

REPORT TO:		Cabinet	
DATE:		30 October 2024	
PORTFOLIO:		Councillor Noordad Aziz/Councillor Vanessa Alexander - Finance and the Budget Process	
REPORT AUTHOR:		Martin Dyson, Executive Director (Resources)	
TITLE OF REPORT:		Update on the Medium-Term Financial Strategy 2025/26 to 2027/28	
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	No	Not applicable	
KEY DECISION:	No	If yes, date of publication:	

1. Purpose of Report

- 1.1 The purpose of this report is to provide Cabinet with an update on the financial position for the Council's Revenue & Capital Budgets for 2025/26 and the impact on the Medium-Term Financial Strategy (MTFS) 2025/26 to 2027/28.

2. Recommendations

It is recommended that Cabinet:

- 2.1 Note the updated financial position for the 2025/26 revenue budget.
- 2.2 Note the updated Medium Term Financial Strategy 2025/26 to 2027/28.
- 2.3 Note the risks and pressures included in the Medium-Term Financial Strategy, to be considered through the further development of the MTFS.
- 2.4 Note the forecast general fund reserves position over the period of the Medium-Term Financial Strategy.
- 2.5 Note the next steps highlighted in section 7 of the report and the requirement to produce an appropriate action plan that will ensure the Council can meet its legal requirement to set a balanced budget in 2025/26 and address budget gaps in future years.

3. **Background**

- 3.1 The Council approved its Revenue Budget for 2024/25 and Medium-Term Financial Strategy (MTFS) 2024/25 – 2026/27 at the Full Council meeting on 27th February 2024.
- 3.2 Since the MTFS 2024/25 – 2026/27 was produced the economic and political climate has changed, therefore the assumptions, pressures and risks require updating as a number may have evolved.
- 3.3 A report was presented to Cabinet on 18th September 2024, detailing the current assumptions, risks and pressures and the process for the budget 2025/26.
- 3.4 This report is to inform Cabinet of the revised MTFS for 2024/25 – 2026/27 to incorporate the information presented in the report mentioned above and to extend this for an additional year into 2027/28.

4. **Update of the Medium-Term Financial Strategy 2024/25 – 2027/28**

- 4.1 Since the revenue budget was approved at full Council on 27th February 2024 and recognising that the Council is operating in an ever-changing environment, work has continued to update the MTFS and extend to include 2027/28 financial year.
- 4.2 The table below shows the updated standard scenario MTFS:

Table 1: Medium Term Financial Strategy 2024/25 – 2027/28

	2024/25 Budget £'000	2024/25 Forecast £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Service Budgets	15,399	16,110	16,629	16,869	17,139
Non-Service Budgets	1,268	143	969	1,069	1,069
Corporate Savings Target	(107)	-	-	-	-
Net Revenue Expenditure	16,560	16,253	17,598	17,938	18,208
Transfers to Usable Reserves	616	888	350	350	350
Transfers from Usable Reserves	(965)	(1,015)	(553)	(419)	(409)
Net Revenue Expenditure after use of Reserves	16,211	16,126	17,395	17,869	18,149
Less: Government Grants	(2,388)	(2,388)	(2,436)	(2,485)	(2,535)
Less: Business Rates Retained	(8,069)	(8,069)	(8,519)	(8,395)	(8,563)
Less: Council Tax Income	(5,754)	(5,754)	(6,104)	(6,375)	(6,618)
In Year Funding 'Gap'	-	(85)	336	614	433
Cumulative Funding 'Gap'	-	(85)	336	950	1,383

- 4.3 The MTFS figures are based on the assumptions set out in the report presented to Cabinet on 18th September 2024 including the following:
- Pay award of 3.0%.
 - General inflation of 3.0%.
 - Utilities inflation of 2.0%.
 - Increases in sales, fees and charges income of 3.0%.
 - Increase in non-ringfenced Government grant income of 2.0%.
 - Increases in retained business rates income of 2.0%; and
 - Increase in Council Tax base of 0.8% with a 2.99% increase in Council Tax rate.
- 4.4 The figure contained in this report assumes that the Council will accept the Homes England Brownfield Infrastructure and Land Fund grant and that the Council will not receive its allocation of UK Shared Prosperity Funding from 2025/26 onwards.
- 4.5 It is also assumed that the Housing Benefit caseloads relating to the pressure of the Housing Benefit supported / exempt properties will not increase beyond the current levels due to future introduction of planning controls and housing regulation.
- 4.6 Although the Council has identified there may be capital investment required to repurpose sites under the Council's control, such as Oswaldtwistle Civic Theatre and Mercer Hall, the Medium-Term Financial Strategy works on the assumption that there will be no additional Council funds above those already approved. It is the Council's direction that it will engage with providers and external funders to enable these buildings to be brought back into community use.
- 4.7 The above table also takes account of the risks set out in the same report. The table below sets out the details of cumulative movements in each year of the MTFS table:

Table 2: Medium Term Financial Strategy Movements & Pressures

	2024/25 Forecast £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Pay Award	-	268	538	813
General Inflation	-	227	393	562
Utilities Inflation	-	22	45	68
Increases in Sales, Fees and Charges Income	-	(130)	(220)	(311)
Increase in Non-Ringfenced Government Grants	-	(48)	(97)	(147)
Increase in Retained Business Rates Income	-	(428)	(593)	(761)
Increase in Council Tax Income	-	(210)	(444)	(687)
Total Inflationary Movements	-	(299)	(378)	(463)
Additional Costs for Leisure Services	850	700	500	350
Revenue Costs for Levelling Up Fund Projects	-	150	150	150
Savings on Transfer of Market Operations	-	(225)	(225)	(225)
Use of Contingency to Fund LUF Project Costs	-	(150)	(150)	(150)
Loss of External Funding	-	120	134	138
Additional Housing Benefits Costs	284	350	385	425
Waste Transfer Costs (if no Transfer Station)	-	-	500	510
Food Waste Collections Revenue Costs	-	-	475	485
Grant for Food Waste Collection Revenue Costs	-	-	(475)	(485)
Potential Pension Contribution Savings	-	-	(477)	(487)
Other Costs Previously Funded from Reserves	-	22	22	22
Additional Investment Interest	(1,047)	(298)	(199)	(199)
Change in Minimum Revenue Provision	(78)	-	-	-
(Surplus)/Deficit Business Rates	-	(289)	-	-
(Surplus)/Deficit Council Tax	-	37	-	-
Other Variations from Budget	(94)	-	-	-
Total Additional Service Pressures	(85)	417	640	534
Other Changes in Reserves Movements	-	218	352	362
Total in Year Movements in MTFS	(85)	336	614	433

4.8 The table incorporates the current estimates of the cost for each of the risks presented to Cabinet in September 2024, showing the significant pressures the Council is facing over the next 3 years. Some of the most significant pressures are:

- **Additional Cost of Leisure Services** – In 2024/25 The Council is expecting to have to provide support to Hyndburn Leisure, that would create a budget pressure of £850,000. Given the continuing cost pressures of providing leisure services, it is expected that financial support will continue to be required over the period of the MTFS, although this may reduce as the new leisure centre and upgrades at Hyndburn Leisure Centre come into use. The estimates included in the MTFS are therefore £700,000 in 2025/26, £500,000 in 2026/27 and £350,000 in 2027/28.

The Council is in the process of undertaking a review of how leisure services are provided in the borough, and these costs may be subject to change depending on how leisure services are to be provided going forward. A report on the preferred direction for how leisure services are provided will be presented to Cabinet before the end of 2024.

- **Revenue Costs for Levelling up Projects** - In 2023 the Council was successful in securing £20M from the Governments Levelling Up Fund, for projects in Accrington Town Centre. These projects are expected to be completed in 2025 meaning that they will be operational in the 2025/26 financial year. It is expected that there could be ongoing revenue costs initially from the Burtons Chambers and Market Chambers projects, which may decrease once they are up and running successfully. £450,000 has been set aside in reserves, from the project's contingency, to cover any such costs. Costs and corresponding transfers from reserves have been included in the MTFS at £150,000 in each year.

It is anticipated that there could be savings from the Market Hall budgets which may no longer be required. This is forecast to be around £225,000 each year.

- **Loss of External Funding** – As there is uncertainty around the future of external funding schemes such as UK Shared Prosperity Fund the Medium-Term Financial Strategy assumes that this funding won't be available, and the Council will be required to make budgets available to cover the cost of staffing that would have previously been covered by these funds. The cost of funding these posts is expected to be £120,000 in 2025/26, £134,000 in 2026/27 and £138,000 in 2027/28.
- **Additional Housing Benefits Costs** – The Council processes Housing Benefit claims on behalf of the Department for Work and Pensions (DWP), the majority of which it recovers through subsidy grant funding. However, there are certain categories of benefit claims which the Council is unable to recover. The Council has seen a significant increase during 2024/25 for claims related to the 'exempt properties' category of which the Council is unable to recover. A working group has been established to address this issue and future updates will be provided to Cabinet. The additional cost in 2024/25 is currently forecast to be £284,000, which is net of £100,000 for additional recovery of overpayments. estimates are included in the MTFS of £350,000 in 2025/26, £385,000 in 2026/27 and £425,000 in 2027/28.
- **Waste Transfer Costs** – From 1st April 2026, Lancashire County Council will end its contract at the Whinney Hill waste disposal site. As a result of this, Hyndburn Borough Council will then be required to transfer residual waste to an alternative site or Lancashire County Council's facility at Farrington. It is expected that this will result in additional costs to the Council of £500,000 in 2026/27, increasing by inflation each year after.
- **Revenue Costs of Food Waste Collections** - Following the introduction of new legislation by Central Government, from April 2026 the Council must provide a food waste collection for residents. The report presented to Cabinet in June 2024 estimated ongoing additional annual revenue costs of £475,000. DEFRA have

indicated they will provide a grant towards the additional revenue costs, therefore the current MTFS assumes both costs and corresponding grant income of £475,000 in 2026/27 rising by inflation each year thereafter.

- **Potential Pension Contribution Savings** – Lancashire County Pension Fund undertakes an actuarial review of the position of the pension fund every 3 years. Following this review the employer pension contribution rates are set for the following 3 years. The next triennial review is due to take place during 2025/26, setting contribution rates for 2026/27 – 2028/29. When the previous review was undertaken the Council had an option to reduce its contribution rates, capitalising on the surplus position the scheme was in. Due to uncertainty around future interest rates and the stable financial position of the Council it was decided not to take full advantage of any contribution savings at that point in time. Due to high interest rates the surplus position of the pension fund has grown further over the last 2 years, and it is expected that the Council will be able to achieve a lower employer contribution rate following the next triennial review. It is forecast that this could produce savings of around £477,000 in 2026/27, rising in line with pay inflation each year.
- **Additional Investment Interest** – The Council invests any surplus cash it is holding each day. This achieves additional income, which due to the increased interest rates and higher levels of cash held over the last few years, mainly due to capital grants being received in advance of spend being incurred, higher than expected levels of investment returns have been achieved. It is expected that cash levels and interest rates will remain higher for longer than was forecast when the 2024/25 budget was set, therefore it is now expected that additional investment income could now be achieved over the MTFS period. Estimates of an additional £298,000 in 2025/26 and £199,000 in 2026/27 and 2027/28 have been included in the updated MTFS. These are over and above the £401,000 included in the budget for the current financial year.
- **Surplus and Deficits in the Collection Fund** – As the billing authority, Hyndburn collects all Business Rates and Council Tax income for the borough, before paying it out as precepts to the precepting authorities. Before the start of each year an estimate is made of the income which will be collected, and this is the amount of income which is included in the budget for the upcoming year.

At the end of each financial year, the Council calculates the actual amounts of income collected creating a *Surplus* where the actual income collected is higher than the budget, or a *Deficit* where the actual income collected is lower than the budget. These surpluses or deficits are only realised in the following financial year (e.g. surplus for 2024/25 will only be realised by Hyndburn in 2025/26). A forecast is updated throughout the year which is currently expecting that in 2024/25 the Council will achieve a business rate surplus of £289,000 and a council tax deficit of £37,000. These will be realised in 2025/26 and be available to support that year's budget.

The Medium-Term Financial Strategy doesn't include any forecasts for any surplus or deficit in future years as the Council holds a specific reserve to enable the Council to cope with any unexpected deficits. This balance currently sits at £545,000.

4.9 The values of these risks in the MTFS will be updated as more information becomes available.

5. **Reserves**

5.1 Development of the Council's MTFS also needs to consider the reserve balances available.

5.2 Details of the Council's reserves are regularly reported to Cabinet. An updated analysis of reserves is provided at **Appendix A**, which shows the current forecast movements in reserves for 2024/25, along with the movements in the standard scenario tables above for the 3-year period of the MTFS. The strategy for the use of reserve balances is as follows:

Usable Reserves

- **Unallocated Reserves** – This balance should be maintained above the minimum level of £1million. This minimum level is held for use in unexpected and unforeseen circumstances and is part of the Council's various measures to maintain financial resilience.
- **Underspends/Invest to Save Reserve** – This reserve has been accumulated through previous years underspends to be used to fund short term pressures and projects which will help reduce the net costs to the Council.
- **Revenue Funding for Capital Schemes** – This reserve contains amounts set aside for use funding the capital programme. Whilst a significant amount of this reserve has been committed to fund the current approved capital programme, remaining balances may be required to fund schemes should capital receipts not be obtained.
- **Business Rates Volatility Reserve** – This reserve is to be used to smooth any surpluses or deficits in the collection fund.
- **Other Earmarked Reserves** – These reserves will only be used for the purposes for which they have been set aside and will be subject to annual review. The balance of these reserves, in the main, is committed for specific issues.

5.3 It must be noted that reserves are a finite source of funding and should not be relied upon to support the Council's budget, other than as part of the clear strategy to achieve a sustainable budget in the medium term.

5.4 The Council also holds what is known as "Unusable Reserves". These reserves are held for accounting processes and do not represent balances available to use to fund Council services. The Council held circa £29.9million at 31st March 2024, this includes certain reserves such as the revaluation reserve, capital adjustment account and pensions reserve.

6. Scenario Analysis

- 6.1 As mentioned above, the MTFs is prepared using a range of assumptions which impact on both income and expenditure. Changes in these assumptions can have a significant effect on the Council's forecast funding gap and the level of savings which may be required over the medium term.
- 6.2 It is good practice to undertake sensitivity analysis by changing some of the key assumptions used in the MTFs. Whilst the purpose of this analysis is not to forecast the future, it is to better understand the Council's sustainability in an uncertain environment.
- 6.3 For Hyndburn this is achieved by preparing 3 scenarios, pessimistic (worst case), optimistic (best case) and standard (base case). The tables shown above represent the standard scenario, which is the scenario that best represents what are currently thought to be the most likely outcomes and is the scenario on which the revenue budget is set each year.
- 6.4 The table below summarises the expected funding gap for each of the 3 scenarios over the MTFs period:

Table 3: Scenario Analysis – Funding 'Gaps' Over MTFs Period

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Optimistic Scenario	(200)	(473)	(1,233)
Standard Scenario (in tables above)	336	614	433
Pessimistic Scenario	1,378	2,813	3,850

- 6.5 As the table indicates, the range of potential scenarios for the 2025/26 financial year is a surplus of £0.200m to a deficit of £1.378m. Over the MTFs period, this rises to a potential surplus of £1.233m to a deficit of £3.850m by 2027/28.
- 6.6 Details of the variances from the standard scenario to the optimistic and pessimistic scenarios are included in **Appendix B**. All assumptions for each of the 3 scenarios were detailed in the report presented to Cabinet on 18th September 2024 and are summaries in Appendix B.

7. Next Steps

- 7.1 The timetable for the budget process was set out in the report to Cabinet on 18th September 2024.
- 7.2 The Finance team continue to work with budget holders to undertake a thorough review of all budgets to identify any potential additional budget pressures or savings.
- 7.3 These will be discussed with the Corporate Management Team and Cabinet over the coming months and decisions made on which items will be put forward in the final revenue budget and MTFs.

- 7.4 A series of Cabinet budget working group sessions have been timetabled to ensure engagement and communication is effective throughout the budget process.
- 7.5 Corporate Management Team and Service Managers will work with Cabinet members to develop an action plan to achieve the identified budget gap of £1.383m over the next 3 years as shown in Table 1. This action plan will be linked to the Council's Corporate Plan and establish the requirements for the efficient future delivery of Council services.

8. Alternative Options considered and Reasons for Rejection

- 8.1 There are no alternative options.

9. Consultations

- 9.1 None

10. Implications

Financial implications (including any future financial commitments for the Council)	The financial implications are detailed in this report.
Legal and human rights implications	There are no legal or human rights implications arising directly from the contents of this report.
Assessment of risk	There are no specific risk issues for members to consider arising from this report.
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	There are no equality or diversity implications arising directly from the contents of this report.

**11. Local Government (Access to Information) Act 1985:
List of Background Papers**

- 11.1 General Fund – Revenue Budget, Council Tax Levels and Capital Programme 2023/24 – Council 27th February 2024
- 11.2 New regulations for the introduction of food waste collections by 31 March 2026 – Cabinet 11th June 2024
- 11.3 Process for the Development of the Revenue Budget and Capital Programme 2025/26 – Cabinet 28th September 2024

12. Freedom of Information

- 12.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

Forecast General Fund Reserves Movements Over MTF5 Period

	31-Mar-24	2024/25	31-Mar-25	2025/26	31-Mar-26	2026/27	31-Mar-27	2027/28	31-Mar-28
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	Balance	Movement	Balance	Movement	Balance	Movement	Balance	Movement	Balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Unallocated Reserves	1,868	607	2,475	-	2,475	-	2,475	-	2,475
Earmarked Reserves:									
Planning S106 Fund	364	(119)	245	-	245	-	245	-	245
Underspends/Invest to Save Reserve	616	(233)	383	-	383	-	383	-	383
Communities for Health Funding	54	(46)	8	-	8	-	8	-	8
Dilapidations Reserve	4	-	4	-	4	-	4	-	4
Revenue Funding for Capital Schemes	2,638	(650)	1,988	(534)	1,454	-	1,454	-	1,454
Business Rates Volatility Reserve	455	90	545	-	545	-	545	-	545
Climate Change Reserve	750	(226)	524	(155)	369	(155)	214	(155)	59
Balances Set Aside to Fund Specific Future Expenditure	3,548	430	3,978	(169)	3,809	235	4,044	245	4,289
Levelling Up & Leisure Investment	10,608	(9,730)	878	(578)	300	(150)	150	(150)	-
Total Earmarked Reserves	19,037	(10,484)	8,553	(1,436)	7,117	(70)	7,047	(60)	6,987
Total General Fund Reserves	20,905	(9,877)	11,028	(1,436)	9,592	(70)	9,522	(60)	9,462

Scenario Analysis – Assumptions for Pessimistic/Standard/Optimistic Scenarios**Changes from Standard to Pessimistic Scenario**

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Cumulative Funding 'Gap' per Standard Scenario	336	614	433
Change in Pay Award Assumption	393	817	1,271
Change in General Inflation Assumption	161	417	692
Change in Utilities Inflation Assumption	11	23	35
Change in Sales, Fees and Charges Assumption	87	133	179
Change in Government Grants Assumption	48	97	147
Change in Business Rates Income Assumption	162	327	495
Change in Council Tax Income Assumption	180	385	598
Cumulative Funding 'Gap' per Pessimistic Scenario	1,378	2,813	3,850

Changes from Standard to Optimistic Scenario

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Cumulative Funding 'Gap' per Standard Scenario	336	614	433
Change in Pay Award Assumption	(136)	(271)	(413)
Change in General Inflation Assumption	(161)	(245)	(332)
Change in Utilities Inflation Assumption	(11)	(23)	(34)
Change in Sales, Fees and Charges Assumption	(87)	(226)	(374)
Change in Government Grants Assumption	(24)	(98)	(177)
Change in Business Rates Income Assumption	(80)	(165)	(253)
Change in Council Tax Income Assumption	(37)	(59)	(83)
Cumulative Funding 'Gap' per Optimistic Scenario	(200)	(473)	(1,233)

Assumption	Pessimistic Scenario	Standard Scenario	Optimistic Scenario
Pay Award	5.0%	3.0%	1.0%
General Inflation	5.0%	3.0%	1.0%
Utilities Inflation	3.0%	2.0%	1.0%
Sales, Fees and Charges Increase	1.0%	3.0%	5.0%
Increase in Non-Ringfenced Government Grants	0.0%	2.0%	3.0%
Increase in Business Rates Income Retained	0.0%	2.0%	3.0%
Increase in Council Tax Base (number of Band D Equivalent Properties)	0.5%	0.8%	1.13%
Increase in Council Tax Rate	0.0%	2.99%	2.99%