Hinckley & Bosworth
Borough Council

Forward timetable of consultation and decision making

Scrutiny and Finance & Performance Scrutiny	30 January 2025
Council	20 February 2025

Wards affected: All wards

Medium Term Financial Strategy (MTFS) 2024/25-2027/28

Report of Head of Finance (Section 151 Officer)

1. Purpose of report

1.1 To update members on the MTFS position for 2024/25-2027/28 in the context of significant uncertainty for local government in light of the recent government announcements on devolution and local government reorganisation.

2. Recommendation

2.1 That members:

- note the update to the Medium Term Financial Strategy (MTFS) for 2024/25-2027/28, in particular the level of savings and new income required between 2026/27 to 2027/28.
- agree the use of earmarked reserves to support the general fund position required over the life of the MTFS.

3. Background to the report

3.1. This MTFS is being prepared at a time of very high levels of uncertainty and after many years of reductions in direct government funding to support our services. There are complications added to this due to the Government's announcement on the future direction for local government that it intends to complete the following ambitions in a relatively short period:

- the lack of a clear longer term financial settlement from Government beyond the repeat of a one year financial settlement, which may significantly change the forecasts given
- a fair funding review for 2026/27

- a business rates reset in 2026/27, which could see the Council losing almost all its £4.6 retained business rates growth
- local government reorganisation (LGR) in this MTFS period, and
- devolution for local Government in England during this MTFS period.

This is a significant programme of action, and it waits to be seen if all can be delivered at the pace suggested.

3.2. The MTFS is fundamental to securing the key ambitions and objectives of the Council's Corporate Plan. The MTFS refresh 2024/25-2027/28 sets the framework for continuing to deliver local services to residents and businesses. It also includes the requirement to have in place a detailed approved plan to generate savings and new income to avoid the Council not be able to balance its budget.

3.3. Even before the potential pressures of LGR and a business rates reset, there were two key factors causing the pressure in the budget position that are common to many councils nationally. These are the increased costs of temporary accommodation and higher pay cost settlements over the last two years. This can be seen in the pressures noted below:

- In 2021/22 the general fund payroll budget was £11.2m, by 2025/26 the current forecast is £14.9m.
- In 2021/22 the temporary accommodation budget was as £0.2m, but the current budget is £1.1m

Neither has been covered by increased funding from Government, and direct funding has been falling since 2016/17. It has only been the significant growth in business rates that has protected the general fund position, which is why a reset that removes this growth would be significantly damaging to the Council's finances (See table below). To add some context, the £6.9m provided for 2016/17 by Government, if it had kept pace with CPI inflation would be worth £8.7m in Dec 2024. We got £4.4m from Government which is just about 50% of that.

Core Spending Power (Funding)	2016 /17 £m	2017 /18 £m	2018 /19 £m	2019 /20 £m	2020 /21 £m	2021 /22 £m	2022 /23 £m	2023 /24 £m	2024 /25 £m	2025 /26 £m
Government Funding	**6.5**	**6.0**	**5.6**	**5.0**	**4.4**	**4.1**	**3.8**	**4.2**	**4.7**	**4.4**
Council Tax	4.3	4.6	4.8	5.1	5.3	5.4	5.7	5.9	6.2	6.4
Total £m	**10.8**	**10.6**	**10.4**	**10.1**	**9.7**	**9.5**	**9.5**	**10.1**	**10.8**	**10.8**
Business Rates Growth (Not incl in Core Funding)	**0.5**	**0.5**	**0.9**	**1.2**	**1.8**	**1.6**	**2.6**	**4.1**	**4.4**	**4.8**
Government Funding %	**61%**	**57%**	**53%**	**50%**	**46%**	**43%**	**41%**	**42%**	**43%**	**41%**
Council Tax %	39%	43%	47%	50%	54%	57%	59%	58%	57%	59%

Government had announced that Core Spending Power (CSP) for Local Government will increase by 3.2% in real terms, but this was not for all local authority bodies. HBBC increase was just 0.004% or £474.

3.4. The MTFS is based on achieving a 15% minimum general fund target as a share of the net budget requirement for the Council. This means the 15% gives the council a buffer in case of unexpected pressures of around £1.5m-£2m before a deficit occurs. Councils are not allowed to have deficit budgets and when there are high levels of uncertainty, as we are currently in, this buffer is needed to ensure the council remains in financial balance.

3.5. This MTFS has a high level of uncertainty after 2025/26, therefore a range of possible outcomes has been presented over a four-year outlook covering 2025/26 to 2027/28 in the detailed MTFS technical document appended. This covering report only covers the most likely scenario based on information currently available from ongoing government consultation, internal assessment and from our advisors. This lack of a longer term settlement means the forecast is not definitive and covers the expected outlook and potential change in funding as well as trying to address the uncertainties of LGO. All of which indicates a significant budget risk to HBBC's financial position.

3.6. This uncertainty has been increased due to announcements made by the Secretary of State for Housing, Communities and Local Government in relation to LGR and devolution and the creation of unitary authorities in all areas for England. The Government provided more detail in the English Devolution White Paper.

3.7. As well as the reorganisation, there is planned to be a Fair Funding review, which entails a business rate reset. The Fair Funding review covers any changes in allocations of income in light of the Government announcement and should be subject to consultation in the spring of 2025, but the current proposals make movement to unitary status across all areas nationally a key part of the reforms. More detail is to follow in 2025/26 which will give more certainty to these proposals but having unitary areas in place in the "Priority Programme" category means unitary councils will be formed from as early as 1st April 2027, with a Shadow Authority elected about a year earlier. The MTFS assumes HBBC will be in place until at least 2027/28. More will be known once the government confirms a decision on LCC's request to delay their May election by a year and confirmed which councils have been included on the "Priority Programme".

3.8. The MTFS has been drafted for HBBC to remain as a sovereign district council, as it has been since 1974, for all years of the MTFS (2024/25-2027/28). However, the proposals for devolution and moving to unitary status are accompanied with a one year financial settlement for 2025/26 followed by a multi-year settlement following that of most likely two years or potential three years. At the same time the capital flexibilities allowance has been extended to March 2030, which allows capital receipts to be used for certain costs of restructuring. Although not definitive taken together this suggests a timeline for completion of three to four year for completion of the move to unitary status.

3.9. The MTFS clearly shows we have a net budget requirement that is higher than the income we receive from Business Rates, Council Tax, and other government funding. This is already happening, we used £1m of reserves to balance the budget in 2024/25. This is spending our short-term reserves to cover long term costs. This support is expected to grow even if there is no change to our current level of government funding. This needs to be addressed as like any business the reserves will run out and an uncontrolled deficit will occur (Appendix 1 has a table on reserve balances).

3.10. The current options for cost savings or new income need to be developed into a plan to cover the projected budget gap of £2.7m by the end of 2027/28 The budget gap is based on there being a reset in 2026/27 of the MTFS period. If this were delayed by a year, this would delay the need for any savings needed. These savings are not currently expected until 2027/28, which gives time for any further announcements on intentions for reorganisation and fair funding to be considered. Therefore, potential options for new income and savings can be revisited once there is further information on the Government's intentions on devolution and the creation of unitary authorities. In the meantime it will still be a requirement to use relatively high levels of earmarked reserves to support the general fund position.

3.11. The detailed MTFS given in the appendices covers deferring potential scenarios:

- No reset (unlikely but indicated there is still a budget gap),
- a Reset in 2026/27 (Expected), and
- a reset in 2027/28 (This may occur if the consultation has any sway of Government intentions)

The Table below gives the high level overview of the three MTFS scenarios covered in the detailed MTFS. Note that Savings of £250,000 have already been agreed in relation to waste services and are included for 2025/26.

MTFS with Reset outside MTFS period	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Savings needed	0	0	0	0
Savings included		250		
General Fund	**-571,076**	**-366,927**	**6,579**	**-7,721**
Earmarked Reserves Used	**1,827,009**	**31,332**	**531,582**	**868,740**
MTFS with Reset 2027/28 (Delayed Reset by1 year)	**2024/25 Forecast**	**2025/26 Forecast**	**2026/27 Forecast**	**2027/28 Forecast**
Savings needed (Reset 2027/28)	0	0	0	473,394
Savings included		250		
General Fund	**-571,076**	**-366,927**	**6,579**	**238,280**
Earmarked Reserves Used	**1,827,009**	**31,332**	**531,582**	**2,789,359**

Damping (High Risk assumption)	**0**	**0**	**0**	**3,042,243**

MTFS with Reset 2026/27 (Expected)	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Savings needed (Reset 2026/27)	0	0	0	2,657,850
Savings included		250		
General Fund	**-751,009**	**-370,727**	**155,740**	**90,242**
Earmarked Reserves Used (Reset 2026/27)	**1,343,008**	**207,132**	**2,376,000**	**719,141**
Damping (High Risk assumption)	**0**	**0**	**3,720,678**	**2,796,177**

Summary MTFS position

3.12. The table below shows the budget gap for the expected or most likely forecast, due to the position announced by Government of its intention for a business rate reset in 2026/27. The budget means we must use reserves in the short term whilst we move to introducing either costs savings or new income. As we are using high levels of reserves to close the gap it indicates the Council has an underlying deficit, meaning the income it has coming in does not cover its expenditure needs, which is not sustainable.

EXPECTED (Budget Gap)	2024/25 Current Yr	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Net Income	£13,959,028	£14,512,879	£9,753,116	£10,075,463
Net Expenditure before reserve use /savings/Damping	**£14,551,027**	**£14,349,284**	**£16,005,533**	**£16,338,874**
Net Income	-£591,999	£163,595	-£6,252,417	-£6,263,411
Covered by				
Reserves use	**£1,343,008**	**£207,132**	**£2,376,000**	**£719,141**
Contribution to/from General Fund Bal	**-£751,009**	**-£370,727**	**£155,740**	**£90,242**
Savings	**£0**	**£0**	**£0**	**£2,657,850**
Damping incomed assumed	**£0**	**£0**	**£3,720,678**	**£2,796,177**
Total	**£591,999**	**-£163,595**	**£6,252,417**	**£6,263,411**

3.13. The Table below gives the forecast performance against the 15% target for the general fund balance, showing it is achieved if transitional relief is given as noted and saving or new income is delivered. This level of savings may require the use of capital flexibilities regulations, which allows capital receipts to be used for certain restructuring costs. This requires notification to the Ministry of Housing, Communities and Local Government (MHCLG) to agree a capital receipts direction. However, this will be kept under review as more information on the government announcements and any additional funding to support them is announced.

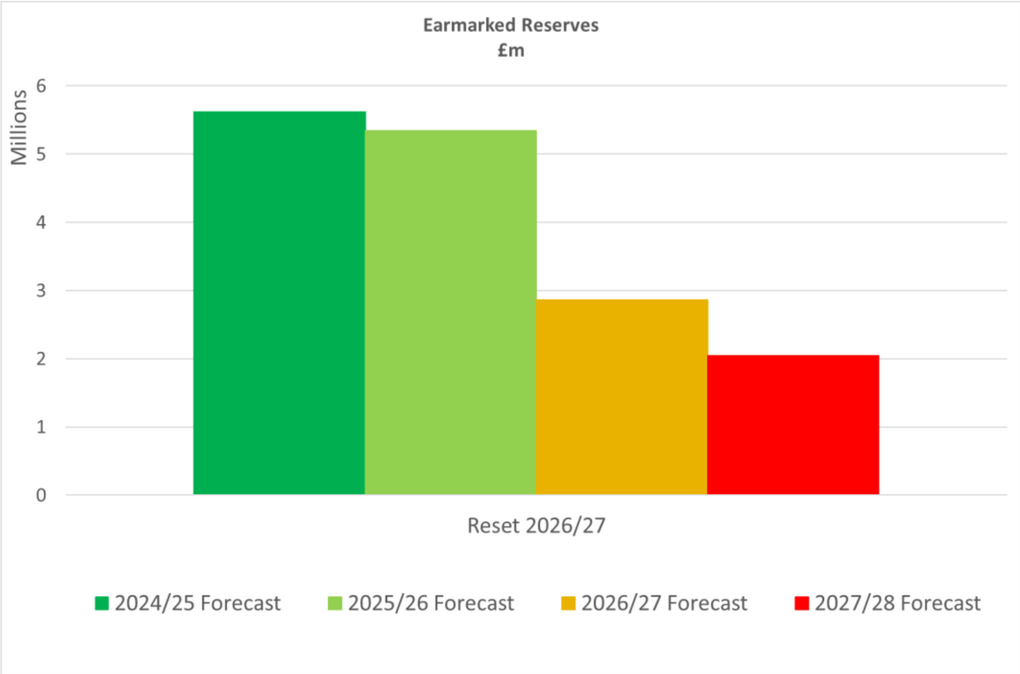
EXPECTED (£000)	2024/25 Current yr	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Net Service Expenditure	15,677	14,334	15,960	17,616
Budget movements	1,165	1,626	1,656	333
Savings needed	0	0	0	-2,658
NET Borough Budget Requirement	16,841	15,960	17,616	15,292
Reserves movements	-3,453	-1,818	-3,987	-2,330
General fund gain loss	571	371	-156	-90
Net Budget Forecast	13,959	14,513	13,474	12,872
General Fund Balance	**1,626**	**2,177**	**2,021**	**1,931**
Earmarked Reserves balance	**5,620**	**5,341**	**2,865**	**2,046**
GF performance against 15% target	12%	15%	15%	15%
Damping incomed assumed*	**0**	**0**	**3,721**	**2,796**

* *Note, this is included in the net budget forecast total and is not additional income.*

3.14. The level of damping included in this MTFS is a key, and potentially a high-risk assumption, which if incorrect, would mean significantly higher levels of financial pressure could occur in the MTFS period. There is no detail on the level of damping that may be provided, our advisors have suggested that a 95% reducing support approach may apply, which means that Government will support a position of keeping 95% of the prior period total income including business rates growth or damping support. This support is not guaranteed at this level as no government details are available on how they will provide support. However, as their intention appears redistribution of areas they consider higher need, it is unlikely to be higher as that would defeat the point of the reset.

Use of Reserves

3.15. All scenarios rely on a significant use of reserves to balance the General fund budget at a 15% target level of net expenditure. The expected position is noted in the graph below, but the overall Earmarked reserves are depleted in all scenarios. The largest remaining reserve is the Business Rates Equalisation reserves of £1.25m, used to cover the risk of any unexpected issues on rates collection above our appeals provision.



Key Assumptions and Risk summary

3.16. An MTFS is based on a set of key assumptions, these cover costs and income projections and on what they are based. The key ones have been noted in the report for the Expected MTFS position, the main ones are reviewed below:

- The most uncertain risk is the lack of any clear indication of a longer-term financial settlement from government, which may change the forecasts given significantly.
- That pay increases are at most 2% plus spinal point increases for 2025/26 and, then 2.7% for each year of the MTFS forecast.
- The £800,000 share of retained rates from the pool with be retained in each year there is not a business rates reset and the current sharing mechanism between the County Council, The City Council and district will remain in place. This may not occur as the County want to review the split.
- a £5 increase in Council Tax for all years of the MTFS
- a £5 increase in the garden waste charge in 2025/26 as agreed by Council in the last MTFS update.
- The £8m investment in the Local Enterprise Zone will deliver the growth in rates expected to cover the forward funding agreement position.
- The business rates reset will be in 2026/27 and Government will offer transitional relief at least as much as has been included in the MTFS models. The level of transitional relief is not known and could be lower than modelled leading to a high level of risk for this assumption.
- The Fair Funding review and business rates reset will eventually impact on MTFS and this could lead to material savings/new income plans being needed .

- That “Damping” funding will be provided by government in some form, this is a high-risk assumption as no exact details have been provided. The calculation assumes no more than a 5% loss of income will fall on Council from one year to the next and is based on information from our advisors.
- There will be no recurring budget supplementary increments agreed over the MTFS period that are not matched by savings/new income. If this is not possible it will increase the savings/new income required, unless unavoidable for legal reasons. This has not been achieved in prior years.
- One off supplementary requests will not be approved unless matched by savings/new income, unless unavoidable for legal reasons. This has not been achieved in prior years.
- MCHLG have written to Council recently to note that,“ Ministers will expect councils to have taken all reasonable action at a local level and that requests for support will be agreed on an exceptional basis, and usually through a capitalization directive, not additional income. The only change offered is that such borrowing will now not be at a 1% premium above normal PWLB rates. Therefore, failure to achieve the saving required will lead to the risk of a S114 recommendation being needed at some point in the future.

4. **Exemptions in accordance with the Access to Information procedure rules**

4.1 Report is to be taken in open session.

5. Financial implications [AW]

5.1 In the body of the report

6. Legal implications

6.1 The MTFS provides the foundations to allow the Council to meet its statutory obligations in accordance with Section 32 of the Local Government Finance Act 1992 and section 25 of the Local Government Act 2003. The Council has a statutory requirement to set a budget for each financial year and approve the MTFS, including a three-year capital programme.

7. Corporate Plan implications

7.1 A robust MTFS is required to ensure that resources are effectively allocated to ensure delivery of all the aims, outcomes and targets included in the Council’s Corporate Plan.

8. Consultation

8.1 All members of the Strategic Leadership Team have been consulted in preparing this Strategy.

9. Risk implications

9.1 It is the council’s policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

9.2 It is not possible to eliminate or manage all risks all the time and risks will remain which have not been identified. However, it is the officer’s opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

9.3 The following significant risks associated with these report / decisions were identified from this assessment:

Management of significant (Net Red) risks

Risk description	Mitigating actions	Owner
That the Council has insufficient resources to meet its aspirations and cannot set a balanced budget	A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation. The budget is scrutinised on an ongoing basis to ensure that assumptions are robust and reflective of financial performance. Sufficient levels of reserves and balances have been maintained to ensure financial resilience	A Wilson

10. Knowing your community – equality and rural implications

10.1 The budget process will impact on all areas of the Borough and all groups within the population.

11. Climate implications

11.1 The stewardship of the financial resources of the council underpins all policy actions to address the council’s objectives in ensuring it manages its resources to ensure climate considerations are achieved in accordance with the corporate plan. The MTFS has schemes that will directly increase our level of CO_2 emissions.

12. Corporate implications

12.1 By submitting this report, the report author has taken the following into account:

- Community safety implications
- Environmental implications
- ICT implications
- Asset management implications
- Procurement implications
- Human resources implications
- Planning implications

- Data protection implications
- Voluntary sector

Background papers:	Corporate Plan, Capital Programme, General Fund and HRA budgets and Treasury report

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Appendix 1 Reserve balance for Expected MTFS scenario

Reserves (Expected+ LGR 15%) £000	31/03/25	31/03/26	31/03/27	31/03/28
Special Expenses Reserve	250	183	166	166
Local Plan Procedure	204	2	2	2
Business Rates Equalisation Reserve	1,250	1,250	1,250	1,250
Economic Priorities Reserve	3,082	3,045	719	0
Asset Management Reserve	120	120	120	120
Election Reserve	50	75	100	100
Grounds Maintenance	30	30	30	30
Enforcement and Planning Appeals	10	95	70	70
Building Maintenance costs	488	388	288	188
Developing Communities Fund	236	236	236	236
Environmental Action Reserve	150	100	50	50
Total	**5,870**	**5,524**	**3,031**	**2,212**
Net of Special Expenses	5,620	5,341	2,865	2,046