



<b>Report to:</b>	Cabinet	12 December 2022
<b>Lead Cabinet Member:</b>	Councillor John Williams, Lead Cabinet Member for Resources	
<b>Lead Officer:</b>	Peter Maddock, Head of Finance	

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## General Fund Medium Term Financial Strategy

### Executive Summary

1. The Council reviews its Medium-Term Financial Strategy (MTFS) and financial forecasts twice a year in accordance with best practice. This report updates the MTFS to the financial year 2027/2028 and sets out the updated medium term financial plan following the outcome of a mid-year review of financial forecasts.
2. The assumptions in the document may need to be updated as the budget progresses and information becomes available. The provisional 2023/2034 Local Government Finance Settlement in December 2022 should provide more clarity for future forecasts.

### Key Decision

3. No.

### Recommendations

4. **That Cabinet is requested to consider the report and, if satisfied, to:**
  - (a) **Acknowledge the projected changes in service spending and the overall resources available to the Council over the medium term to 2027/2028.**
  - (b) **Recommend to Full Council the updated Medium Term Financial Strategy once the 2023/2024 budget is complete and the settlement finalised.**

### Reasons for Recommendations

5. To ensure that the Cabinet is aware of the financial challenges over the medium-term and the strategy that is required to ensure that the Council will be in a position to deliver sustainable public services in the future.
6. To provide Cabinet with an update of the financial position and forecasts for the General Fund over the medium term following a review of financial assumptions.
7. To enable the Cabinet to recommend the MTFS to Council for approval in order to assist in the Council's financial planning.

## Details

### Background

8. The MTFS is the Council's overarching Financial Strategy document and gives financial expression to the Council's plans and fiscal challenges over the medium term. It sets out a range of financial assumptions and in so doing sets parameters within which the Council will deliver key public services over the medium term. This report includes an updated financial forecast, including risks due to high inflation and cost of living crisis.
9. The MTFS comprises two key elements (i) an assessment of the resources available to the Council over the medium term and (ii) an assessment of spending pressures based on existing levels of service delivery and known policy/legislative changes. Taken together the movement over the planning period of these two elements represents the financial challenge facing the Council.
10. There is a need, as part of effective medium term financial planning, to undertake a mid-year review of financial forecasts and projected changes in service spending. This will enable an updated forecast of the level of savings that need to be achieved to deliver the indicative Council Tax level.
11. The impact of COVID-19 previously, and now the cost of living crisis and rising inflation, have impacted on the financial forecasts and projections have, therefore, been further refreshed from the report that was submitted to Cabinet on 6 September 2021 to take account of (i) the subsequent announcements made by the Department for Levelling Up, Housing and Communities (DLUHC) on public sector funding and (ii) actual experience in the year to date. Specifically, the forecast takes account of:
  - Forecast pressures against the Council Tax Yield in the initial MTFS period.
  - Forecast pressures against Business Rates Yield in the initial MTFS period.
  - Forecast reduction in service-related income in the initial MTFS period; and
  - Forecast additional expenditure in the initial period of the MTFS.
12. It should be noted that these forecasts are based on assumptions around the impact of rising inflation, the cost of living crisis and the speed of the UK economic recovery. A longer duration will increase costs and reduce income to a greater degree; an increased severity in economic terms will increase demand led spending and suppress recovery of income levels. The MTFS assumes that the economy will broadly recover by the end of financial year 2023/2024.
13. To be able to deliver the Council's aspirations, set out in the refreshed Business Plan approved by Council on 22 February 2022, and meet its statutory responsibilities the Council must take a proactive approach to managing its resources effectively. The MTFS is a key tool for proactive financial management which allows for future projected funding requirements to be identified thus enabling the Council to identify appropriate actions to deal with any funding shortfalls. Coupled with the Service Transformation Programme, introduced during 2019/2020, the Council is able to manage its resources effectively in line with its established priorities.
14. The MTFS covering the period 2022/2023 to 2026/2027 was considered by Cabinet on 6 September 2021 and subsequently approved by Council at its meeting on 23 September 2021. The document sets out the framework within which financial forecasts, as part of the medium-term financial plan, are determined. The Strategy has now been reviewed and refreshed to cover the period 2023/2024 to 2027/2028. The updated version of the MTFS is attached at **Appendix A** with the proposed minor changes identified in red and crossed through text.

15. This document sets out the framework within which the financial forecast, summarised at **Appendix B**, has been determined. The forecast shows the estimated funding gap between expected resources and expenditure, and between the period 2023/2024 and 2027/2028, stands at **£6.302 million**.
16. In considering the impact of the financial forecasts on revenue budgets during the MTFS period and the key issues for consideration, due regard has been given to the local and national policy context, current financial position, economic indicators, risks and assumptions relating to financial planning. It must be stressed, however, that the financial forecasts, and imminent budget setting process, are being prepared in the context of difficult economic circumstances with the ongoing financial challenges associated with the recovery from the Coronavirus pandemic (COVID-19) and high inflation levels; these factors have created real uncertainty and some market volatility.
17. Whilst the UK inflation is expected to ease slightly, prices are still continuing to rise at nearly their fastest rate in 40 years. Inflation, as a measure of price rises, increased marginally to 10.1% in the 12 months to September 2022, from 9.9% in August 2022 (based upon the Office for National Statistics (ONS) information). The prospects for economic growth look somewhat limited and a cautious approach is, therefore, being maintained given the level of uncertainty. In response to the prevailing economic conditions the Bank of England Base Rate has been increasing during the financial year 2022/2023, with the base rate now at 3.00% (compared to 0.75% at the start of the financial year, effective from 17 March 2022).

#### Spending Review and Autumn Budget 2021

18. The Chancellor of the Exchequer announced, on 27 October 2021, details of the Government Spending Review and the Autumn Budget. The latter set out the Governments' taxation and public expenditure plans for the year ahead, and the Spending Review confirmed resource and capital budgets for the three-year period 2022/2023 to 2024/2025.
19. The Spending Review did not address a number of long-standing funding issues for Local Government that remain unresolved. There was no announcement made on business rates retention (BRR) reset or funding reform although the Government did announce that the BRR pilots would continue throughout the spending review period. It was expected that the pilot would end when there was a reset. It is reasonable to assume that these reforms are likely to be further delayed beyond 2024/2025, some six years later than originally planned. These reforms are expected to fundamentally change how, and to what level, all Local Authorities are to be funded. Therefore, despite the three-year spending review, there remains significant uncertainty as to the level and distribution of local government funding beyond 2024/2025.

#### Resources

20. The Provisional Local Government Finance Settlement for 2022/2023, announced on 17 December 2021, made no significant changes to the funding allocations compared to 2021/2022. Whilst this benefitted the Council in 2022/2023, there remains very significant risks to the funding level for District Council's in future years with the expectation that the Council will lose a significant share of its funding as a result of the funding changes – the deferred business rate baseline reset could be particularly damaging. To offset any adverse impact of the local government funding reforms, when

implemented, some form of damping support would be inevitable, although it will be phased out over time.

21. The Settlement for 2022/2023 provided a potential increase of 6.9 per cent in Council core spending power in cash terms, including new government grants, to support vital local services. The potential increase will support councils to meet extra cost and demand-led pressures next year to keep providing services at pre-pandemic levels. The Government forecasts are, however, based on the assumption that every local authority will raise their Council Tax by the maximum permitted without a referendum. This leaves Councils facing the tough choice about whether to increase Council Tax bills to bring in desperately needed funding at a time when they are acutely aware of the significant burden that could place on some households.
22. The other key headlines in relation to the Provisional Local Government Finance Settlement were as follows:
  - (i) Council Tax referendum principle of the higher of 1.99% or £5 per dwelling for 2022/2023.
  - (ii) Continuation of the existing Business Rate Retention Scheme for a further year, with 100% business rates pilots continued for a further year. The Cambridgeshire Business Rates Pool was also confirmed for a further year.
  - (iii) Continuation of the Rural Service Grant of £137,000 for a further year in recognition of the additional cost of providing services in sparse rural areas, pending implementation of the Fair Funding Review.
  - (iv) Continuation of the additional Lower Tier Services Grant un-ringfenced grant of £113,000 in 2022/2023. Indications in the 2021/2022 settlement were that this was a one-off grant for that year, but it continued for 2022/2023 and is expected to continue until 2024/2025.
  - (v) A one-off services grant of £182,000. Although the settlement states this is for one year only it also states the total amount of £882 million will remain within local government but be allocated differently in future years.
  - (vi) Continuation of the New Homes Bonus (NHB) scheme with an allocation of £2,376,000. This is higher than assumed in the MTFS which is at least a positive outcome for 2022/2023.
23. The Local Government Finance Settlement for 2022/2023 was confirmed on 7 February 2022 and, in financial terms, overall Core Spending Power increased by 7.3% (rather than the 6.9% in the provisional settlement).

#### Autumn Statement 2022

24. The Chancellor's Autumn 2022 Statement was announced on 17 November 2022 with four main areas potentially affecting local government at District Council level:
  - The Council Tax referendum limit will rise from 2% to 3% in 2023/2024 (with the adult social care precept flexibility rising from 1% to 2% for Cambridgeshire County Council). It is understood that increases of up to £5 on a Band D property will continue to be permitted.
  - Business rates will be subject to a revaluation but relief schemes to offset the impact of the revaluation will continue. The business rates multiplier (which

usually increases with CPI) will be frozen in 2023/2024 for the third year running and local authorities will be fully compensated for any loss of income as a result of the 2023 revaluation.

- Social housing rents will be capped at 7% – this though affects the Housing Revenue Account rather than the General Fund.
- Local Housing Allowance rates will remain frozen in cash terms at the current levels.

25. Like most local authorities in England, South Cambridgeshire District Council is facing a shortfall in its budget, made worse by the impact of inflation with increased running costs, including employee and utility costs. The announcement that Council Tax can be raised does provide flexibility, though the £5 increase will still be the determining factor for the Council. There is, however, a significant impact on households from the prevailing economic situation and the Council will need to be responsible in budget setting; thus minimising the inflationary increase and to, wherever possible, absorb cost increases. The Council is, therefore, facing some very difficult decisions in helping to tackle a cost-of-living crisis coupled with increasing demand for services and a reduction in budgets.
26. The funding allocations that the Council will receive from the government for 2023/2024 will not be known until later this month, but it can now be reasonably assumed that allocations will follow the methodology that existed for 2022/2023.

#### Medium Term Financial Planning

27. The MTFS forecast, reproduced at **Appendix A**, has now been updated to outline the current financial position, economic forecasts and the headline figures for the medium term based upon the risks and assumptions relating to financial planning. The financial forecasts are based upon the latest modelling data, but the medium-term forecasts should be treated with caution as the final position is uncertain until the outcome of the local government funding review is known.
28. The revised financial forecasts are set out in the table below which incorporates a number of planned savings and estimated additional investment income but factors in only limited additional service pressures beyond 2022/2023. Further service pressures will exaggerate the funding gap and, wherever possible, these should be managed within existing budgets.

	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000	2027/2028 £'000
Council Tax	11,193	11,824	12,468	13,051	13,618
Retained Business Rates	10,804	11,530	5,613	5,693	5,767
Revenue Support Grant	-	-	754	766	781
New Homes Bonus	1,800	1,000	-	-	-
Rural Services Grant	137	137	137	137	137
Services Grants	303	303	-	-	-
Section 31 Grant	-	-	-	-	-
Collection Fund Deficit	(364)	-	-	-	-
<b>Total Resource</b>	<b>23,873</b>	<b>24,794</b>	<b>18,972</b>	<b>19,647</b>	<b>20,303</b>

Net Budget Requirement	23,979	22,438	22,233	22,566	22,675
<b>Net Resource Position</b>	<b>(106)</b>	<b>2,356</b>	<b>(3,261)</b>	<b>(2,919)</b>	<b>(2,372)</b>

29. Spending pressures are, however, inevitable as the Council responds effectively to the needs of the service and customer expectations and, in this regard, Service Areas have been tasked to identify the existing budget pressures that need to be managed, and to prepare growth bids where existing resources and budgets need to be strengthened; these will be subject to review and refinement as part of the 2023/2024 budget setting process. Service Areas are also continuing to identify efficiency opportunities across the Council's services that are realistic, achievable and sustainable (including possible invest to save and income generation opportunities). The forecast includes the bids currently being considered but this list is subject to change.
30. The forecast assumes the continuation of the service transformation programme that was developed during 2019 in response to the funding gap and the financial challenges over the medium term. This includes a programme of targeted service reviews to ensure that value for money is obtained in the delivery of services. The transformation agenda will continue to be pursued to target and deliver financial savings to contribute to the inevitable funding challenges that will arise from the review and redistribution of local government funding. It is also relevant that the impact of COVID-19 has to some extent necessitated a reorientation of the programme and a reassessment of some projects and lead times and the resulting impact of the range of planned savings and areas of potential additional income has been regularly reported to Cabinet as part of the ongoing budget monitoring. The forecast assumes that £2 million savings will be achieved, and these are phased over the three-year period from 2022/2023 until 2024/2025 and included in the financial forecast.
31. The overall impact of the budget pressures, planned savings opportunities and other base budget adjustments (such as the cost of borrowing, investment income and pay and price inflation) is shown in the table below:

	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000	2027/2028 £'000
Net Budget Requirement: Before Adjustments	24,527	23,979	22,438	22,233	22,566
Budget Pressures	323	99	22	-	-
Savings/Income Identified	(2,327)	(1,125)	-	-	-
Borrowing Cost Changes	1,809	(748)	50	150	100
Other Base Budget Changes	(353)	233	(277)	183	9
<b>Budget Requirement c/f</b>	<b>23,979</b>	<b>22,438</b>	<b>22,233</b>	<b>22,566</b>	<b>22,675</b>

\* Further service pressures will exaggerate the funding gap and, wherever possible, should be managed within existing budgets.

\*\* Other base budget adjustments include investment income variations and pay/price inflation.

32. It is inevitable that the expected major review of local government financing will be accompanied by some form of "damping support" to reduce any sudden, adverse impact, on Council finances although it is acknowledged that this reduction would be phased out over a number of years.
33. The financial forecasts are based upon the latest modelling data, as explained in the report below, but the medium-term forecasts should be treated with caution as the final position is uncertain until decisions on future local government funding are eventually

confirmed. There is also concern that any further service pressures over the medium term will exaggerate the funding gap. The estimated damping has not, therefore, been included in the current figures.

#### Financial Modelling: Assumptions

34. The Council subscribes to an external funding advisory service, with access to well developed and well-respected modelling data. The financial modelling is based upon the latest available data and the following key assumptions have been made in deriving the latest MTFS financial planning forecast:

#### **(1) Council Tax**

35. Council Tax has been the most predictable and stable element of Local Government funding. This source of income is predicted to yield £10,489 million in 2022/2023 based upon an assumed £5 increase in Council Tax (the maximum level permitted by Government) and an increase in the tax base based upon the latest estimates of housing growth.
36. Council Tax Yield has been adversely affected through a combination of an increased uptake of Council Tax Support (Council Tax Reduction Scheme) and an assumed reduction in Council Tax collected in year. The Secretary of State for Local Government has put in place arrangements to allow local authorities with a Council Tax deficit to phase the cost over three years. The MTFS allows for a repayment of the authority's share of the overall exceptional balance deficit of £72,000 which is being phased equally over the three years 2021/2022, 2022/2023 and 2023/2024.
37. It is expected that the authority will continue to see moderate growth in the number of dwellings introduced through the introduction of new developments across the MTFS period, with an assumed Council Tax base increase of between 1.6% and 3.6%. The financial forecast continued to include an increase in Council Tax of £5 each year. The increase is for planning purposes only, and no decision has been made on the actual level of Council Tax increases in the medium term.

#### **(2) Business Rates**

38. The Business Rate Retention Scheme (BRRS) was introduced in April 2013 to provide Councils with stronger financial incentives to support property development and boost the economy in their local area. The scheme provides that Councils bear a proportion of the real terms change in business rates revenues in their area: gaining when revenues grow in real terms, losing when they fall. The proportion was initially set at 50% across England. In two-tier areas, like Cambridge, 40% is retained by the District Council and 9% is retained by Cambridgeshire County Council and 1% by the Cambridgeshire Fire Authority.
39. In estimating rates yield from retained business rates for the purpose of the MTFS, COVID-19 has been considered in terms of the immediate and medium-term impact on business activity and economic recovery. The following key assumptions have also been made:
- The current provision for existing Appeals is materially sufficient.
  - There are no further significant changes to valuation schemes resulting from Tribunal or Court decisions.
  - There are no significant variations to the levels of rate reliefs.
  - Projected bad debts is higher than historical trends, with the potential impact of the COVID crisis on business bankruptcies and, therefore, non-payment of

business rates. The overall forecast used is that bad debts will be around 2.5% of gross rates.

- The compensation to Local Authorities by way of Section 31 grants to cover the cost of measures introduced to help businesses (e.g. Small Business Rates Relief) will continue and will be increased annually in-line with inflation levels (it is further assumed that, if the grants are discontinued, it is anticipated there will be a compensating increase in the yield).
40. Significant relief has been awarded to a number of businesses during the current financial year to recognise the pressures on trading opportunities. The Council was recompensed for the lost rates income in the form of section 31 grants. For the purposes of the MTFS, it is assumed that reliefs will be consistent with those recorded prior to the pandemic.
41. It is also expected that the Council will see some growth in rates yield as a result of new developments across the MTFS period. The financial forecast assumes neither a surplus or deficit in the period to 2027/2028.
42. There continues to be uncertainty over the timing of the local government funding reforms, previously planned for introduction from April 2021, including the originally proposed Fair Funding Review, the expected increase in local business rate share to 75% (from 50%), a business rate baseline reset or a potential alternative BRR system, and further other changes to key funding streams, such as social care and New Homes Bonus (NHB). The issues highlighted in previous MTFS reports (and set out below), therefore, remain relevant:
- (a) There is no recognition of the proposed increase in local business rate share to 75% (from 50%) in that it is unclear when (or indeed whether) this will be introduced given current public finance turbulence. It should be noted that in the event of this being introduced that it is intended to be fiscally neutral, i.e. existing grants will be funded by Business Rates.
  - (b) The Government will consult on Fair Funding proposals that will form the mechanism to allocate a share of the Local Government Control Total to Local Authorities. The Review will look at factors that drive spend (population, deprivation) as well as a Council's ability to raise local finance (Council Tax).
  - (c) The Government is additionally looking at how best to build on the current business rates retention scheme and will consider issues such as appeals, growth and revaluation frequencies/baseline resets.
43. Given the extent of unknowns in relation to the Fair Funding Review and 75% Business Rates Retention, it has been assumed that Business Rates (for modelling purposes) will continue at a 50% retention level as at present (movement to 75% will be funding neutral for councils). It is further assumed that the Fair Funding Review may not now be implemented until 2025/2026.

### **(3) Rural Services Grant**

44. The Council currently receives a Rural Services Grant in the sum of £137,000 in recognition of the additional cost of providing services in sparse rural areas. It is now assumed that this grant will be continued for the foreseeable future.

### **(4) Lower Tier Services Grant**



45. This is a new one-off grant of £113,000 provided to lower tier authorities to support service provision and is un-ringfenced. It has been assumed in the financial forecast that this will not continue in subsequent years.

#### **(5) New Homes Bonus**

46. The New Homes Bonus (NHB) was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. The aim of the bonus was to provide a financial incentive to reward and encourage local authorities to help facilitate housing growth. It is based on the amount of extra Council Tax revenue raised from new-build homes, conversions and long-term empty homes brought back into use. NHB funding has been based on the following:

- (a) Housing growth over a threshold of 0.4% of the Tax Base.
- (b) Payments are based on a rolling 4-year period.

47. The Government launched a consultation in 2021/2022 regarding the reform of the NHB that was due to be introduced in the 2022/2023 financial year. The consultation contained a number of options on the operation of the scheme and indicated that legacy payments from the existing scheme would not be continuing in the longer term. It is expected that changes to NHB will be implemented alongside the wider local government reform package but there is insufficient information at this time to determine the impact of the NHB reform and, as such, the situation will be kept under review. The medium-term forecast now assumes the continuation of the existing NHB scheme albeit at a lower level in the period to and including 2024/2025.

#### **(6) Other Base Budget Changes**

48. The economic landscape has continued with a degree of uncertainty and volatility during 2022/2023, with the ongoing financial challenges associated with the cost of living crisis and high inflation levels.
49. An allowance has also been made for inflation on the Council's key contracts and fees and charges. Allowance for a pay award and pay increments (including National Living Wage) over the period has also been included.
50. The revenue impact of the latest approved Capital Programme has been included in the revised projections. Investment income has been determined having regard to the level of expected balances, including capital receipts and expenditure, together with Reserves and Provisions held by the Council and in line with the Council's approved Treasury Management Strategy.
51. There has also been significant volatility recently with interest rates and it is expected that the base rate will peak at 4.5% during 2023/2024 before falling back again over the following 12 to 18 month period. The Council's General Fund borrowing is predominately short term and, based on the current information, there will be a peak in interest costs during 2023/2024 and this is the main driver for the emergence of a budget gap in that year. The borrowing rates the Council faces are expected to be around 0.5% higher than base rates.

## (7) General Reserve

52. The Council has a healthy General Reserve balance of around £14.7 million, taking into account the 2021/2022 General Fund revenue outturn position and the net underspend (after income from Taxation and Government Grants) in that year of £0.490 million, as reported to Cabinet on 14 November 2022.
53. The risks and assumptions will continue to be reviewed and this, together with planning savings from the transformation agenda and known service pressures, will enable the forecasts, reproduced at **Appendix A**, to be refined and updated as part of the Council's medium term financial planning.
54. It must be recognised, however, that the assumptions used in the financial forecasts could vary significantly for the actual outcome and there is more uncertainty than ever about the long-term funding for Local Government.

### Alternative Scenarios

55. The table and chart below set out the impact of alternative scenarios on the cumulative funding gap. The alternative scenarios reflect a change to Council Tax, Business Rates, Corporate Pressures (including inflation) and the ability to realise planned savings. The Negative Economic View additionally increases the Base Budget reflecting a broader assessment of an increased net spend.

	Pessimistic View (A), (B) and (C):		Optimistic View:	Negative Economic View:
Base Budget Requirement				2.5% increase on Base Budget Requirement due to cost and demand pressure arising from increased economic friction due to a move away from the existing trading relationship with the EU and slower recovery from the pandemic.
Council Tax	2.5% reduction in yield due to weaker economic recovery forecast		2.5% increase in yield due to improving economic conditions	As per Pessimistic View (A)
Business Rates	(A)	2.5% reduction in yield due to weaker economic recovery forecast	2.5% increase in yield due to improving economic conditions	As per Pessimistic View (A)
	(B)	5% reduction in yield due to weaker economic recovery forecast		
	(C)	10% reduction in yield due to weaker economic recovery forecast		
Budget Pressures/Demand	5.0% increase in demand due to socio economic factors arising from a forecast weaker economic recovery		2.5% reduction in demand due to improving socio economic factors leading to less demand for Council services	As per Pessimistic View (A)
Other Base Budget Changes (inc. Inflation)	5.0% increase in demand due to socio economic factors arising from a forecast weaker economic recovery		2.5% reduction in corporate costs due to lower pay and price uplift assumptions	As per Pessimistic View (A)

Ability to realise planned savings/income identified (e.g. due to cost of living crisis and COVID-19 recovery)	5.0% reduction in overall planned savings level from service reviews	No variation from Baseline Scenario	As per Pessimistic View (A)
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56. The impact of the scenarios is set out in the table below. This demonstrates the gap in resources to spend over the medium-term period and compares the scenario to the Baseline Case. It should be noted that, although these are high level assessments, the scenarios nevertheless give an indication of the potential impact on the Council's budgets over the MTFS period.

	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	TOTAL
Baseline Case	(106)	2,356	(3,261)	(2,919)	(2,372)	<b>(6,302)</b>
<b>Outcome of Scenarios:</b>						
Pessimistic View (A)	(806)	1,699	(3,728)	(3,396)	(2,857)	<b>(9,088)</b>
Pessimistic View (B)	(1,076)	1,411	(3,869)	(3,539)	(3,001)	<b>(10,074)</b>
Pessimistic View (C)	(1,616)	834	(4,149)	(3,823)	(3,290)	<b>(12,044)</b>
Optimistic View	461	2,948	(2,801)	(2,446)	(1,888)	<b>(3,726)</b>
Negative Economic View	(1,419)	1,100	(4,289)	(3,952)	(3,421)	<b>(11,981)</b>
<b>Comparison to Baseline:</b>						
Pessimistic View (A)	(700)	(657)	(467)	(477)	(485)	<b>(2,786)</b>
Pessimistic View (B)	(970)	(945)	(608)	(620)	(629)	<b>(3,772)</b>
Pessimistic View (C)	(1,510)	(1,522)	(888)	(904)	(918)	<b>(5,742)</b>
Optimistic View	567	592	460	473	484	<b>2,576</b>
Negative Economic View	(1,313)	(1,256)	(1,028)	(1,033)	(1,049)	<b>(5,679)</b>

## Options

57. The option exists of not approving the new MTFS.

## Implications

58. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

## Legal

59. It is a legal requirement that the Council set a balanced budget for the ensuing financial year; the MTFS provides the framework for this and brings together funding and spending assumptions over the medium-term thereby identifying funding shortfalls and

providing sufficient time for decisions to be made in order to achieve balanced budgets over the medium term.

## **Policy**

60. To demonstrate financial resilience, the Council sets out its potential funding position over the medium term thereby enabling the most effective strategies to be put in place to ensure that the Council is able to set a balanced budget (as required by statute) on an annual basis. Given the demand for services outstripping income sources, coupled with the prevailing economic situation with high inflation and increased running costs, (including employee and utility costs), and the continued recovery from COVID-19, the MTFS identifies a funding gap that needs to be addressed over the medium term.
61. The financial strategy needs to have regard to the “resource envelope” available to the Council. This includes the transition to the new funding model, introduced in 2013/2014, predicated on the Business Rates Retention Scheme which means that the Council’s net spending is financed from local sources; Business Rates and Council Tax. As part of this continued transition the Government have been consulting on a Fair Funding Formula that will change the method of distributing funding levels across Councils based on “Need” and “Local Resources”. In addition, the MTFS period is outside of the current Spending Review period and, as such, the Government has not set out the spending limits beyond 2022/2023.
62. The Council has adopted its Business Plan for the period 2020-2025 and this was refreshed by Council on 22 February 2022. The areas of focus and key priorities within the Business Plan inform the policy framework for achieving the required ongoing savings whilst meeting the Council’s strategic objectives and statutory obligations.

## **Financial**

63. The MTFS is the Council’s key financial planning document and sets out the Council’s strategic approach to the management of its finances and Council Tax levels over the medium term, thereby allowing sufficient lead time to develop services consistent with the forecast resource envelope.
64. The updated medium-term forecast covering the period 2023/2024 to 2027/2028, is attached at **Appendix B**, and is based upon the assumptions underpinning the financial projections and overarching plan. The forecast shows the level of savings that need to be achieved to deliver the indicative Council Tax level.
65. As further information is available in respect of the review of local government funding, it may be necessary to review the forecasts and provide a further report to Cabinet and Council on the implications.

## **Staffing**

66. None

## **Risk/Opportunities**

67. There are inherent risks in developing a financial strategy over the medium term, not least due to the uncertainty of funding streams (this is particularly relevant as the outcomes of the Fair Funding Review and Spending Review post 2024/2025 are not known) and the demands placed on the Council in delivering services.

68. The current economic environment, arising from the impact of the cost of living crisis and rising inflation, creates further risks in that the Council's resource forecasts take into account the impact on Council Tax and Business Rates yields. These assumptions are based on an economic recovery over the period to 2027.
69. The Council's overall reputation and performance assessment is at risk if it is not aware of the challenges presented by the reduction in resources available to it and their impact on key areas of performance of the Council. There are a number of other risks that need to be understood and these broadly fall into the following categories:
- (a) Savings: It is increasingly more difficult to continue to reduce service costs and identify further areas of savings after an extended period of reduced funding, without impacting on service provision. It is, however, a legal requirement to set a balanced budget on an annual basis and this requires the Council to reduce its net costs in line with funding.
  - (b) Economic: The economic landscape has continued with uncertainty in the last 12 months, with the ongoing financial challenges associated with recovery from the Coronavirus pandemic and high inflation levels acting as a dampener on growth and impacting on Council services. There is, therefore, an impact on the Council's finances over the medium term with potential risk arising from (i) reduced economic activity adversely business rate income and increased levels of unemployment, (ii) reduced income from fees and charges, (iii) increased costs, including welfare related costs and increased demand for services and (iv) potential impact on the Council's supply chain
  - (c) Climate Change: The Office for Budget Responsibility review of Fiscal Risks (July 2019) set out risks in relation to climate change and additionally recognised the need to develop greater sophistication in modelling such impacts. Adverse climate events will have financial consequences; an estimate of the one-off costs will form part of the General Fund risk assessed level whereas those that potentially impact ongoing income/spending need to be considered as potential cost implications over an MTFS period.
70. As the Council reviews the MTFS twice a year, it is able to assess the robustness of the financial forecast, reassess risk and, where appropriate, refresh the forecast.

## **Consultations**

71. Consultations have been undertaken with the Council's advisers on financial planning.

## **Alignment with Council Priority Areas**

72. Timely and robust consideration of the Council's financial forecasts and budget setting is vital to ensure that financial performance is in line with expectations, emerging issues are identified and tackled and that Business Plan priorities are met.

## **Background Papers**

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Service Transformation Programme – Report to Cabinet: 4 December 2019
- Medium Term Financial Strategy – Report to Cabinet: 6 September 2021
- Medium Term Financial Strategy – Report to Council: 23 September 2021
- Capital Programme Update and New Bids – Report to Cabinet: 6 December 2021
- General Fund Revenue Budget 2022/2023 – Report to Cabinet: 7 February 2022
- General Fund Revenue Budget 2022/2023 – Report to Council: 22 February 2022
- Business Plan 2020/2025 – Report to Cabinet: 7 February 2022
- Business Plan 2020/2025 – Report to Council: 22 February 2022

## Appendices

A Medium-Term Financial Strategy

B Financial Forecasts 2023/2024 to 2027/2028

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