Care, which will form part of the Fair Funding Review has been published. The formula suggests that deprivation will have a lower weighting under the new system, which would disadvantage authorities such as Halton. As the Spending Review 2021 covers the following three financial years and no further details of Fair Funding have been published, it has been assumed that the Review will not be implemented during the period of the MTFS..

- **75% Business Rates Retention** – It was anticipated that the percentage share of retained rates at a local level was to be set at 75% from the 2021/22 financial year. This was postponed and there has been no new commitment from Government that this will still go ahead. It was confirmed at Spending Review 2021 that Halton will continue to be part of the Liverpool City Region Business

Rate Pilot until 2024/25 with 100% retention. For the purpose of the MTFS it is assumed that 100% rate retention will apply for 2024/25 and 2025/26.

- **Business Rates Baseline Reset** – A reset of the business rates baseline was due to take place in 2021/22. Halton has seen a high level of growth in business rates since the previous reset in 2013 and would be expected to lose funding from a reset in the baseline. It is not known if there will be a transition process put in place to protect authorities from too high a loss in funding from an increase to the baseline position. The reset was postponed due to Covid-19, and it is unclear when this will now take place. It has been assumed for the purpose of this report that the reset will not take place within the timescale covered by the MTFS.
- **Comprehensive Spending Review** – The Spending Review was published on 27 October 2021, covering the next three financial years. It was announced that Local Government will receive an increase in Core Spending Power of approximately 3% per year between 2022/23 and 2024/25, amounting to an additional £1.6bn of funding per year nationally. The increase for 2023/24 was revised to 4.8% at the Local Government Finance Settlement in February 2023. It is unclear whether the increase in Core Spending Power will return to 3.3% for 2024/25 or whether this will be reviewed due to continued high inflation. No details of how this funding will be distributed in 2024/25, or whether it will be ring-fenced to specific services, was released. Full details are expected to be published as part of the Provisional Local Government Finance Settlement in December 2023.
- **Autumn Statement 2023** – The Chancellor is expected to deliver the Autumn Statement on 22 November 2023 which will provide an update on Government plans for tax and public spending based on the latest forecast from the Office for Budget Responsibility (OBR).
- **Social Care Reform** – The Government published a Plan for Health and Social Care in September 2021, focussing on the level of contributions that individuals will need to make towards their care by introducing a £86,000 cost cap for care costs and changing the thresholds at which the Council must contribute to care costs. In the Autumn Statement 2022, Government announced that these reforms had been postponed, with the funding already allocated remaining with Local Authorities to fund current pressures within Adult Social Care. Also announced in the September 2021 Plan was a move towards a Fair Cost of Care Policy which would ensure that the rates that Councils pay to providers of Adult Social Care are sustainable and do not require cross-subsidisation. These reforms have been postponed until October 2025. For the purposes of the MTFS, it has been assumed that both of these measures will come into force in the 2025/26 financial year, although this will be kept under review.

## 2.0 Local Government Finance Settlement 2023/24

- 2.1 Government announced the 2023/24 final Local Government Finance Settlement on 06 February 2023. Details included:

- **Council Tax** – The Council Tax referendum threshold was set at 3% with authorities allowed to raise a 2% additional precept to fund Adult Social Care services. It was confirmed that these limits will remain the same for 2024/25.
- **Settlement Funding Assessment** – In 2023/24, Halton was allocated a Settlement Funding Assessment (SFA) of £55.488m, made up of £52.169m business rates baseline funding and £3.319m top-up grant funding. Due to the operation of the Liverpool City Region Business Rate Pilot, Halton are able to retain any business rates income received in excess of the business rates baseline. In 2023/24, it is anticipated that £57.336m of business rates will be received, meaning that Halton will retain £5.167m of funding above the business rates baseline.
- **New Homes Bonus** - The final legacy payment was received in 2022/23 and the 2023/24 amount was based on single-year figures. This resulted in a significant reduction in funding to only £9,000. There is considerable uncertainty around the future of this funding stream.
- **Social Care Support Grant** – Government announced an additional £1.185bn of funding to cover both Adult’s and Children’s Social Care, plus an additional £160m to equalise the impact of the Adult Social Care Precept. The total value of the grant (including the existing Winter Care Pressures Grant and the newly rolled-in Independent Living Fund Grant) to Halton in 2023/24 was £11.6m.
- **Other Social Care Grants** – Government announced an additional £300m Adult Social Care Discharge Fund, and a £562m Adult Social Care Sustainability and Improvement Fund. The value of this funding to Halton in 2023/24 was £1m and £1.5m respectively.
- **Lower Tier Services Grant** – The Lower Tier Services Grant was abolished in 2023/24.
- **Services Grant** – This is non-ringfenced funding distributed via the 2013/14 Settlement Funding Assessment formula. Nationally, the value of the grant reduced from £822m to £464m in 2023/24. This represents a reduction in funding for Halton of £1m to £1.460m.
- **Settlement Funding Assessment (SFA)** – Although Halton’s SFA increased by 5.66% between 2022/23 and 2023/24, it is not the case that funding has been increasing over the longer-term. Since 2010/11, Halton’s SFA has decreased by 3.1% in cash terms, and 28.8% once inflation has been taken into account. This is the equivalent of a cut in funding of £899 per household in Halton over the last 13 years.

### 3.0 Council Tax Support

- 3.1 Funding to support council tax discounts is received from Government through a grant included in the Settlement Funding Assessment. Every council is

responsible for implementing a local scheme to offer council tax discounts to those residents who may have been eligible to this previously through Council Tax Benefit.

- 3.2 The Halton scheme uses as a basis the previous regulations relating to Council Tax Benefit, which ensures that support for claimants with disabilities, claimants with children, and claimants who are working is maintained. At the end of the existing support calculation, a reduction of 21.55% is made from every non-pensioner award of benefit, to cover the shortfall in the Government grant funding for Halton's scheme.
- 3.3 Council Tax Support Grant is not separately identifiable within Settlement Funding Assessment. It is assumed the level of funding will move in line with the Council's overall Settlement Funding Assessment.
- 3.4 The MTFS assumes that the level of Council Tax Support given to existing claimants will remain at the rate of 21.55% for the period of the MTFS. It also assumes that Council Tax Support funding will not be shared with Parish Councils.

#### **4.0 Business Rate Retention Scheme**

- 4.1 The aim of the business rates retention scheme is to promote economic development and generate future growth in business rates. The Council will only be rewarded if it increases its local share of business rates above a pre-set baseline. Conversely if the local share of business rates collected falls below the baseline position, this would be to the Council's detriment.
- 4.2 An estimate of the Council's share of retained business rates will be provided to DLUHC in January 2024.
- 4.3 The business rates baseline was due to be reset in 2021/22, but this was postponed due to the Covid-19 pandemic. No new date has been given for the implementation of the reset, although as Spending Review 2021 has given a three-year indicative settlement, it has been assumed that this will not take place within the timescales covered by the MTFS.

#### **100% Business Rates Retention – Pilot Scheme**

- 4.4 As part of the Liverpool City Region, the Council has signed up to being a member of a pilot scheme for 100% business rates retention. The pilot scheme has been in operation since April 2017.
- 4.5 The pilot scheme results in Halton no longer being in receipt of Revenue Support Grant (RSG) through the Settlement Funding Assessment. RSG will be replaced by the additional business rates retained. In addition, the Improved and Additional Better Care Fund has been included in the pilot and funded by business rates retained.



- 4.6 DLUHC has confirmed the operation of the pilot scheme should be at no financial detriment to participating councils, therefore for as long as the pilot scheme operates Halton will be no worse off financially than it would have been if it was still operating under 49% rates retention.
- 4.7 Operation of no financial detriment within the pilot scheme means that any LCR authority who report a deficit as a result of the pilot will at first be reimbursed from other member pilot authorities who report a surplus as a result of the pilot. Only when any available surplus has been exhausted will Government step in and provide financial support.
- 4.8 Since the introduction of the pilot scheme all LCR authorities reported a betterment position as a result of retaining 100% business rates, therefore surplus income from the pilot scheme has previously been used to balance the Council's revenue budget.
- 4.9 All authorities were due to move to 75% business rates retention in 2021/22, but the Government announced in July 2020 that this would be postponed. It has been assumed in the forecast that the 100% pilot scheme will continue for 2024/25 and 2025/26.

## 5.0 Settlement Funding Assessment

- 5.1 In 2023/24 DLUHC allocated Halton a Settlement Funding Assessment (SFA) of £55.488m. This was made up of £52.169m business rates baseline funding and £3.319m of top-up grant funding. Top-up grant funding is received as the Council's funding baseline is greater than the business rate baseline i.e. the Council's needs are greater than the business rates it is estimated it can generate.
- 5.2 Table 1 shows the forecasts for business rate growth retained for the next three years and the difference between each of the years.

**Table 1 – Business Rate Retention**

	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>
Projected Business Rates Income	57,336	61,178	62,401	63,649
Business Rates Surplus / (Deficit)	1,933	0	0	0
Section 31 Grants and Top-Up Multiplier Adjustment	13,473	14,376	14,663	14,956
Funding for Covid-Related Business Rates Reliefs	2,915	0	0	0
Top-Up Funding	3,319	3,541	3,612	3,684
<b>Forecast Business Rates Retained (Incl. Top-Up Funding)</b>	<b>78,976</b>	<b>79,095</b>	<b>80,676</b>	<b>82,289</b>
<b>Increase / (Decrease) in</b>	<b>0</b>	<b>119</b>	<b>1,581</b>	<b>1,613</b>

<b>Business Rates Retained</b>				
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## 6.0 Council Tax Forecast

- 6.1 For 2023/24 the council tax for a Band D property in Halton is £1,675.29 (excluding Police, Fire, LCR and Parish precepts), which is expected to generate income of £60.714m.
- 6.2 When setting council tax levels, higher increases reduce the requirement to make budget savings. However, there are other factors that need to be considered when determining the appropriate increase in council tax. These factors include:
- Halton has the 4th lowest council tax level in the North West for 2023/24.
  - Halton's 2023/24 council tax is £58.04 (3.4%) below the average council tax set by unitary councils in England.
  - Inflation - the Consumer Price Index (CPI) as at September 2023 (latest available) is currently at 6.7% and the Retail Price Index (RPI) is at 8.9%.
- 6.3 The 2024/25 Council Tax Base shows an increase of 168 Band D equivalent properties to a total of 36,409, assuming a collection rate of 97%. The increase in the Tax Base will result in an increase of £0.281m of council tax income.
- 6.4 In 2023/24 the Council utilised £1.190m of council tax surplus income to balance the budget. It is estimated that there will be £0.234m of surplus available to fund the 2024/25 budget.
- 6.5 For the purposes of this strategy it is assumed the Council will apply a council tax increase of 2.99% in 2024/25. It is further assumed there will be a 2% increase for the Adult Social Care precept in 2024/25.
- 6.6 Table 2 below estimates the net amount of council tax income that will be produced for various percentage increases in Halton's Band D council tax for the next three years and assumes no change in council tax base beyond 2024/25. It has been confirmed that the council tax referendum limit will be 3% in 2024, with the option of an additional 2% increase to fund Adult Social Care services. The MTFS assumes that these limits will reduce to 2% and 1% respectively for 2025/26 onwards. The maximum increase in the last two years of the forecast would therefore be 3%.

### **Table 2 – Additional Council Tax Income 2024/25 to 2026/27**

<b>Projected Increases in Council Tax Income</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>
0%	-	-	-
1%	640	647	653
2%	1,281	1,306	1,333
3%	1,921	1,979	2,038
4%	2,562	2,664	2,771
5%	3,202	3,363	3,530

## **7.0 Three-Year Financial Forecast**

- 7.1 The Medium Term Financial Strategy (MTFS) provides a forecast of the increase in revenue expenditure that will be required over the next three years in order to maintain existing policies and programmes. In effect, this represents an early estimate of the standstill budget requirement using the information that is currently available.
- 7.2 The Council's financial position over the course of 2024/25 – 2026/27 is extremely uncertain due to the continuing impacts of high inflation and the ongoing political uncertainty surrounding the future of local government funding. This forecast uses prudent estimates based on the information that is currently available. Figures should be treated with caution and will need to be continually updated as new information becomes available.
- 7.3 For the purposes of this forecast it has been assumed that the Fair Funding Review will not be implemented within the next three years. It has also been assumed that Halton will continue in the 100% business rates retention pilot scheme during 2024/25 and 2025/26.
- 7.4 It has been assumed that council tax will rise by 2.99% in 2024/25 which is currently the maximum allowed without a local referendum, plus an additional precept for Adult Social Care of 2%. For 2025/26 onwards it has been assumed that the referendum limit will revert to 2% with a 1% additional increase for the Adult Social Care Precept. For the final two years of the forecast, it is assumed that council tax will rise by 1.99%, plus the additional 1% precept. Any increase in council tax below these levels would lead to an increase in the required level of budget savings.
- 7.5 The Retail Price Index (RPI) rate of inflation for August 2023 was 9.1%. 2% has been included for general price inflation in the 2024/25 forecast, with 8% added to domiciliary care, residential care and direct payment budgets. £5.222m of inflationary costs have been added to the forecast in 2024/25. Inflation of 2% has been added to prices for 2025/26 and 2026/27, in line with the Bank of England's inflation target. 6% inflation has been applied to income budgets for 2024/25 to match the estimated pay increases, reducing to 2% in each subsequent year.
- 7.6 The pay award for officers has not yet been finalised for 2023/24 and is unknown for all staff categories from 2024/25 onwards. For the purposes of the

forecast an increase of 4% has been applied for 2024/25, with 2% applied in each subsequent year. An additional 2% has been built into the 2024/25 figures to reflect the shortfall between the increase in pay budgets for 2023/24 and the current pay offer.

- 7.7 Employer pension contribution rates are due to decrease by 0.6% to 20% in 2024/25. They will remain at this figure for the 2025/26 financial year. The next triennial valuation is due to be undertaken by Cheshire Pension Fund during 2025/26, which will set the employer contribution rates for the following three years. For the purpose of the forecast, it has been assumed that the contribution rate will not change in 2026/27.
- 7.8 It has been assumed that there will be no change to the grant funding received from Government, with the exception of increases to the Social Care Grant and Adult Social Care Sustainability and Market Improvement Fund in 2024/25 which have already been announced on a national basis. If the funding is apportioned in the same way, Halton's allocation of these grants is due to increase by £1.837m and £1.657m respectively.
- 7.9 Changes to the contributions that individuals make towards their care costs was due to come into force from October 2023. These measures consist of a new cap on care costs per person of £86,000, and changes to the savings limit and income threshold which will entitle more people to help with the cost of their care. These changes have now been deferred until October 2025. It was anticipated that councils would also move towards increasing the rates paid to providers of Adult Social Care under new Fair Cost of Care legislation. This has also been deferred. It has been assumed that additional costs from the above changes to Adult Social Care costs and funding will impact on the Council in the 2025/26 financial year. £2.320m has been added to the forecast to reflect this.
- 7.10 The forecast includes the budgetary consequences of previous budget decisions, including one-off savings and the use of reserves to balance the 2023/24 budget. These add £0.120m and £3.156m respectively to the forecast for 2024/25. During 2022/23, a three-year budget savings programme was agreed by Council. £2.822m of these savings are anticipated to be achieved in 2024/25, reducing the forecast budget gap.
- 7.11 The net revenue costs associated with the capital programme are included in the forecast. It is estimated that there will be an increase in costs of £0.150m in 2024/25. The forecast assumes that any new capital projects which are approved over the medium term will be self-funded through capital grants, capital receipts or will generate revenue savings to fund the cost of borrowing.
- 7.12 A key assumption that has been used in constructing the forecast is that total spending in the current year is kept within the overall budget. In particular, it can be difficult to control 'demand-led' budgets such as Children's and Adult Social Care as well as many income streams, as reflected in reported overspends against budgets in the current year. At the end of Quarter 2, the projected budget overspend for 2023/24 is £8.108m. In this context it is

important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty in inflation, interest rates and demand-led budgets, the spending forecast includes a contingency of £0.5m in 2024/25, £2.0m in 2025/26, and £2.0m in 2026/27, and an allowance for increased service demand of £4.6m in 2024/25, £1.6m in 2025/26, and £1.5m in 2026/27.

- 7.13 During the 2023/24 budget setting process, the Council approved budget savings proposals which covered three financial years. These approved savings have been included in the forecast for 2024/25 (£2.702m) and 2025/26 (£1.349m). In order to further reduce the budget gap, it is proposed that a percentage reduction is applied to the most significant discretionary budgets, comprising non-contractual supplies and services, property maintenance, and highways maintenance.
- 7.14 In recent years, a significant amount of reserves have been utilised to help balance the Council's budget and thereby avoid making permanent budget savings. As a result, reserves are now at a very low level and therefore the forecast assumes that £2m will be provided in both 2025/26 and 2026/27 in order to replenish reserves.
- 7.15 On 01 February 2023, Council approved a Transformation Programme with the aim of making significant changes to the organisational culture and the way that services are delivered over a three-year period, enabling the Council to reach a long-term, sustainable financial position. The target budget reductions which are anticipated to be generated by the Programme total £20m between 2024/25 and 2026/27. The forecast also assumes part-year savings of £2m in each preceding year, from the early implementation of these savings. Any underachievement of the Transformation Programme savings presents a significant risk to the Council's ability to set a balanced budget in future years.

**Table 3 – Medium Term Spending Forecast 2024/25 – 2026/27**

Increase in Spending Required	Year on Year Change £'000		
	2024/25	2025/26	2026/27
Full Year Effect of Previous Year's Budget	3,156	0	0
Capital Programme	150	1,000	1,000
Pay and Price Inflation	9,126	4,303	2,990
Service Demand Pressures	4,600	1,600	1,500
Contingency	500	2,000	2,000
Other Additional Costs	349	194	-184
Fair Cost of Care Implementation	0	2,320	0
Social Worker Academy	0	350	0
Increased Insurance Premiums	124	0	0

Supplies and Services Savings	-889	0	0
Property Maintenance Savings	-247	0	0
Highways Maintenance Savings	-443	0	0
Replenish Reserves	0	2,000	2,000
End of Business Rates Pilot	0	0	4,332
Increase in Social Care Grant Funding	-3,493	0	0
Agreed Savings	-2,702	-1,349	0
Transformation Targets	-4,000	-8,000	-8,000
<b>Total Increase</b>	<b>6,231</b>	<b>4,418</b>	<b>5,638</b>

## 8.0 The Funding Gap

8.1 At this level of spending there is a funding gap with the forecast level of resources. Table 4 demonstrates the forecast gap between spending and forecast resources at different levels of council tax increase.

**Table 4: Funding Gap with a given % increase in Council Tax**

	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>
Increase in Net Spend Forecast (Table 3)	6,231	4,418	5,638
Decrease (Increase) in Business Rates Retained (Incl. Top-Up) (Table 1)	-119	-1,581	-1,613
Increase in Council Tax Base (Para 6.3)	-281	-610	-617
Decrease (Increase) in Council Tax Surplus (Para 6.4)	956	234	0
<b>Funding Gap Before Council Tax</b>	<b>6,787</b>	<b>2,461</b>	<b>3,408</b>
<b>Funding Gap After Council Tax Increase at Various Levels</b>			
<b>0%</b>	6,787	2,461	3,408
<b>1%</b>	6,176	1,832	2,761
<b>2%</b>	5,566	1,192	2,088
<b>3%</b>	4,957	538	1,390
<b>4%</b>	4,347	-128	666
<b>5%</b>	<b>3,743</b>	<b>-798</b>	<b>-78</b>

- 8.2 The table shows that total savings of £3.743m are forecast to be needed to balance next year's budget, assuming a 4.99% increase in council tax. This amounts to a 2.8% reduction to the 2023/24 net budget.
- 8.3 If the ability to raise council tax by up to 3% without a referendum, plus an additional 2% for Adult Social Care is extended beyond 2024/25, it is possible that the Council may be able to set a balanced budget in 2025/26 and 2026/27 without making further savings. This is, however, contingent upon spending next year not exceeding the 2024/25 budget, the achievement of planned savings of £2.702m and £1.349m in over the next two financial years, the Transformation Programme achieving its target savings of £20m between 2024/25 and 2026/27, and inflation returning to the Bank of England's target rate of 2%. It is considered more likely that the referendum limit for council tax will return to 2% in 2025/26, and that the additional allowed precept for Adult Social Care will reduce to 1%. Council tax increases of 2.99% in 2025/26 and 2026/27 would require an additional £0.495m and £1.347m of savings to be found. This would lead to a total funding gap of £5.586m over three years, representing 3.97% of the 2023/24 net budget.
- 8.4 This represents a significant challenge for the Council to balance its budget. As a result, every aspect of the Council's budget needs to be scrutinised to identify potential savings. In addition, all opportunities will continue to be taken to generate additional income from charging for services or attracting additional funding, in order to reduce costs whilst maintaining levels of service delivery.

## 9.0 Capital Programme

- 9.1 The Council's capital programme is updated regularly throughout the year. Table 5 summarises the fully funded capital programme for the next two years.

**Table 5 – Capital Programme**

	<b>2024/25 (£'000)</b>	<b>2025/26 (£'000)</b>
<b>Spending</b>	<b>32,355</b>	<b>10,071</b>
Funding:		
Prudential Borrowing	17,701	2,692
Grants	13,254	5,979
Capital Receipts	1,400	1,400
<b>Total Funding</b>	<b>32,355</b>	<b>10,071</b>

- 9.2 The current system of capital controls allows councils to support and fund the capital programme by way of prudential borrowing. Such borrowing is required to be:
- prudent
  - affordable, and
  - sustainable

- 9.3 The capital programme is underpinned by the Capital Strategy agreed by Council in March 2023.
- 9.4 The Council has used prudential borrowing provided that the cost of borrowing has been covered by revenue budget savings and the spending forecast continues this assumption.
- 9.5 In previous years the Council has been extremely successful in attracting capital grants and contributions. In this way, the Council has been able to undertake significant capital expenditure without financing costs falling on the revenue budget and this approach will continue.

## **10.0 Reserves and Balances**

- 10.1 The Council's Reserves and Balances Strategy is attached in Appendix 2. It sets out the Council's strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.
- 10.2 The level of balances and reserves will be reviewed as part of the budget monitoring and final accounts processes.

## **11.0 Conclusions**

- 11.1 High inflation, increasing service demand and recruitment difficulties are three of the main issues having a negative impact upon the Council's budget position. The Council has used significant amounts of reserves over recent years to help provide a balanced budget position and avoid making permanent budget savings. This approach is no longer sustainable given the low level of reserves remaining and therefore it is essential that future spending requirements are managed in line with available budget.
- 11.2 This Strategy highlights that considerable budget savings will be required over the next three years in order for the Council to deliver balanced annual revenue budgets. The successful implementation of the Transformation Programme and delivery of the planned £20m of savings is essential, if this position is to be achieved and the Council's finances are to be placed on a sustainable footing.
- 11.3 Alongside the Transformation Programme the MTFs assumes continued support from Government. There is a risk that the Strategy will not be achieved if Government fail to support local authorities through funding for increasing levels of service needs.
- 11.4 The Business Rates Retention Scheme and Fair Funding Review carry further risks to the funding available to the Council over the medium and longer term. The lack of certainty provided by Government means that it is very difficult to predict both the timing and extent of the impact upon the Council's budget of potential future funding changes.



- 11.5 The future levels of savings required will be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the legislative requirements regarding council tax referendums will restrict the Council's scope to implement these increases.
- 11.6 The Medium Term Financial Strategy provides a framework and underlying assumptions which will be used in the preparation of the 2024/25 annual budget. It has been based upon information that is currently available, however, revisions to the Strategy will need to be made as new developments take place and new information becomes available.
- 11.7 Appendix 2 sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

### RESERVES AND BALANCES STRATEGY

#### 1.0 INTRODUCTION

- 1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.
- 1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.
- 1.3 The Operational Director, Finance will undertake quarterly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall Strategy is achieved. The outcome of the reviews will be reported to the Executive Board and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.
- 1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day-to-day operations.

#### 2.0 RESERVE BALANCES

- 2.1 It has been the Council's policy to maintain general balances at a reasonable level, based upon the financial risks and challenges it faces. This is particularly important at the current time, given the increasing demand-led pressures upon Children's Services and Adult Social Care. The Council has used reserves in helping to provide balanced budget positions, but the level of reserves is now such that using reserves in this way is no longer sustainable. This forecast assumes that in years 2 and 3 there is a need to start replenishing reserves. As at 30 September 2023 the balance of the Council's general reserve was £5.147m.
- 2.2 In addition to the general reserve the Council holds earmarked reserves set aside for specific purposes. As at 30 September 2023 the balance of earmarked reserves was £95.928m, a breakdown of which is presented below. It should be noted that the Mersey Gateway reserve of £73.524m is ringfenced for the Mersey Gateway project. Of the remaining £22.404m reserves, only £1.926m is available to support the Council's general fund revenue budget.

Category	Balance 30 September 2023 £'000s
Future Revenue Commitments	1,926
Mersey Gateway	73,524
Grants	11,054
Capital	1,180
Contractual	8,244
<b>Total</b>	<b>95,928</b>

### 3.0 PROVISIONS

#### Sundry Debtors

- 3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age and the associated risks of non-payment, depending upon the types of debt.
- 3.2 Past experience has shown that after 43 days (the period covering the initial stages of recovery action) the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. Increased provision will therefore be made for all sundry debts outstanding for more than 43 days.
- 3.3 The bad debt provisions in respect of sundry debtors at 31 March 2023 totals £5.294m.

#### Council Tax / Business Rates (NNDR)

- 3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts. The bad debt provisions (Council Share) in respect of Council Tax and NNDR debtors at 31 March 2023 totals £14.685m.
- 3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts. But they will be reviewed annually, particularly in the light of the prevailing economic climate. Therefore appropriate provisions will be made to minimise the risk of financial loss to the Council.
- 3.6 The Council is also required to hold a provision for NNDR valuation appeal claims. The provision as at 31 March 2023 totals £1.977m.