

MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2024-25 TO 2028-29

Executive Summary

This report establishes a Medium Term Financial Strategy for the year 2024/25 to 2028/29 covering General Revenue budget, the Housing Revenue Account and Capital Budget. Key objectives of the strategy include:

- Balancing the revenue and capital budgets;
- Ensuring essential services are adequately resourced;
- Providing resources for essential items such as health and safety works;
- Developing an organisational plan to address financial challenges; and
- Achieving a settlement to resolve the “Woking *overhanging debt*” issue.

Recommendations

The Executive is requested to:

RESOLVE That

the report be approved as the financial strategy for the next four years, and the framework leading to budget setting for 2025-26.

Reasons for Decision

Reason: The contents of this report are to ensure open and transparent governance in the financial affairs of the Council by setting a financial strategy for the years 2024-25 to 2028-29.

The Executive has the authority to determine the recommendation(s) set out above.

Background Papers:	Budget Setting Reports (Feb/Mar 2024) Draft Revenue Outturn Report (Executive Jun 2024)
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Date Published:	8 July 2024

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1.0 Purpose of Report

- 1.1 To set the context for establishing a Medium Term Financial Strategy for the years 2024/25 to 2028/29 covering the General Revenue budget, the Housing Revenue Account and capital budget. The report sets out:
- The implications from the 2023/24 outturn;
 - The national context;
 - An initial position for 2024/25; and
 - A suggested framework for developing budget options for the revenue budget, capital budget and the HRA.
- 1.2 The key objectives underpinning the development of the Revenue Budget Strategy are to:
- Balance the revenue budget for 2025/26;
 - Deliver a programme designed to balance the revenue budget over the period to 2028/29;
 - Ensure essential services are adequately resourced;
 - Develop an organisational plan to address financial challenges; and
 - Achieve a settlement to resolve the long-term issues associated with the £2.1 billion of overhanging debt.
- 1.3 This report is important for developing the financial strategy for the next four years and provides the framework for the work required to prepare for the 2025/26 budget setting.

2.0 The 2023/24 Draft Outturn Position

- 2.1 The Executive received a report on 13th June 2024 regarding the draft outturn position for the financial year 2023/24. That report noted the draft General Fund overspend to be £2,668k. The Housing Revenue Account [HRA] additionally reported an overspend of £958k against its own ring-fenced budgets and would see HRA reserves reduce to £599k.
- 2.2 The General Fund provisional budget variance of £2,668k consisted of a £5,241k service area adverse variance, offset by a £2,553k favourable variance generated within other corporate budgets.
- 2.3 The table below exemplifies the most significant elements that contribute to the service outturn above:

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TABLE 1 – SUMMARY OF SERVICE AREA 2023/24 DRAFT OUTTURN

Directorate / Division	Favourable Variances (£,000's)	Adverse Variances (£,000's)	
Housing Options	-	454	Bed and Breakfast costs
Non-HRA Housing	-	537	Adjustment to recharges to HRA
Community Support	-	345	One-off subsidy for transfer of Women's Centre
Leisure	(586)	-	Energy savings within Leisure buildings
Families	(581)	-	Tfr of Family Centres - external funding
Other	(1,467)	1,248	
Communities	(2,634)	2,584	Net Total: £50k underspend
Parking	-	1,823	Predominantly unbudget business rate costs and higher energy costs
Green Infrastructure	(338)	-	Reduction in maintenance costs & activities
Other	(410)	442	
Place	(748)	2,265	Net Total: £1,517k overspend
Property	-	1,202	Rent income and landlord costs of void assets
	-	701	Fees/Consultants for lease renewals / disposals
Transformation & ICT	(404)	550	Saving from implementation of new IT systems Pressures on procurement savings delivery
Revenues & Benefits	-	390	Under-Recovery of Housing Benefit costs
Corporate Management	-	362	Interim s151 Officer / Commissioner costs
Other	(995)	904	
Corporate Resources	(1,399)	4,109	Net Total: £2,710k overspend
Finance	-	1,064	£1m relates to consultancy support
SERVICE TOTAL	(4,781)	10,022	Net Total: £5,241k

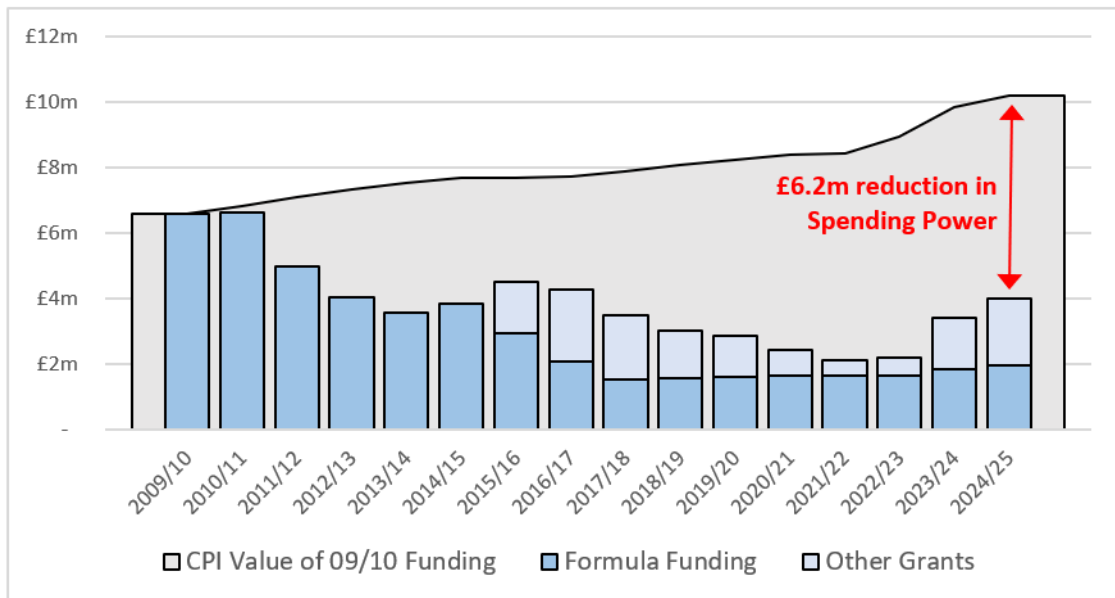
- 2.4 Of the £2,553k draft underspend within corporate budgets favourable variances of £2,285k relating to interest on borrowing; £520k due to one-off energy rebates and £500k unused risk and contingency provision. Adverse variances totaling £752k include £370k costs of advice on group companies and £166k on salaries unable to be capitalized as previously budgeted for.
- 2.5 A number of the above variances were identified as “ongoing” in the budget setting process for 2024/25 and as such have been built into the new year base budget. These included: unachieved Procurement Savings (£500k); Homelessness pressures (£500k); Women’s Centre Support (£300k); and Commercial Estate (£5,300k).
- 2.6 Work continues to finalise the 2023/24 accounts and the above draft outturn is subject to change as that work reaches completion and is then subject to external audit. Revised accounts for 2020/21 and draft accounts for 2021/22 are due to be considered by the Audit and Governance Committee on 29th July 2024, with all remaining accounts planned to be published by September 2024.
- 2.7 Whilst some of the above variances for 2023/24 are one-off in nature, or addressed as part of the rebasing and right-sizing of the 2024/25 budget, the development of a new Medium-Term Financial Strategy [MTFS] will need to be mindful of the implications if any of the above recur.

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3.0 Local Government Financial Environment

- 3.1 Public spending has been subject to financial constraint for well over a decade. Local government has been particularly impacted by austerity as an “unprotected” recipient of central government funding, and even more so at the district council level which does not provide children’s and adults social care activities.
- 3.2 The chart below illustrates the change in Core Spending Power (the basis for distributing resources) between 2010/11 and 2024/25 and is adjusted by the impact of inflation (Consumer Price Index [CPI]) and new or rolled-in grants. Had the 2009/10 Formula Funding value of £6.6m been inflated to match purchasing power it would equate to £10.2m by 2024/25. The 2024/25 equivalent value of £4.0m is thus a reduction in real spending power of £6.2m.

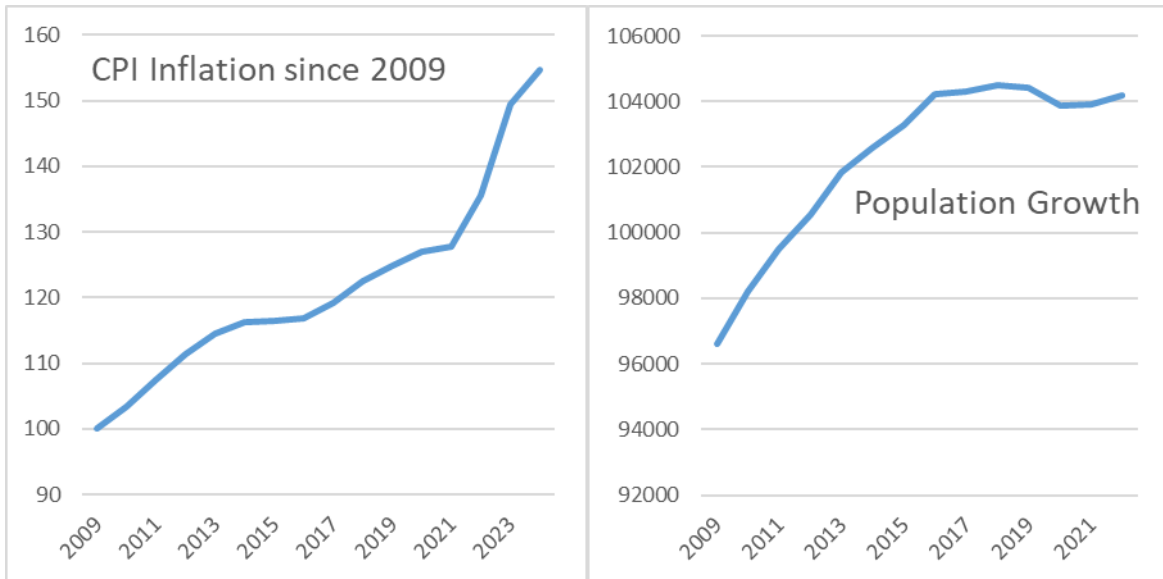
CHART 1 – REAL-TERMS CHANGE IN CORE SPENDING POWER FOR WOKING



- 3.3 The incoming Labour government committed in its pre-election statements not to increase a number of significant tax streams, instead relying on economic growth to fund a number of its priority spending commitments. Lower-tier (district) councils are unable to rely on any significant real increase in government funding streams to significantly improve their medium-term financial prospects. Whilst there is a commitment to longer term funding settlements, there is no indication yet of any additional funding for local government.
- 3.4 The squeeze on local government funding has been further exacerbated by the general economic environment seeing prolonged periods of inflationary pressures and higher borrowing costs as well as growing service/demand-led challenges such as Covid and homelessness pressures amongst others.
- 3.5 The data and methodology used by central government to allocate funding through the Local Government Finance Settlement [LGFS] has remained unchanged since 2014/15. Additional spending pressures have materialised over the last ten years which by themselves will have placed further burdens on local authority finances. Whilst a review of central government support to councils has long been promised through the “Fair Funding Review” and “Localised Business Rate Review”, they remain to reach any immediate likelihood of being implemented.
- 3.6 The chart below further illustrates the growing pressures on local government as discussed above in terms of historic inflation and demographic growth:

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CHART 2A AND 2B – HISTORIC INFLATION AND DEMOGRAPHIC GROWTH



- 3.7 It should also be noted that the Council is currently in intervention and that a s114 Notice was served in July 2023. The government's intervention will be in place for five years and the Council's financial sustainability is highly dependent not only on its own actions in stabilising its budget, but also government support, given the unaffordable level of debt it has. The government directions and the Improvement and Recovery Plan that has been developed in response, include the requirement to develop a 'Right Sized Council budget' and for the Council to live within its means and a balanced and sustainable HRA, alongside the need for a robust asset reduction and debt reduction plan.
- 3.8 This report will focus on the need to develop the right sized council budget. It is recognised that this cannot be achieved in a single year and will need to be delivered over the life of the Medium Term Financial Strategy.

4.0 The 2024/25 Approved Budget

- 4.1 Full Council approved the General Fund revenue budget and Council Tax on 4th March 2024 (having previously considered and approved a schedule of growth and savings at an earlier meeting on 23rd February 2024). Total savings of £8.4m were thus approved.
- 4.2 The development of the approved budget was based on a number of underlying principles and critically emphasised a commitment to become a smaller council (closer to the average of authorities with similar demographics) and that focus should be on providing statutory services, with discretionary services to be fully funded. These were underpinned by a set of Guiding Principles to establish good practice in budget setting which were included as part of the 2024/25 MTFP and are appended to this report for ease of reference. It is proposed to review and update these as part of the budget work planned over the Summer.
- 4.3 Resolution xiii of the March report approved a General Fund revenue budget of £189m (rounded) as detailed in Table 3 of that report. The £188.9m net budget was supported by a package of "extraordinary financial support" approved by Ministers. This comprised:
- the ability to defer up to £93.3m of otherwise chargeable Minimum Revenue Provision [MRP] capital financing charges due in year (which rises to £454m when the historic MRP underprovision is taken into account);

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- and £95.6m as a Capitalisation Direction [*CD*] to address unaffordable capital financing charges, the budget gap and restate a prudent level of reserves. The Direction allowed for an additional £235m to address legacy issues, including the repayment of loans made for revenue purposes.

- 4.4 It should be noted that the extraordinary financial support outlined in the previous paragraph does not in itself alleviate the budget gap in the longer term. Rather it simply defers those pressures to be spread over future years. The terms of the Capitalisation Direction require the in-year support to be charged to revenue over the following twenty years or to be subsequently financed by capital receipts from the disposal proceeds from asset sales. Additionally, any borrowing from the Public Works Loans Board [*PWLB*] required to finance cash flow shortfalls from the budget gap will be subject to an additional interest rate premium of 1.00% over the rates that other councils could ordinarily borrow at.
- 4.5 One of the risks that the package of support was designed to address was the challenge that the Council continues to face with the poor quality of its financial data. The level of proposed General Fund reserve at £5m and £8.7m to address a potential 2023/24 overspend were made in the knowledge that there were likely to be more issues arising from poor data quality and poorly structured financial ledger and that this would have a financial impact. A considerable amount of work has been carried out and following a detailed reconciliation exercise, a further funding requirement of £1.5m has been identified to meet historic costs identified. These previously approved (and necessary) budgets were erroneously omitted from the budget report considered and approved by Full Council in March 2024. Whilst disappointing, there will be provision to address this through the allowed amounts in the capitalisation direction. This highlights the importance of the ongoing data quality work.
- 4.6 A summary of the approved 2024/25 General Fund revenue budget (as amended) is set out in the table below:

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TABLE 2 – SUMMARY OF 2024/25 APPROVED GENERAL FUND BUDGET

	Expenditure (£,000's)	Income (£,000's)	Net (£,000's)
Communities	25,722	(17,875)	7,847
Place	22,087	(16,142)	5,945
Corporate Resources	50,248	(48,782)	1,466
Finance	3,708	(3,242)	465
Service Budgets	101,766	(86,041)	15,724
Premium on Lease Surrenders	-	(3,000)	(3,000)
Reversal of Depreciation Chg	(3,947)	-	(3,947)
Net Interest & MRP Charges	169,465	(1,413)	168,052
Less MRP Charges Deferred	(93,900)	-	(93,900)
Other Corporate Budgets	475	428	903
Transfers to Reserves	32,000		32,000
	104,093	(3,985)	100,108
Net Budget Requirement	205,859	(90,026)	115,832
Unfenced Government Grants	-	(1,756)	(1,756)
Localised Business Rates	-	(5,313)	(5,313)
Council Tax	-	(12,356)	(12,356)
	-	(19,425)	(19,425)
Total Spend / Income & Gap	205,859	(109,451)	96,407

4.7 The net adjusted gap of £96.4m set out in the previous table will need to be funded from within the existing capitalisation direction approval.

5.0 Comparative Financial Performance Measurement

5.1 An important part of the Financial Recovery Plan work is to determine the right sized financial envelope for the Council to operate within. Part of this will be informed by the levels of spend and performance in similar local authorities. A programme of benchmarking is planned over the Summer with potential support from the LGA which will consider available financial and performance data. It is important to emphasise that benchmarking in itself does not provide the answers but it does provide the areas where there should be more follow up and challenge. Early indications from the latest budgetary returns are that the Council is spending at a higher level per head on service delivery than statistical neighbours but this will need to be verified, particularly given the issues with the Council's data quality. The Council is committed to progressing that work, which will be reported back to a future meeting.

5.2 This work will compliment the bottom up financial model to determine the scale of the gap in the 'underlying budgets' once the commercial activities and their associated impact are removed, referenced later in the report.

6.0 The Medium-Term Outlook and underlying Budget Gap

6.1 The Council's approved revenue budget for 2024/25 includes considerable levels of exceptional financial support – allowing the Council to either not make Minimum Revenue Provision (MRP) for debt (£93.9m) or to charge £95.6m of expenditure for capital financing costs and other costs and to restate reserves to capital – i.e. the capitalisation directive (£95.6m).

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- 6.2 The Council's revenue budget would be unviable without such support and it comes with the requirement that the Council should take all reasonable action and necessary steps to minimise the financial risks and reduce its levels of debt.
- 6.3 The situation facing the Council and the scale of the financial challenges faced are unprecedented. Discussions with Government are ongoing and there is a commitment to reach a more sustainable solution that will provide assurance that a legal budget can be set for 2025/26 within the statutory timescales.
- 6.4 As part of seeking such a settlement from central government, the Council will need to demonstrate that it is otherwise managing its underlying budgets in an efficient manner and delivering value-for-money. This will include determining the right 'financial envelope' for a council like Woking and the work will be informed by the benchmarking analysis and the work to determine the underlying budgets set out below.
- 6.5 An initial analysis of the approved 2024/25 revenue budget has been undertaken to distinguish those elements that are:
- i. Investment Property / Group Holdings related;
 - ii. One-off in nature for 2024/25; and
 - iii. The remainder forming the "underlying" budget.
- 6.6 Initially assuming that the entirety of the investment property and group company holdings were to be sold, the net income from those assets should also be removed from the base budget. A lower level of debt financing charges as sale proceeds would be used to repay loans would also be assumed. In the initial modelling, a remaining debt level of £50m has been assumed, noting the need to work with government to resolve the issues with the debt-overhang which cannot be solved by the Council alone.
- 6.7 Included in the approved 2024/25 base budget is £32.0m as transfers to rebuild general and earmarked reserves (£12.0m as General Reserves and £20.0m to create an Asset Repair & Maintenance Reserve). Both of these are one-off in nature and designed to deal with issues during the life of the three year Medium Term Financial Strategy. In future years it would be prudent to continue to set aside a more modest annual risk and contingency provision.
- 6.8 Based on the above assumptions, the approved 2024/25 revenue budget could be disaggregated into three separate elements as shown in the table below:

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TABLE 3 – DIS-AGGREGATION OF 2024/25 REVENUE BUDGET

	Net (£,000's)	One-Off (£,000's)	Debt (£,000's)	Underlying (£,000's)
Communities	7,847	-	-	7,847
Place	5,945	-	-	5,945
Corporate Resources	1,466	-	(7,351)	8,817
Finance	465	-	-	465
Service Budgets	15,724	-	(7,351)	23,075
Premium on Lease Surrenders	(3,000)	-	-	(3,000)
Reversal of Depreciation Chg	(3,947)	-	-	(3,947)
Net Interest & MRP Charges	168,052	-	163,004	5,048
Less MRP Charges Deferred	(93,900)	-	-	-
Other Corporate Budgets	903	-	-	903
Transfers to Reserves	32,000	31,500	-	500
	100,108	31,500	163,004	(496)
Net Budget Requirement	115,832	31,500	155,653	22,579
Unfenced Government Grants	(1,756)	-	-	(1,756)
Localised Business Rates	(5,313)	(699)	-	(4,614)
Council Tax	(12,356)	(126)	-	(12,230)
	(19,425)	(825)	-	(18,600)
Total Spend / Income & Gap	96,407	30,675	155,653	3,979

- 6.9 The £4.0m that is derived as the underlying budgetary gap resonates with the underlying position set out in the budget setting reports approved in February and March when £8.4m of savings were identified against a target of £12m.
- 6.10 Assuming the £4.0m underlying budgetary gap is considered in isolation, that in itself will be subject to growth pressures from inflation, contractual and demand-led pressures, and any pressures that may prove to be ongoing within the current Period 2 forecast position.
- 6.11 The table below sets out potential changes in the underlying gap using a notional 2% (Bank of England target) inflation factor and a net annual £5m of capital borrowing to finance capital expenditure (excludes any further loans to group companies).

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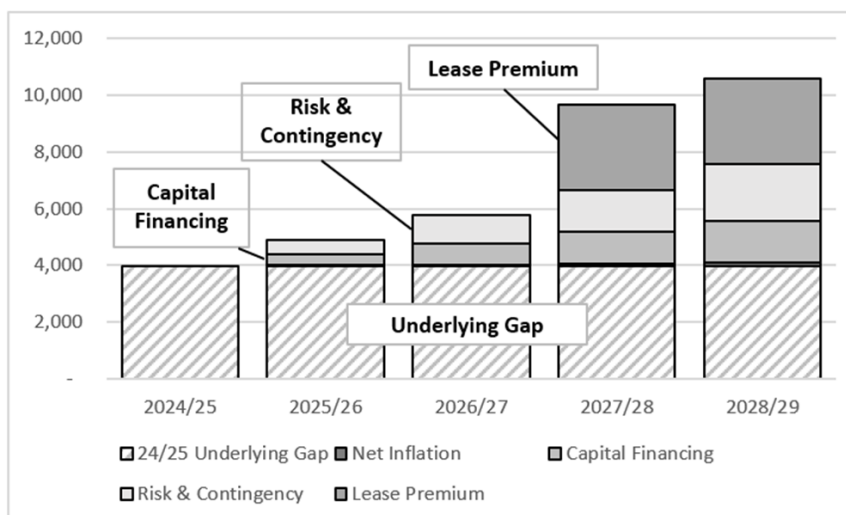
TABLE 4 – FUTURE YEAR UNDERLYING FUNDING GAP

	2024/25	2025/26	2026/27	2027/28	2028/29
	Underlying (£,000's)	Rolled Fwd (£,000's)	Rolled Fwd (£,000's)	Rolled Fwd (£,000's)	Rolled Fwd (£,000's)
Communities	7,847	8,004	8,164	8,328	8,494
Place	5,945	6,064	6,185	6,309	6,435
Corporate Resources	8,817	8,994	9,174	9,357	9,544
Finance	465	475	484	494	504
Service Budgets	23,075	23,537	24,008	24,488	24,977
Premium on Lease Surrenders	(3,000)	(3,000)	(3,000)	-	-
Reversal of Depreciation Chg	(3,947)	(4,026)	(4,106)	(4,189)	(4,272)
Net Interest & MRP Charges	5,048	5,414	5,781	6,148	6,514
Other Corporate Budgets	903	921	939	958	977
Transfers to Reserves	500	1,000	1,500	2,000	2,500
	(496)	310	1,114	4,917	5,719
Net Budget Requirement	22,579	23,846	25,122	29,405	30,697
Unfenced Government Grants	(1,756)	(1,791)	(1,827)	(1,863)	(1,901)
Localised Business Rates	(4,614)	(4,706)	(4,800)	(4,896)	(4,994)
Council Tax	(12,230)	(12,475)	(12,724)	(12,979)	(13,238)
	(18,600)	(18,972)	(19,351)	(19,738)	(20,133)
Total Spend / Income & Gap	3,979	4,874	5,770	9,667	10,564
<i>Annual Change</i>		<i>895</i>	<i>896</i>	<i>3,896</i>	<i>897</i>

6.12 Over and above the £4.00m gap inherent in the base 2024/25 approved underlying budget, increased capital financing costs would add around £0.37m per year and the assumed risk and contingency provision a further £0.50m. Of particular note is the time-limited nature of the Premium on Lease Surrender, which on a total of £12m spread over four years from 2023/24 is fully depleted by the end of 2026/27 – thus becoming an additional contributor to the underlying gap in 2027/28.

6.13 The chart below shows the annual gap that would develop over the following four years based on the above assumptions and without any other potential pressures, risks or mitigating actions to address the gap:

CHART 3 – UNDERLYING GAP AND CHANGE



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7.0 Potential Pressures and Opportunities

- 7.1 The above projected underlying gap remains subject to more detailed validation and is also subject to further emerging pressures and risks, including:
- i. Variances experienced in 2023/24 or 2024/25 recurring in future years;
 - ii. Demand-led pressures in such areas as homelessness;
 - iii. Inflation assumptions of 2% being exceeded – especially if not matched by government funding levels;
 - iv. Recharge levels to non-General Fund revenue budgets; and
 - v. Interest rate assumptions on borrowing and investments.
- 7.2 Whilst potential pressures and risks are acknowledged, it should be noted that opportunities also exist which may act to reduce the underlying gap or mitigate emerging pressures.
- 7.3 The above work is designed to identify the scale of the budget gap that the Council will need to address if it was to operate as a 'normal' district debt without the commercial legacy issues faced. It is recognised that it will take more than one financial year to get to this position and officers will work with Commissioners to ensure a longer term approach can be taken.

8.0 Savings Targets to address the Medium-Term Gap

- 8.1 Attempting to deliver the level of savings indicated by the analysis set out above is unlikely by itself to deliver either the quantum of savings required or in the most optimal way to support service delivery. A more strategic and cross-cutting approach will also be required to develop a future budget envelope that offers good quality services to residents at an affordable cost.
- 8.2 Taken in isolation, the assessed underlying budget gap of £4.0m represents a significant proportion of the £23.1m net service spend (17%). It should however be noted that the net £23.1m is itself made up of £94.0m of gross spend and £70.9m of service income. The £4.0m gap considered in comparison to both service income and expenditure (referred to as "*Gross Transactional Value*"), reduces the proportionate level of savings needed from 17% to 2%.
- 8.3 Further consideration of the strategic and cross-cutting approaches that might be adopted is set out in the following section, but such strategies should not rule out addressing how the gap may impact on service budgets if the impact were to be experienced across all service areas.
- 8.4 For illustrative purposes, a pro-rata allocation of the £4.9m 2024/25 gap savings across service budgets in proportion to their gross transactional value budgets (adjusted to remove transfer payments for Housing Benefit payments and grant) would result in the following:

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TABLE 5 – NOTIONAL ALLOCATION OF GAP ACROSS SERVICE AREAS

	Commun- ities (£,000's)	Place (£,000's)	Corporate Resources (£,000's)	Finance (£,000's)	Total (£,000's)
Gross Spend	25,722	22,087	22,725	3,708	74,243
Gross Income	(17,875)	(16,142)	(33,648)	(3,242)	(70,907)
Net Spend	7,847	5,945	(10,923)	465	3,335
Adj Gross Trx Value	43,597	38,230	** 16,893	6,950	105,670
<i>** Corporate Resources Adj Gross Trx Value adjusted to remove Transfer Costs</i>					
Notional Allocation	2,011	1,763	779	321	4,874

- 8.5 The above notional allocations are provided to simply exemplify the relative challenge to deliver a balanced budget and are not intended as departmental savings targets. The above allocation assumes no contribution to bridging the underlying gap from other corporate budgets. The extent to which savings can be found from those corporate budgets, or cross-cutting initiatives would reduce the notional service targets exemplified in the previous table.
- 8.6 The Council Tax at band D set by Woking Borough Council is £289.43 (the total charge including County Council and Police & Crime Commissioner being £2,371.60). The underlying assumption in this report is that the Council Tax will increase by 2.99% for each year of the four years of the strategy. However, as part of the government intervention for 2024/25 the Council Tax increased by 10%. The table below shows the impact of Council Tax increases on the revenue budget:

TABLE 6 – IMPACT OF POTENTIAL COUNCIL TAX INCREASES

Council Tax Increase (%age)	Council Tax Increase (£'s)	Band D Increase (£'s)	Net Budget Gain (£,000's)
0.50%		£1.45	61
1.00%		£2.89	122
1.50%		£4.34	183
2.00%		£5.79	244
2.50%		£7.24	305
2.99%		£8.65	365
5.00%		£14.47	612
10.00%		£28.94	1,223
	£5.00	£5.00	211

9.0 Future Medium Term Financial Strategy Delivery Process

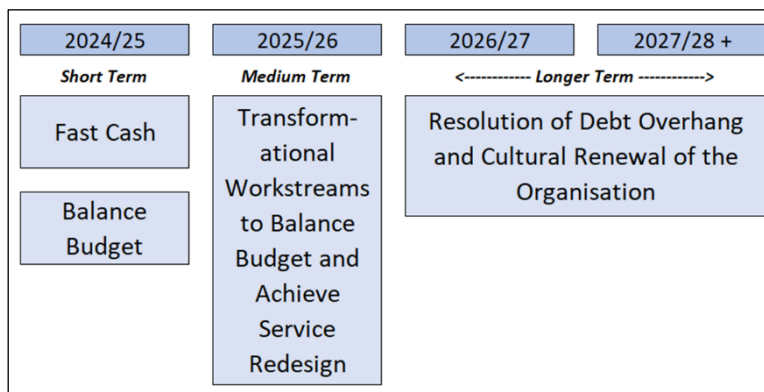
- 9.1 The potential scale of the underlying General Fund revenue gap has been set out in the earlier part of this report. It remains to be further validated and stress-tested to identify any further pressures or if some assumptions can be flexed downwards.
- 9.2 At the same time monthly monitoring reports will continue to be produced and the reporting framework modified to enhance transparency and understanding of the current year budget position. It is proposed that monthly budget monitoring reports are hereafter reported to

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Executive on a monthly basis rather than quarterly. Issues or opportunities that emerge from budget monitoring will be incorporated into the above assessment of the underlying gap.

- 9.3 Corporate Leadership Team is committed to take all actions possible to avoid or mitigate in-year adverse variances whilst delivering on savings where they can be found.
- 9.4 Addressing the financial challenges requires action in the short medium and long term. The chart below demonstrates how this will operate:

Chart 4 – STRATEGY TO ADDRESS FINANCIAL CHALLENGES



- 9.5 Four key strategic / cross-cutting themes have already been identified by Corporate Leadership Team [CLT] to assist with meeting the level of efficiencies required to close the underlying gap. Reporting back directly to CLT, Senior Responsible Officers are in the process of being designated for each workstream and time is being set aside by CLT to consider progress on this work by the end of July.
- 9.6 The four cross-cutting / strategic workstreams so far identified are as follows:
- Property
Review of current functions and resource requirements
Review of current property portfolio; contribution to service delivery; true cost of holding
 - Hidden Subsidy
Critical review of overheads – ensure full cost recovery where possible
Discussion with delivery partners over sharing of financial burden in delivering joined-up services
 - Procurement
Analysis of total spend with all suppliers to identify drivers of spend
Review of scope to amalgamate/package spend with key suppliers
 - Transformation
Scope for cost savings / productivity improvement from use of technology
Review of processes: “bin / shrink / improve”
Increased level of self-service
- 9.7 The above work will be underpinned by analysis to inform where the Council is an outlier in the amount it spends on services and a programme of good housekeeping to ensure fees and charges are reviewed and the Council is as efficient as possible in how it operates.
- 9.8 Progress on refining the underlying gap and potential measures being identified to close it will be reported throughout the Autumn to Executive. A final position is unlikely to be settled on before the end of the calendar year as it will be dependent upon publication of the Local Government Finance Settlement, not expected until mid-December and will also be reliant

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upon confirmation of continued exceptional financial support with regard to the over hanging debt issues discussed later in this report.

- 9.9 A process has been developed to collect all proposed budget changes in a controlled and auditable manner and will be used inform Members in their budget decision-making; track changes to assumptions and the outstanding underlying gap; and to facilitate the monitoring of delivery if and when adopted.
- 9.10 In addition to this the Council will maintain the constraint on spending through the Financial Controls Board and implement additional, "Fast Cash" savings designed to balance the 2024/25 revenue budget.

10.0 The Housing Revenue Account Budget

- 10.1 The Housing Revenue Account [HRA] budget was approved by Full Council on 8th February 2024. A summary of the approved budget is set out in the table below:

TABLE 7 – APPROVED HOUSING REVENUE ACCOUNT BUDGET 2024/25

	2023/24		
	2023/24 Budget (£,000's)	Draft Outturn (£,000's)	2024/25 Budget (£,000's)
Supervision & Management	9,567	8,929	9,243
Repairs & Maintenance	3,222	5,712	3,824
Major Repairs (Depreciation)	3,956	4,196	4,272
Capital Financing	5,576	5,557	5,677
Bad Debt Provision	210	210	267
Total Expenditure	22,531	24,604	23,283
Total Income	(21,194)	(22,033)	(24,243)
Transfer To/(From) Reserves	(1,337)	(2,571)	960

- 10.2 The latest budget monitoring forecast for 2024/25 (Period 2) is forecasting an adverse variance on HRA revenue budgets of £2,023k. Rather than a budgeted contribution to reserves of £960k, such a forecast would instead see reserves reduce by £1,063k.
- 10.3 A significant factor in the forecast overspend relates to Brockhill fire safety and decant costs which might reasonably not be expected to recur annually. However other significant factors such as day-to-day repairs (£377k) and service charge income (£795k) forecast overspends have the potential to be ongoing.
- 10.4 An adjustment to HRA reserves brought forward has been identified relating to charges for the Fuelcell energy provision and amounts to £780k. Taking this into account, the level of HRA reserves would remain critically low – being approximately 1.4% of annual budgeted expenditure. A further adjustment in relation to historic General Fund recharges is currently nearing completion and has the potential to further improve the HRA balances brought forward.

TABLE 8 – HOUSING REVENUE ACCOUNT GENERAL RESERVES

	<i>(£,000's)</i>
HRA Reserves b/f	599
One-Off Fuelcell Adjustment	780
	1,379
24/25 Forecast Net Deficit	(1,063)
Forecast HRA Reserves c/f	316

- 10.5 A thirty-year business plan is in the process of being prepared and stress-tested to ascertain the long-term financial viability and affordability of the HRA. Still a work in progress, it is pointing towards a need to review the HRA capital programme which may be aspirational in terms of affordability as well as ability to deliver all programmes in the shorter term. Any easing or extending timelines of the HRA capital programme would be likely to have a positive impact on the HRA revenue budget.
- 10.6 Developing the HRA business plan will take place alongside the development of the General Fund Medium Term Financial Strategy leading towards budget and Council Tax Setting in spring 2005.
- 10.7 It is proposed that further work is brought to Members in the Autumn which sets out the approach to:
- Balance the Housing Revenue Account.
 - Profile of the Housing Capital Program to align to urgent housing need and meeting regulatory requirements with what can operationally be delivered.
 - The work to prepare a thirty-year business plan.
 - Maximise the use of existing Housing stock.
- 10.8 The ultimate objective is to deliver an improved housing service to tenants and leaseholders but within the resources available.

11.0 Capital Budget

- 11.1 The currently approved capital programme was developed in light of a number of principles as follows:
- Items of programming that relate to essential health and safety works and deliver compliance to the regulations within in the Council's property estate.
 - Essential investment in Information & Communications Technology to ensure that the Council has fit for purpose and secure tools and infrastructure to support operations generally where there is a suitable business case to support such investment.
 - Items where - following support from Government and from Commissioners - specific resources are provided to the Council by Government to complete or partially complete certain specified schemes that were already in delivery by the various companies owned by the Council when the Section 114 Notice was issued.
 - Any schemes that can be shown to be wholly funded from external resources without implying additional cost burdens for the Council.
 - Where proposals are estimated to return a measurable revenue saving; for example, leasing of the Council's commercial property portfolio which may require modest

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upfront capital investment and which then return a beneficial income stream to the revenue budget.

- Proposals funded by the Housing Revenue Account will be developed alongside these General Fund principles with the aim of supporting a sustainable HRA 30 year business plan.

11.2 These principles still stand and the objectives of the programme are to:

- Provide resources for essential Health and Safety Works.
- Enable investment in infrastructure in particular the development of Information Technology.
- Provide resources to complete of specified group company schemes which were already in delivery when the s114 Notice was issued.
- Enable projects designed to deliver a cashable revenue saving.
- Facilitate the delivery of the Housing Revenue Account Business plan.

11.3 The capital programme is being reviewed in the light of the capital outturn position and the revised budgets to allow for any slippage or reprofiling will be brought to Members in the Autumn.

12.0 Next Steps

12.1 This report sets out the proposed approach to developing the Medium Term Financial Strategy and the work that will be required.

12.2 As set out in the report there is a considerable amount of work planned on rightsizing the financial envelope, options to stay within budget, to deliver a balanced HRA and to reprofile the capital budget. There is a commitment to ensure that Members are fully sighted and involved in this work.

12.3 It is designed to identify and develop proposals to bridge the budget gap.

12.4 Work is currently being carried out to develop a full budget timetable leading to the setting of the 2025/26 Budget and Council Tax in the early spring of 2025.

13.0 Implications

Finance and Risk

13.1 As contained in the body of the report.

Equalities and Human Resources

13.2 No specific equalities and human resources issues.

Legal

13.3 The setting of a balanced budget is a legal requirement.

14.0 Engagement and Consultation

14.1 Engagement and consultation will take place as budget options are developed.

REPORT ENDS

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In undertaking its financial operations over the period of the Medium-Term Financial Strategy, the Council adopted from July 2023 the following Guiding Principles ('The Principles'). The Principles are based on sound management and professional practice. They are presented as *Guiding Principles* because there may be occasions where – after careful consideration - the exigencies of strategic or operational management may necessitate from time to time a departure from the Principles.

No.	Guiding Principles
1	Fees & Charges will be reviewed annually and adjusted for inflation, comparability, and competitiveness.
2	As a compassionate Council, in setting charges, the impact on vulnerable groups will be considered carefully.
3	Service level spend will be benchmarked regularly with a suitable peer group and proposals to align with the benchmark will be brought forward.
4	The Council will adopt a policy of Digital First in service delivery but as a compassionate Council will be mindful of the risks of <i>digital exclusion</i> in doing so.
5	A rolling programme of Service Reviews launched as part of the <i>Budget Gateway</i> process will continue within the timeframe of the MTFS and will be used to ensure that operating models, organisational design and cost footprints are subject to regular review and adjustment across the Council.
6	Service developments, savings and investment will be brought forward on the basis of business cases that must demonstrate feasibility, deliverability, and appropriate financial pay back and other investment appraisal techniques.
7	The Council will consult with residents and other stakeholders in the Borough in forming budget proposals
8	Where business cases are prepared for decision, a proactive approach will operate encompassing review in depth prior to such presentation; this will include rigorous application of investment appraisal techniques, peer review and use of the Scrutiny function to achieve searching review and challenge before business cases are adopted.
9	The Council will welcome approaches from regional and other partners for joint working and joint management initiatives.
10	The Council presently has a <i>negative</i> balance on the General Fund. The Council will seek to re-balance the General Fund through (a) its own endeavours generally (b) a programme of property rationalisation and (c) with support to be sought from Government. The Council will seek to reach for Unearmarked Reserves at a level of 5% of Net Expenditure (i.e. £0.8m based on current core funding of £16m), [Addendum Feb 2024: but adjusted for the level of risk required]
11	Given the financial position of the Council and the need to maintain key statutory services the Council will seek to maximise receipts from all funding streams including Council Tax and income over the period of the MTFS.
12	Growth in service budgets must be funded from (a) grants or other contributions, (b) realistic estimates of commercial income or fees and charges (c) or revenue savings. No other growth will be adopted into the Budget within the period of the MTFS.

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13	Council will develop enhanced means of assessing and managing risks at both strategic and operational levels and these will be used to inform the annual Budget process.
14	The Council will seek to make Value for Money decisions and be mindful of its obligations to obtain best value for the 'public purse' generally.