Appendix C

South Cambridgeshire District Council

Report to:	Council 30 November 2023
Lead Cabinet Member:	Councillor John Williams, Lead Cabinet Member for Resources
Lead Officer:	Peter Maddock, Head of Finance

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 2028/2029 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 will need to be updated as the budget progresses and information becomes available. The provisional 2024/2025 Local Government Finance Settlement in December 2023 should provide more clarity for future forecasts.

Key Decision

3. This is not a key decision as there are no resource implications directly arising from the report at this stage. The report does, however, ensure that the Council is aware of the financial challenges over the medium term and the financial forecasts outlined in the MTFS assist in the Council's financial planning.

Recommendations

4. **That Council 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 2028/2029.

   (b) Adopt the refreshed Medium Term Financial Strategy at Appendix A and updated financial forecast at Appendix B.

Reasons for Recommendations

5. To ensure that the Council is aware of the financial challenges over the medium term, the key service and financial drivers of the financial forecast and the strategic response required to meet the financial challenge to ensure that the Council will be in a position over the medium term to deliver sustainable and affordable public services.

6. To provide Council 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 Council to approve the latest MTFS 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. It helps the Council to respond, in a considered manner, to pressures and changes because of many internal and external influences. This is particularly important during a period when the Council is facing unprecedented changes and challenges. The MTFS recognises the key role that financial resources play in the future delivery of outcomes and in enabling the effective planning, management and delivery of services that contribute to the outcomes across the medium term.

10. The MTFS, therefore, comprises two key elements:

    (i) an assessment of the resources available to the Council over the medium-term period, and
    (ii) an assessment of spending pressures based on existing levels of service delivery, known policy/legislative changes and demand driven service pressures.

    Taken together the movement over the planning period of these two elements represents the financial challenge facing the Council.

11. 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.

12. The impact of the cost-of-living crisis has continued to have an influence upon the level of certainty over the accuracy of financial forecasts. It should be noted that these forecasts are based on assumptions about the level of resilience of the UK economy. The uncertainty regarding the extent and duration of the impact of exceptional additional inflationary costs and the economic uncertainty constitutes a major risk to the authority across the MTFS period.

13. To be able to deliver the Council's aspirations, set out in the refreshed Business Plan approved by Council on 21 February 2023, 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 2023/2024 to 2027/2028 was considered by Cabinet on 12 December 2022 and subsequently approved by Council at its meeting on 21 February 2023. 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 2024/2025 to 2028/2029. 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 2024/2025 and 2028/2029, stands at **£5.464 million**.

Resources

Future Funding Implications

16. The Secretary of State for Levelling Up, Communities and Local Government published a written ministerial statement, on 12 December 2022, which was accompanied by a policy statement on the 2023/2024 local government finance settlement and assumptions about the 2024/2025 local government finance settlement.

17. The four main areas affecting local government at District Council level were as follows:

- The Council Tax referendum limit increased from 2% to 3% in 2023/2024 (with the adult social care precept flexibility rising from 1% to 2% for Cambridgeshire County Council). Increases of up to £5 on a Band D property would continue to be permitted where this is higher than 2.99%.

- Business rates would be subject to a revaluation but relief schemes to offset the impact of the revaluation would continue. The business rates multiplier (which usually increases with CPI) would be frozen in 2023/2024 for the third year running and local authorities would be fully compensated for any loss of income as a result of the 2023 revaluation.

- Social housing rents would be capped at 7% (this affects the Housing Revenue Account rather than the General Fund).

- Local Housing Allowance rates would remain frozen in cash terms at the current levels.

18. The Government set out some longer-term planning assumptions for the 2024/2025 local government finance settlement in lieu of a full two-year settlement which was previously announced by the then Secretary of State for the Department of Levelling Up, Housing & Communities (DLUHC) in Summer 2022. These are set out as follows:

- The Review of Relative Needs and Resources (‘Fair Funding Review’) and a reset of Business Rates growth will not be implemented until the Spending Review Period after the next (i.e., 2026/2027 at the earliest).

- The council tax referendum principles will continue the same as 2023/2024 for the remainder of the Spending Review Period (i.e., for 2024/2025).

- Revenue Support Grant will continue and be uplifted in line with baseline funding levels, while social care grants will increase; and

- The Government will set out the future position of New Homes Bonus ahead of the 2024/2025 local government finance settlement.

19. The funding allocations that the Council would receive from the government for 2023/2024 were confirmed on 6 February 2023, with final allocations largely following the methodology that existed for 2022/2023.

Funding Developments: Extended Producer Responsibility for Packaging (EPR)

20. It had been expected that the 2024/2025 settlement would include a new funding stream, subject to the successful delivery of the Extended Producer Responsibility for packaging (EPR) scheme. The intention of the EPR scheme is to require producers of packaging to pay for the cost of its recycling and use the income from the scheme in the local government funding system, which would have included reviewing the impact of this income on relative needs and resources of individual authorities.

21. On 25 July 2023, the Department for the Environment, Food and Rural Affairs (DEFRA) confirmed that the roll out of the Extended Producer Responsibility (EPR) scheme is being delayed by a year, from October 2024 to October 2025. The delay means that this change to local government funding will not be going ahead for the 2024/2025 financial year. No funding from EPR has, therefore, been included in the MTFS at this time due to a deficit of information on the system methodology and funding allocations.

<u>Medium Term Financial Planning</u>

22. The MTFS forecast, reproduced at **<u>Appendix A</u>**, 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.

23. Given the uncertainty in relation to the potential implications resulting from the Fair Funding Review the following key assumptions have been made within the MTFS:

    (a) Revenue Support Grant and distribution is inflated in line with CPI forecasts across the MTFS period.
    (b) The Business Rates baseline will be reset in 2026/2027 with the associated loss of income subject to transitional arrangements across the life of the MTFS.
    (c) The MTFS assumes the maintenance of existing specific grants not mentioned elsewhere in this report.

24. 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 2023/2024. Further service pressures will exaggerate the funding gap and, wherever possible, these should be managed within existing budgets.

	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000	2027/2028 £'000	2028/2029 £'000
Council Tax	11,705	12,274	12,845	13,445	14,074
Retained Business Rates	14,028	15,230	7,816	8,650	9,531
Revenue Support Grant	241	237	1,219	1,164	1,103
New Homes Bonus	1,508	1,508	-	-	-
Rural Services Grant	260	153	153	153	153

3% Funding Guarantee	1,176	1,109	-	-	-
Section 31 Grant	-	-	-	-	-
Collection Fund Deficit	-	-	-	-	-
Total Resource	**28,918**	**30,511**	**22,033**	**23,412**	**24,861**
Net Budget Requirement	24,695	25,151	26,818	28,439	30,096
Net Resource Position	**4,223**	**5,360**	**(4,785)**	**(5,027)**	**(5,235)**

25. 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 2024/2025 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.

26. 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. The forecast assumes that £2 million savings will be achieved, and the remaining £1.7m phased over 2024/2025 and 2025/2026 and included in the financial forecast.

27. 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:

	2024/2025 £'000	**2025/2026 £'000**	**2026/2027 £'000**	**2027/2028 £'000**	**2028/2029 £'000**
Net Budget Requirement: Before Adjustments	22,865	24,695	25,151	26,818	28,439
Budget Pressures*	1,500	22	-	-	-
Savings/Income Identified	(835)	(885)	-	-	-
Borrowing Cost Changes	248	(600)	100	250	250
Other Base Budget Changes**	917	1,919	1,567	1,371	1,407
Budget Requirement c/f	24,695	25,151	26,818	28,439	30,096

* 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.

28. 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.

29. 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

30. 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

31. Council Tax continues to be the most predictable and stable element of Local Government funding. This source of income is predicted to yield £11.705 million in 2024/2025 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.

32. 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 around 2.5%. The financial forecast continues to include an assumed increase in Council Tax of £5 each year until 2025/2026 when the 3% limit will become the determining factor.

33. The increase is for modelling purposes only, and no decision has been made on the actual level of Council Tax increases in the medium term.

34. The taxbase estimates that determine the forecast level of Council Tax yield incorporate an estimate regarding the level of Council Tax Support (Council Tax Reduction Scheme) that is awarded by the authority. In recognition of the nature of the awards generated by the scheme, the forecast Council Tax Support across the MTFS period is linked to forecast unemployment levels. The Monetary Policy Committee unemployment forecasts published in August 2023, are set out below:

	2023 Q3	**2024 Q3**	**2025 Q3**	**2026 Q3**
Unemployment Rate	4.1%	4.3%	4.8%	4.8%

35. This demonstrates a forecast increase in unemployment across the medium term; on this basis it is assumed that Council Tax support will increase proportionately and this, in turn, will reduce the overall net forecast Council Tax yield. The volatility of the movements in unemployment do present a risk to the achievement of the forecast Council Taxbase assumptions across the short and medium term.

(2) Business Rates

36. 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.

37. In estimating rates yield from retained business rates for the purpose of the MTFS, 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 business bankruptcies and, therefore, non-payment of business rates. The overall forecast used is that bad debts will be around 3% 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).

38. 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.

39. It is also expected that the Council will see moderate 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 2028/2029.

40. In line with the revised retention requirements, the authority's Business Rates yield is now index-linked to CPI published in September of each year rather than RPI.

<u>Business Rates Reset</u>

41. Since 2013/2014, local government has retained 50 per cent of business rates through the business rates retention scheme. During the intervening period, the government has announced several plans to 'reset' local authority baselines (the target level of business rates it expects each local authority to collect each year).

42. A reset would involve each Council's local share being recalculated based on its current percentage share of overall rates revenue, rather than its historic share implemented at the outset of the scheme. The stated purpose of a reset is to prevent Councils gaining or losing disproportionately over time according to their ability to grow their rates revenue. However, due to various Central Government capacity issues, this 'reset' has yet to be implemented. One consequence of these delays is that the actual levels of

business rates collected by local authorities has become increasingly decoupled from the baseline (target levels), which were set in 2013.

43. Whilst Government has reiterated its intention to undertake a reset of Business Rates growth, 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.

44. 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). <u>It is further assumed that the Fair Funding Review may not now be implemented until 2026/2027</u>.

(3) Revenue Support Grant

45. The Council now received Revenue Support Grant, totalling £228,000 in 2023/2024, increasing to £245,000 in 2024/2025. It has been necessary to include Revenue Support Grant assumptions in the MTFS, with the estimate linked to forecast CPI movements across the medium-term planning period. It is assumed that this support will continue to feature in 2025/2026 and beyond but at an increased level.

(4) Rural Services Grant

46. The Council receives a Rural Services Grant (£137,000 in 2023/2024) in recognition of the additional cost of providing services in sparse rural areas. It is assumed that this grant will be continued for the foreseeable future but at the increased level of £153,000.

(5) Services Grant

47. This is a new one-off un-ringfenced grant, introduced in 2022/2023 at £113,000, and provided to lower tier authorities to support service provision. It has continued in 2023/2024 albeit at a reduced level of £107,000 but it has been assumed in the financial forecast that this will not continue in subsequent years.

(6) New Homes Bonus

48. 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.

49. The future of the New Homes Bonus remains uncertain. The Government has not made a commitment to a new round of payments in 2024/2025 but has again committed to set out the future position in the year ahead. The value of such a commitment is unclear, given that it has been made several times in recent years and never fulfilled.

50. 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 2025/2026.

(7) 3% Funding Guarantee

51. The Local Government Final Settlement introduced a 3% funding guarantee allocation for both 2023/2024 and 2024/2025. The intention is that all authorities should receive at least a 3% increase in their spending power for these two years. The amount included in the financial settlement is £1,070,000 and it is assumed that this will be discontinued after 2025/2026.

(8) Other Base Budget Changes

52. The economic landscape has continued with a degree of uncertainty and volatility during 2023/2024, with the ongoing financial challenges associated with the cost-of-living crisis and high inflation levels.

53. It is recognised that inflationary pressures have, therefore, had a fundamental impact on the authority's budget provision in the 2023/2024 financial year. It is assumed that, in line with the August 2023 Monetary Policy Committee (MPC) estimates, the level of inflation will reduce across the MTFS period. There, however, remains some uncertainty regarding the longevity and degree of continued inflationary pressures, and this presents a risk to the authority. The MPC expects CPI inflation to continue to fall, to around 5% by the end of the year, owing to lower energy, and to a lesser degree, food and core goods price inflation. MPC medium-term forecasts are set out below:

MPC CPI Forecast	2023 Q3	2024 Q3	2025 Q3	2026 Q3
	6.9%	3.1%	2.0%	1.9%

54. Allowance has also been made for inflation in respect of the Council's pay award and pay increments, contractual costs on the Council's key contracts and fees and charges.

55. 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.

56. There has also been significant volatility recently with interest rates and the impact of this volatility will influence the level of Capital Financing Costs across the MTFS period. The table below sets out the MPC's August 2023 Bank Rate estimates:

MPC Bank Rate Forecast	2023 Q3	2024 Q3	2025 Q3	2026 Q3
	5.3%	6.0%	5.2%	4.5%

57. The Council's General Fund borrowing is predominately short-term and, based on the current information, there has been a peak in interest costs in 2023/2024. The MTFS assumes that the borrowing rates that the Council is expected to face will be around 0.5% higher than base rates.

(9) General Reserve

58. The Council has a healthy General Reserve balance of around £18.4 million, taking into account the 2022/2023 General Fund revenue outturn position and the net underspend (after income from Taxation and Government Grants) in that year of £1.149 million, as reported elsewhere on this agenda.

59. 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.

60. 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

61. 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.

<table>
<tr><th></th><th colspan="2">Pessimistic View
(A), (B) and (C):</th><th>Optimistic View:</th><th>Negative Economic View:</th></tr>
<tr><td>Base Budget Requirement</td><td colspan="2"></td><td></td><td>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.</td></tr>
<tr><td>Council Tax</td><td colspan="2">2.5% reduction in yield due to weaker economic recovery forecast</td><td>2.5% increase in yield due to improving economic conditions</td><td>As per Pessimistic View</td></tr>
<tr><td rowspan="3">Business Rates</td><td>(A)</td><td>2.5% reduction in yield due to weaker economic recovery forecast</td><td rowspan="3">2.5% increase in yield due to improving economic conditions</td><td rowspan="3">As per Pessimistic View (A)</td></tr>
<tr><td>(B)</td><td>5% reduction in yield due to weaker economic recovery forecast</td></tr>
<tr><td>(C)</td><td>10% reduction in yield due to weaker economic recovery forecast</td></tr>
<tr><td>Budget Pressures/Demand</td><td colspan="2">5.0% increase in demand due to socio economic factors arising from a forecast weaker economic recovery</td><td>2.5% reduction in demand due to improving socio economic factors leading to less demand for Council services</td><td>As per Pessimistic View</td></tr>
<tr><td>Other Base Budget Changes (inc. Inflation)</td><td colspan="2">5.0% increase in demand due to socio economic factors arising from a forecast weaker economic recovery</td><td>2.5% reduction in corporate costs due to lower pay and price uplift assumptions</td><td>As per Pessimistic View</td></tr>
<tr><td>Ability to realise planned savings/income identified (e.g. due to cost of living crisis and COVID-19 recovery)</td><td colspan="2">5.0% reduction in overall planned savings level from service reviews</td><td>No variation from Baseline Scenario</td><td>As per Pessimistic View</td></tr>
</table>

62. The impact of the scenarios are 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.

	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	TOTAL
Baseline Case	4,223	5,360	(4,785)	(5,027)	(5,235)	**(5,464)**
Outcome of Scenarios:						
Pessimistic View (A)	3,416	4,531	(5,379)	(5,648)	(5,895)	**(8,975)**
Pessimistic View (B)	3,066	4,151	(5,575)	(5,864)	(6,134)	**(10,356)**
Pessimistic View (C)	2,364	3,389	(5,966)	(6,297)	(6,610)	**(13,120)**
Optimistic View	4,928	6,097	(4,230)	(4,441)	(4,610)	**(2,256)**
Negative Economic View	2,844	3,915	(6,008)	(6,318)	(6,606)	**(12,173)**
Comparison to Baseline:						
Pessimistic View (A)	(807)	(829)	(594)	(621)	(660)	**(3,511)**
Pessimistic View (B)	(1,157)	(1,209)	(790)	(837)	(899)	**(4,892)**
Pessimistic View (C)	(1,859)	(1,971)	(1,181)	(1,270)	(1,375)	**(7,656)**
Optimistic View	705	737	555	586	625	**3,208**
Negative Economic View	(1,379)	(1,445)	(1,223)	(1,291)	(1,371)	**(6,709)**

Options

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

Implications

64. 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

65. 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

66. 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.

67. The financial strategy needs to have regard to the "resource envelope" available to the Council. This is based upon the funding model, introduced in 2013/2014, that is 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 continues to reflect on a new 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 2023/2024.

68. Council adopted its Business Plan for the period 2020-2025 and the Action Plan for 2023/2024 was refreshed on 21 February 2023. 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.

Finance and Fraud Risk

69. 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.

70. The updated medium-term forecast covering the period 2024/2025 to 2028/2029, 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.

71. 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.

72. There are no direct fraud risks identified as a result of this report.

Staffing

73. There are no additional staff resource implications as a result of the refreshed MTFS.

Risk/Opportunities

74. 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.

75. 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.

76. 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 ongoing impact of uncertainty caused by the war in Ukraine has resulted in a greater drag on the economy and, as such, may impact on the Council's finances over the medium term both through Government funding pressures and exposure to welfare related costs. These risks are deemed to arise from: (i) reduced economic activity adversely affecting business rate income and increased levels of unemployment, (ii) reduced income arising 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 and labour shortages and (v) inflationary pressures.

(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.

(d) Local Government Funding: The Council recognises the potential impact caused by the planned review of local government funding. The timing of the revaluation and reset of business rates would significantly impact upon the level of resources available across the medium-term. In addition, successive roll-over settlements have significantly increased financial uncertainty. The 2014 changes to Local Government funding, in effect, locked in funding based on data that is now 10-20 years old. Business rates retention has weakened the relation to needs and Fair Funding Review delays have led to funding gaps.

77. 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.

Climate Change

78. There are no environmental implications arising directly from the report. The Council is fully committed to the "Green to Our Core" agenda as part of its approved Business Plan and it is, therefore, appropriate that environmental implications will need to be considered in the context of specific proposals that emerge.

Equalities & Diversity

79. In preparing this report, due consideration has been given to the Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010.

80. A relevance test for equality has been completed. The equality test determined that the activity has no relevance to the Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation. An equality analysis is not needed.

Consultations

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

Effect on Council Priority Areas

82. 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: 12 December 2022
- Medium Term Financial Strategy – Report to Council: 21 March 2023
- Capital Programme Update and New Bids – Report to Cabinet: 12 December 2022
- General Fund Revenue Budget 2023/2024 – Report to Cabinet: 6 February 2023
- General Fund Revenue Budget 2023/2024 – Report to Council: 21 February 2023
- Business Plan Action Plan 2023/2024 – Report to Cabinet: 6 February 2023
- Business Plan Action Plan 2023/2024 – Report to Council: 21 February 2023

Appendices

A Medium-Term Financial Strategy

B Financial Forecasts 2024/2025 to 2028/2029

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