


Agenda Item No:	7	
Committee:	Cabinet	
Date:	17 July 2023	
Report Title:	Update to the Medium Term Financial Strategy (MTFS) 2024/25 – 2027/28	

Cover sheet:

1 Purpose / Summary

To consider and recommend to Council an update and re-positioning of the current adopted Medium Term Financial Strategy (MTFS).

2 Key issues

- The current MTFS was adopted by Council at their meeting on 20 February 2023. Following 4 years of 0% Council Tax increases (from 2019/20 – 2022/23) in line with the Council motion agreed at their meeting on 18 July 2019, Council agreed to reduce Council Tax by 2% for 2023/24.
- For the remainder of the MTFS (ie. 2024/25 – 2027/28), a 0% Council Tax increase was modelled and adopted.
- It is however important to note that although the MTFS has been adopted by Council, this is not set in stone and is based on the best information available at that time. Only the budget, precept and Council Tax for the following financial year is formally required to be approved by Council at their February meeting. At this meeting the MTFS is also updated and adopted by Council.
- Officers have been requested to re-position the currently adopted MTFS by modelling the effects of keeping the cash amount of Council Tax raised at the current level over the MTFS period.
- With the estimated increases in Council Tax-base over the MTFS, this will equate to a reduction in Council Tax levels rather than the previously adopted 0% increase.
- At this time, the re-positioning of the MTFS is an ambition, recognising that the Council continues to face significant financial challenges and uncertainties that may not allow this ambition to be met.
- As a consequence of the above, the forecast shortfalls over the MTFS will also increase from £1.918m to £2.300m by 2027/28. These are however, based on previous expenditure forecasts (February 2023) which have not been updated for this exercise.
- The risks associated with the MTFS were explained in detail as part of the report to Council in February 2023. The re-positioning of the MTFS places even more emphasis on achieving savings and/or additional income through, for example the transformation programme currently being developed.

3 Recommendations

It is recommended to Council that :-

- (i) The Medium Term Financial Strategy be re-positioned by keeping the cash amount of Council Tax raised at the current level rather than the previously adopted 0% increase, while recognising that the Council continues to face significant financial challenges and uncertainties that may not allow this ambition to be met.

Wards Affected	All
Forward Plan Reference	
Portfolio Holder(s)	Cllr Chris Boden, Leader & Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Paul Medd, Chief Executive Peter Catchpole, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Budget Setting Reports Medium Term Financial Strategy working papers

1 Introduction

- 1.1 Council at their meeting on 20 February 2023 approved the budget for 2023/24, which included a 2% reduction in Council Tax and adopted the MTFs to 2027/28 with a 0% increase in Council Tax each year from 2024/25.
- 1.2 It is however important to note that although the MTFs has been adopted by Council, this is not set in stone and is based on the best information available at that time. Only the budget, precept and Council Tax for the following financial year is formally approved by Council at their February meeting. At this meeting the MTFs is also updated and adopted by Council.
- 1.3 The Council's currently adopted MTFs is summarised in Table 1 below:

Table 1 – Current MTFs – 2% decrease in Council Tax in 2023/24; 0% increase in 2024/25 onwards.

	Estimate	Forecast	Forecast	Forecast	Forecast
	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000
Expenditure					
Net Service Expenditure	15,926	15,885	16,196	16,366	16,783
Corporate Items	754	1,052	813	929	1,542
Contribution to/from(-) Earmarked Reserves	-740	-131	-42	42	42
Contribution from Business Rates Reserve	-211	0	0	0	0
Net Expenditure (before use of balances)	15,729	16,806	16,967	17,337	18,367
Funding					
Revenue Support Grant	-173	-173	-173	-173	-173
Business Rates Funding	-7,756	-7,916	-7,862	-7,891	-7,916
Business Rates Collection Fund Deficit	211	0	0	0	0
Council Tax Collection Fund Surplus(-)	-87	-50	-50	-50	-50
Council Tax (2% decrease in 23/24; increases of 0% in 24/25 onwards)	-7,928	-8,023	-8,119	-8,215	-8,310
Total Funding	-15,733	-16,162	-16,204	-16,329	-16,449
Shortfall(+) before use of balances	-4	+644	+763	+1,008	+1,918
Contribution to Budget Equalisation Reserve	4	0	0	0	0
Shortfall(+) after use of balances	0	+644	+763	+1,008	+1,918
Estimated Council Tax-base	31,059	31,434	31,809	32,184	32,559
Implied Band D Council Tax level	255.24	255.24	255.24	255.24	255.24
<i>Change in Council Tax level</i>	<i>-2.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>

1.4 As detailed in the report to Council in February 2023, there is still considerable uncertainty around the estimates for 2023/24 and the forecasts for the medium term. Currently there are a number of 'unknowns' which could both positively and negatively impact on the forecasts including:

Risks associated with the MTFS forecasts:

- The ongoing impact of the Finance Settlements on 2024/25 and the medium term;
- Impact of potential changes to the New Home Bonus methodology and allocations from April 2024;
- Impact of the business rates revaluation from April 2023 and longer-term changes to the Business Rates Retention system from April 2025;
- Impact of potential additional costs and income in 2024/25 from the Extended Producer Responsibility scheme for managing packaging waste;
- Impact on income streams being greater than anticipated due to external factors such as Port Income (sale of Port Sutton Bridge);
- Continuing impact of homelessness temporary accommodation costs in 2023/24 and the medium term and the impact on recovery of housing benefit subsidy;
- Potential for additional support for the Leisure Management contractor in 2023/24, (over and above the provision provided in the estimates) and over the medium term, as a result of the energy costs crisis. A full year's Management Fee income from the Leisure Contractor has currently been included in the 2023/24 estimates and each subsequent year of the MTFS;
- Impact of increases in Fees and Charges (where feasible) on the 2023/24 estimates and MTFS;
- Impact of service developments eg. Car Parking Enforcement (CPE);
- Revenue impact of funding new capital schemes not currently included in the capital programme. There are currently a number of schemes which require consideration with potentially substantial funding needed over the medium term;
- Potential impact of the Council's future transformation programme with associated savings. Further detailed work is required to quantify the scope of this programme and associated savings;
- Review of the recharge of staff time to the LATCO (Fenland Future Ltd) to quantify potential revenue savings. Currently recharges of £125k in 2023/24 onwards have been assumed in the MTFS;
- Potential net benefits from FFL of loan interest and dividends from future developments over and above already included in the MTFS, generating revenue income;
- Commercial and Investment Strategy and future potential positive returns to the Council;
- Review of the General Fund Balance and Earmarked Reserves to ensure they align with the future requirements of the Council;
- Potential positive impact over the MTFS of implementing the outcomes from the Accommodation Strategy.

1.5 **Whatever impact the above issues may have however, there will remain a significant structural deficit for the Council to address over the medium term.**

2 Re-positioning the MTFS

2.1 Officers have been requested to re-position the currently adopted MTFS by modelling the effects of keeping the cash amount of Council Tax raised at the current level over the MTFS period.

2.2 Table 2 below summarises the impact of this on the MTFS:

Table 2 – Updated MTFS – 2% decrease in Council Tax in 2023/24; cash amount of Council Tax 2024/25 onwards remaining unchanged.

	Estimate	Forecast	Forecast	Forecast	Forecast
	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000
Expenditure					
Net Service Expenditure	15,926	15,885	16,196	16,366	16,783
Corporate Items	754	1,052	813	929	1,542
Contribution to/from(-) Earmarked Reserves	-740	-131	-42	42	42
Contribution from Business Rates Reserve	-211	0	0	0	0
Net Expenditure	15,729	16,806	16,967	17,337	18,367
Funding					
Revenue Support Grant	-173	-173	-173	-173	-173
Business Rates Funding	-7,756	-7,916	-7,862	-7,891	-7,916
Business Rates Collection Fund Deficit	211	0	0	0	0
Council Tax Collection Fund Surplus(-)	-87	-50	-50	-50	-50
Council Tax (2% decrease in 23/24; cash amount same level in 24/25 onwards)	-7,928	-7,928	-7,928	-7,928	-7,928
Total Funding	-15,733	-16,067	-16,013	-16,042	-16,067
Shortfall(+) before use of balances	-4	+739	+954	+1,295	+2,300
Contribution to Budget Equalisation Reserve	4	0	0	0	0
Shortfall(+) after use of balances	0	+739	+954	+1,295	+2,300
Estimated Council Tax-base	31,059	31,434	31,809	32,184	32,559
Implied Band D Council Tax level	255.24	252.19	249.22	246.32	243.48
<i>Change in Council Tax level</i>	-5.22	-3.05	-2.97	-2.90	-2.84
	-2.00%	-1.19%	-1.18%	-1.16%	-1.15%

2.3 With the estimated increases in Council Tax-base over the MTFS, this will equate to a reduction in Council Tax as detailed in Table 2 above, rather than the previously adopted 0% increase. Over the period of the MTFS to 2027/28, this would currently equate to a cumulative reduction of £11.76 (4.61%) in the headline Band D Council Tax. The actual change in Council Tax levels will be dependent on the actual Council Tax-base for each year.

2.4 As a consequence of the above, the forecast shortfalls have increased from £1.918m to £2.300m by 2027/28. This is based on the previous forecast expenditure levels and estimated tax-base figures which have not been updated for this exercise. The updated shortfall places even more emphasis on achieving savings and/or additional income through, for example the transformation programme currently being developed.

- 2.5 The forecast figures in the above table should be considered with extreme caution. Future announcements and consultation outcomes will also determine government policy and therefore the funding in future years.
- 2.6 At this time, the re-positioning of the MTFS is an ambition, recognising that the Council continues to face significant financial challenges and uncertainties that may not allow this ambition to be met.
- 2.7 Updated estimates for 2024/25 and forecasts for the medium term will be presented to Cabinet and Council during the budget setting process later this year.
- 2.8 In addition, the Council's reserves will be reviewed as part of the budget setting process to ensure they align with the future requirements of the Council, particularly in relation to funding future transformation initiatives and potentially for using to mitigate the impact of future local government funding reforms.
- 2.9 The Council will need to continually consider its strategy to meet the estimated shortfalls shown at Table 2 (which will be updated later this year), particularly if there are additional impacts from the funding reforms from 2025/26 onwards together with the impact of new capital schemes.
- 2.10 As detailed in the budget report in February 2023, there are a number of potentially significant new capital schemes which will require consideration over the MTFS and for which no allowance has currently been made either within the approved capital programme or the associated financing costs within the revenue budget. These will be brought forward for Cabinet's consideration together with a review of the current capital programme as part of the budget setting process for 2024/25 later this year.
- 2.11 The implications of not increasing and/or reducing Council Tax over the remainder of the MTFS is that the Council will be reducing its financial base permanently as it would not be able to recover potential revenue foregone due to the cumulative year on year impact. The consequences of continually setting zero and/or reduced Council Tax levels and not achieving the necessary savings/additional income have been clearly demonstrated by the events at other Councils. The ability to achieve significant year on year savings (without increasing existing and/or introducing new revenue streams together with transformational change) to balance the budget becomes progressively difficult without eventually impacting on front-line services and delivery.
- 2.12 Currently a 1% increase in Council Tax raises around £79,000 revenue per annum. Table 3 shows the implications of increasing the Council Tax in 2024/25 by 3% per annum (the current referendum limit) and thereafter compared to maintaining the cash amount of Council Tax at its current level (as detailed in Table 2 above).

Table 3: MTFS Deficits at Differing Council Tax levels from 2024/25 onwards

	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000
Deficits with cash amount of Council Tax remaining unchanged from 2024/25 onwards (Table 2 above)	+739	+954	+1,295	+2,300
Additional CT with 3% increase p.a. from 2024/25	-336	-683	-1,046	-1,420
Net shortfall at 3% increase	+403	+271	+249	+880